

Decision-Making Processes in Emerging Markets

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Abbreviations

B2B	Business - to - Business: a market where businesses sell products and services to other businesses.
B2C	Business - to - Consumer: a market where businesses sell products and services to consumers.
bn	Billion (1000 million)
CEO	Chief Executive Officer
DE	Development Phase
DMC	Developing Member Countries of the Asian Development Bank
FDI	Foreign Direct Investment
GM	General Manager
HQ	Headquarters
IM	Implementation Phase
IRR	Internal Rate of Return
JV	Joint Venture (especially: Equity Joint Venture)
MNC	Multinational Corporation; Multinational Company, Multinational
Net	Short for the Internet
NPV	Net Present Value
NPV	Net Present Value
PC	Personal Computer
PDM	Project Decision-Making Phase
RA	Related Activities Phase
RMB	Renminbi; Chinese currency (also called: Yuan)
ROI	Return on investment
SAR	Special Administrative Region; as in Hong Kong, SAR
SBU	Strategic Business Unit
SE	Selection Phase
ST	Start-up Phase
USD	United States Dollars
Web	The World Wide Web
WFOE	Wholly Foreign Owned Enterprise (subsidiary in which the investing company holds a 100% ownership)

1 Introduction

The fate of companies is often decided by the strategies which their leaders and managers implement. Therefore, a great deal of research is being directed towards finding the right strategy for given operating environments. Scholars like Michael Porter or Gary Hamel and CK Prahalad are only some of the most famous researchers in this area¹. They occupy the limelight in academia, and also attract considerable attention from the general public. Their objective is to help companies decide on and implement the best strategy for a specific industry or operating environment.

This study, however, intends to dig one step further and analyze the process that lets strategies emerge. "If strategy is important, its formulation should be managed and not left to chance" (Hofer / Schendel 1978: 5). Therefore, the strategy itself is not the center of attention, but instead the company's internal processes and characteristics that allow a certain strategy to develop. This research area has attracted less attention than that of the more visible analysis of strategies themselves but it is no less important in shaping a company's future. Indeed, the positive relationship between strategic investment decision processes and organizational behavior is well established in the literature (Papadakis 1998).

This dissertation thus focuses on the strategy formulation process by exploring how strategies, especially those for foreign direct investments (FDIs), are being formulated, and on what they are based. The study is therefore part of the strategic planning literature to which Ansoff and Mintzberg are two of the most famous contributors².

More specifically, this dissertation analyzes how a company's strategy formulation process may change or may need to be adapted for the specific operating environment of an emerging market. A decision-making process develops over the lifetime of an organization and is thus influenced by the company's operating environment. That is why one can readily differentiate bureaucratic, government or state-owned enterprises, which operate in a secure and stable market, from entrepreneurial organizations and young start-ups.

¹ Examples of the works referred to here would be Michael Porter's "Competitive Advantage: Creating and Sustaining Superior Performance", or Garry Hamel and CK Prahalad's "Competing for the Future" (Porter 1985; Hamel / Prahalad 1994).

² See for example Igor Ansoff's "Corporate Strategy" (1965) or Henry Mintzberg's "The Rise and Fall of Strategic Planning" (1994), two books which deal with the strategy formulation process without, however, referring specifically to FDI decisions.

But what happens if an organization leaves its historical area of operation and ventures into new markets? How can – and how should – adaptations be made if large corporations want to succeed in young, fast moving, and highly unstable markets? What can they learn from those organizations that consider such emerging markets their home turf? What, in turn, can these organizations learn from the many years of experience of large multinationals? These are some of the intriguing questions that form the basis of this investigation.

Research in the area of foreign direct investment decision-making processes is still required as “[i]t seems that relatively little is known about the more detailed FDI behavior of firms, especially of the decision-making processes leading to FDIs [...] more research is needed, especially concerning [...] the development of FDI decision-making in organizations over time” (Larimo 1995: 25).

Analyzing decision-making processes is no easy task but as many researchers have shown and as Mintzberg, *et al.* explicitly explain, it is not an impossible undertaking: “strategic decision processes are immensely complex and dynamic and yet they are amenable to conceptual structuring” (Mintzberg, *et al.* 1976: 274).

To conceptualize the foreign direct investment decision-making processes of large, diversified multinational organizations is the primary goal of this study. The result is a model of such processes, which should not only accurately describe them but may also serve as a framework to improve individual companies' FDI decision-making processes. To achieve the latter goal, data from a substantial number of firms, all of which needed to be investigated thoroughly, had to be gathered. Through comparison, reasoning and capturing emerging theories, this empirical data helped to uncover which characteristics of decision-making and which organizational structures are best suited to reach the goal of optimal decision making for emerging markets.

A secondary objective of this study, pursued in chapter 6, is to apply the findings from the geographical emerging market of China on another hugely important emerging market, namely that of the Internet. Such application shows how the study's results can help entrepreneurial start-up companies improve their own strategic decision-making processes in respect to investment decisions. The impact of this study should therefore be felt much further a field from the Chinese market, which was chosen as one particularly suitable emerging market for the purposes of this research project.

1.1 Investment decision as a strategic decision

This study sees itself as part of the strategic decision-making research literature. But what constitutes a strategic decision? Mintzberg, *et al.* defined strategy as “important, in terms of the actions taken, the resources committed, or the precedents set.” (1976: 246). Ghemawat defined strategic decisions as such that involve “significant sunk costs, opportunity costs, lead times, or symbolism.” (1991: 44). To this Bower and Doz add: “If strategy deals with the long term, the precedent setting, and the commitment of critical resources, then the process of developing strategy is the non-routine activity of altering normal patterns of planning and operations.” (1979: 157).

According to these definitions, not all foreign investment projects can be considered strategic. The whole process of entering into and expanding within a significant emerging market like that of China, or the Internet, however, is clearly strategic and was perceived as such by the companies that participated in the research project.

1.2 Types of decision-making processes

In the most general interpretation, decision-making processes happen all the time, within large organizations as well as individually. To obtain meaningful results, it is therefore necessary to limit the analysis to a more clearly defined area of research. At the core of the analysis, then, are foreign direct investment decision-making processes of multinational companies in the emerging market of China.

The analysis concentrates on the differences of decision-making processes for emerging markets, as opposed to that within stable operating environments. The focus on both FDI decision processes and on emerging markets limits the scope of this research project. Of the two, the focus on strategic decision processes for emerging markets is fundamental to the goal of the study which is to analyze how decision-making processes for emerging markets would differ from such for more stable markets.

The research project’s main focus was on geographical emerging markets because of their importance during the past few decades, as well as because of the richness of data available for analysis. For this reason, the limitation on FDI decisions compared to strategic decisions in general came naturally, as FDI decisions are the most important strategic decisions that a multinational

company's corporate management can make in relation to an emerging geographical market.

Most studies in the strategic decision-making literature assume either implicitly or explicitly that firms use the same consistent process to make different decisions (Miles / Snow 1978; Fredrickson 1983; Fredrickson / Mitchell 1984). This view could also be found in the current field research project, where some managers expressed similar views. A closer analysis of these companies' decision-making processes has revealed that processes may look similar at a superficial level of analysis because of similar procedures and authorization routines. Under closer analysis, however, as will be reported in chapter 4, significant differences do surface.

Such differences are reported in the literature, albeit not specifically for emerging markets. A group of researchers, for example, have shown that a single organization may use different decision-making processes without a clear indication of when which process is exercised (Mintzberg 1973; Hart 1992). Another group of researchers have argued that decision processes must be related to the content of the decision under consideration (Hickson, *et al.* 1986; Huff / Reger 1987; Melin 1992; Pettigrew 1992; Schendel 1992).

This overview gives support to this research project's core hypothesis that the characteristics of decision-making processes depend on the market under investigation and that therefore an investigation of those processes for emerging markets is warranted.

In this research project the focus on emerging market is therefore core to the analysis. As was argued above, the other restrictions to a general study on decision-making processes, namely, the concentration on foreign direct investments, the focus on large multinational companies, and on China are less important. The reason for these limitations was the need to keep the complexity of the analysis at a manageable level. The main findings part of this thesis, chapter 4, concentrates on this narrowly defined field of research objects.

To increase the insights gained for multinational companies on the one hand, and to improve the generalizability of the findings on the other hand, all three restrictions – for foreign direct investments, for large multinational companies, and for the geographical emerging market of China as the target market – are later released. In chapter 5, entrepreneurial companies are included in the analysis. In chapter 6 the restriction for foreign direct investments, as well as that for

geographical emerging markets is released when strategic investment decisions of Internet start-up companies are investigated.

1.3 Emerging markets

The core of this study is based on insights gained in one particular geographical emerging market, namely that of China. The results of this analysis are then applied to a comparative case study of two companies operating in a technical emerging market, that of the Internet. This application greatly improves the generalizability of the study's findings. The following analysis will highlight the commonalities of emerging markets and show how they differ from stable ones.

If one speaks of an emerging market, one usually refers to a developing country that has left years or maybe decades of stagnation behind and has started to achieve high economic growth rates. Such countries manage to “emerge” from a period of under-performance in terms of level and growth in GDP. But high rates in GDP growth are not the only characteristics of these countries. Others are an evolving regulatory and a fast-changing competitive environment, as well as fast-changing consumer demands and expectations. All of these variables can be summarized as “change” characteristics. For companies based in Western Europe or the United States, an additional feature of emerging markets is the unfamiliar operating environment. It is characterized by unreliable or even unavailable data, often an inefficient judicial system, geographical and cultural distance, and unfamiliar business practices. A summary of these characteristics is given in figure 1.1. It shows that both change and unfamiliarity result in a need for adaptation of decision-making processes.

Figure 1.1: Emerging market operating environment

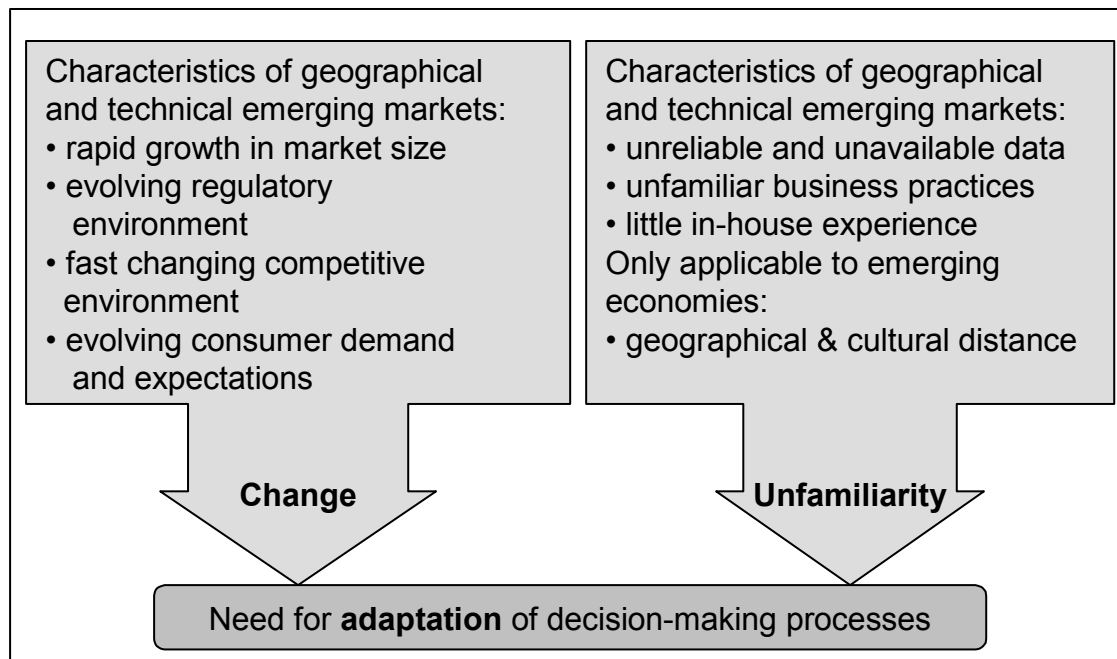


Figure 1.1 describes the variables which differentiate an emerging market from a stable one. All variables apart from that of the geographical and cultural distance apply to geographical markets, as well as the Internet as the discussion below will show. Under the usual usage of the term one thinks mostly only of geographical emerging markets. In this study the term is used in a broader sense because not only countries can suddenly emerge as powerful new players, but also new technologies or even individual products can result in revolutionary change in the market place. Thus, besides geographical ones, technical markets are a second category of emerging markets. The largest and most important one of these has been the emerging Internet market³.

1.3.1 Characteristics of emerging markets: change

That change is a component of emerging markets is actually a tautology because without change, nothing can emerge. As it is the most important characteristic, it has to be analyzed in some depth.

³ The sharp reduction in market valuation of Internet related start-up companies during 2000 and 2001 does not change the fact that the Internet opened up a wealth of growth opportunities for existing, as well as new companies. While some growth protections during the boom years were over enthusiastic, the actual development is still significant as will be shown in chapter 1.3.1.1.

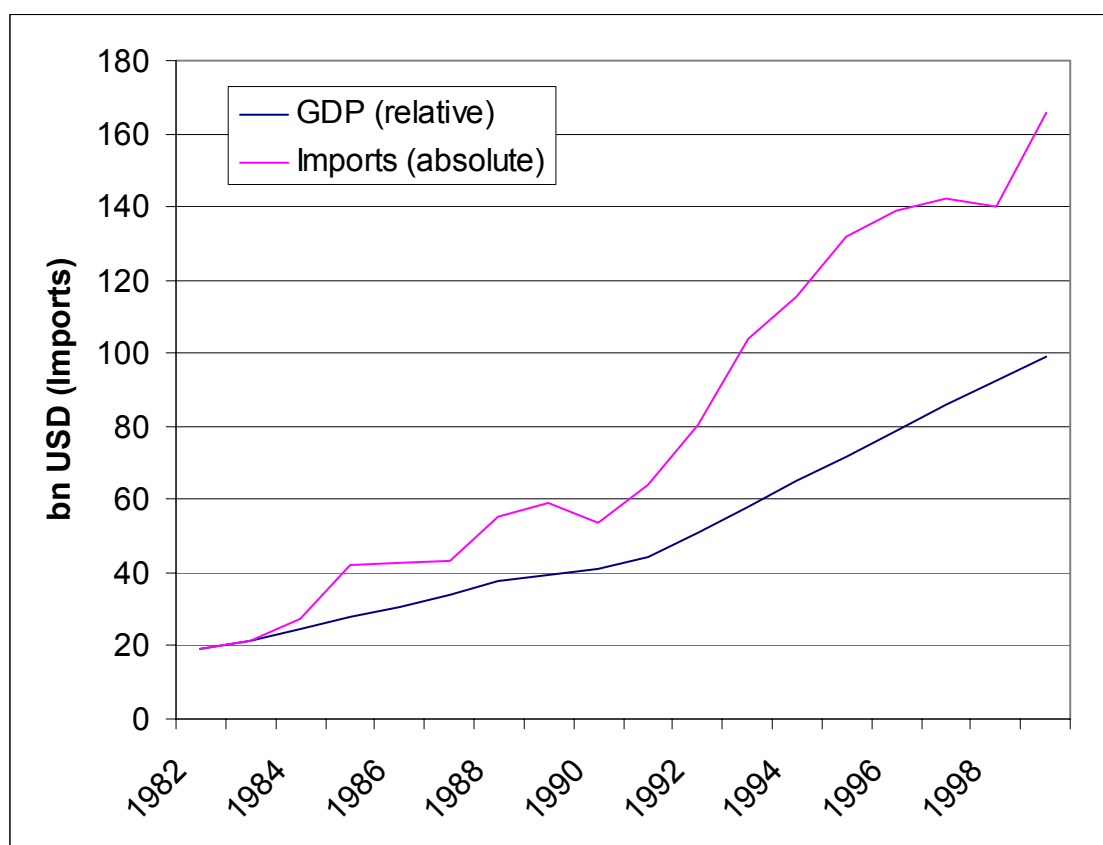
1.3.1.1 Rapid growth in market size

Usually, when thinking of change in connection with emerging markets, one talks of growth. Growth in emerging markets is usually preceded by an initiating force. This force, in the case of China, was the insight of Deng Xiaoping in 1978 that to catch up with the West, he needed to move the country to a more market based economy and to open up the country to foreign companies.

In the case of the Internet, it was the invention in 1990 of the first computer “browser” program, which turned the Internet into the World Wide Web as we know it now⁴. Many markets react to such a turning point with exceptional growth rates, simply because of the previously unsatisfied demand, which is suddenly released. China had fallen far behind world development through the catastrophic policies of its early communist governments and the totalitarian regime during and after the cultural revolution. The business sense of its people, however, did not die during these hard times and all the unmet demand resulted in fast economic growth rates (see figure 1.2 below).

⁴ In 1990, Tim Berners-Lee wrote the first graphical user interface browser (a client program), which was based on his invention, the World Wide Web. The World Wide Web (Web) is a global hypertext system relying on Internet technology. Thus, 1990 can be considered the break-through year for the Internet, just as 1978 was the year in which Deng Xiaoping started to open his country. The Web as a huge global marketplace became possible through the introduction of the Mosaic browser, the first version of which was released by Marc Andreessen and Eric Bina in 1993. The Mosaic browser, which became Netscape in 1994 and on which also Microsoft’s Internet Explorer is based, was the first browser which integrated images within documents and was easy enough to install and use to appeal to the mass market (Berners-Lee 2000; Magliery 1998).

Figure 1.2: Growth in China's GDP relative to Chinese imports from 1982 - 1999



Source: ADB, 2000: 82-83; 88-89.

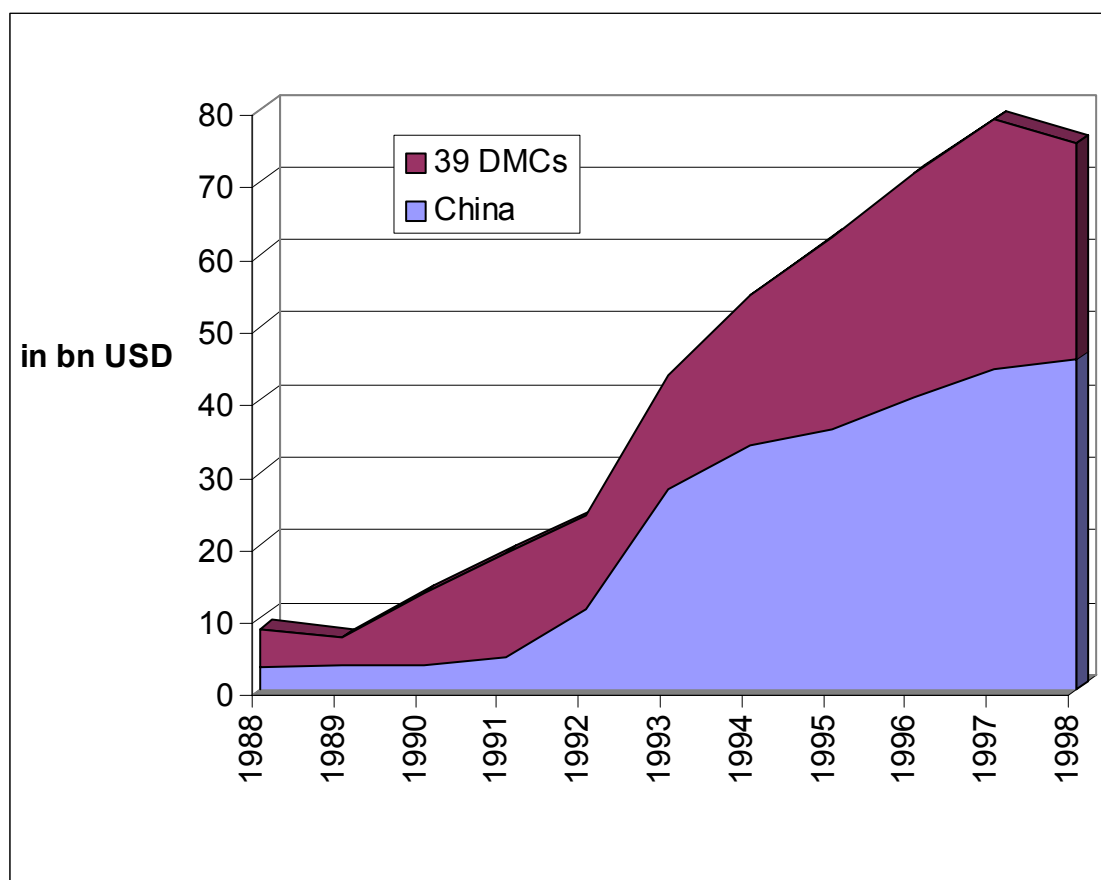
The darker line in figure 1.2 plots the relative growth in China's gross domestic product at comparable prices between 1982 and 1999. During these 17 years, it grew by an average rate of 10.1%, which represents a more than five-fold increase from the 1982 value. This rate compares very favorably with other emerging countries, especially given the large size of the Chinese market, which reached approximately one trillion USD at the end of 1999 (at 1999 exchange rates), up from 275 billion USD in 1982 (at historic exchange rates)⁵.

For foreign companies, the growth in Chinese imports may be even more relevant. Here, the development is even more dramatic. Imports increased during the same time from 19.3 billion USD to 165.7 billion, which represents an average increase of 14.4% per year and a cumulative increase of 759%. Few markets can boast such high growth rates, distributed relatively evenly over a period of two decades.

⁵ China's GDP in 1982 stood at 529.5 bn RMB (Chinese Yuan) and had increased to 8205 bn RMB by the end of 1999. In the same time, the value of the RMB against the USD dropped from 1.92 RMB per USD to 8.28.

With high annual growth rates over the last two decades and a huge potential for further economic growth when compared with more advanced markets, China is clearly a large and attractive emerging market on a GDP growth or imports growth dimension. This is further underlined by the massive inflow of foreign direct investment during the late 1990s, when China was one of the world's largest receivers of foreign capital and has been by far the largest receiver of foreign direct investment within emerging markets.

Figure 1.3: *Inflows of FDI to China and 39 other developing countries*⁶



Source: ADB, 2000: 41.

Figure 1.3 shows that China consumed on average more than half of all direct investment capital flowing into developing Asia. The sum grew from 3.2 bn USD in 1988 to a peak of 45.6 bn USD in 1998. The invested sums grew relatively steadily until the early 1990s, when they increased dramatically between 1991 and 1994, growing nearly eight-fold within only three years.

Since the Web was preceded by the personal computer (PC) revolution – which brought PCs into many homes and nearly all businesses of Western Europe and

the United States just a couple of years prior to the emergence of the Internet – here, too, the fundamentals for fast growth were given.

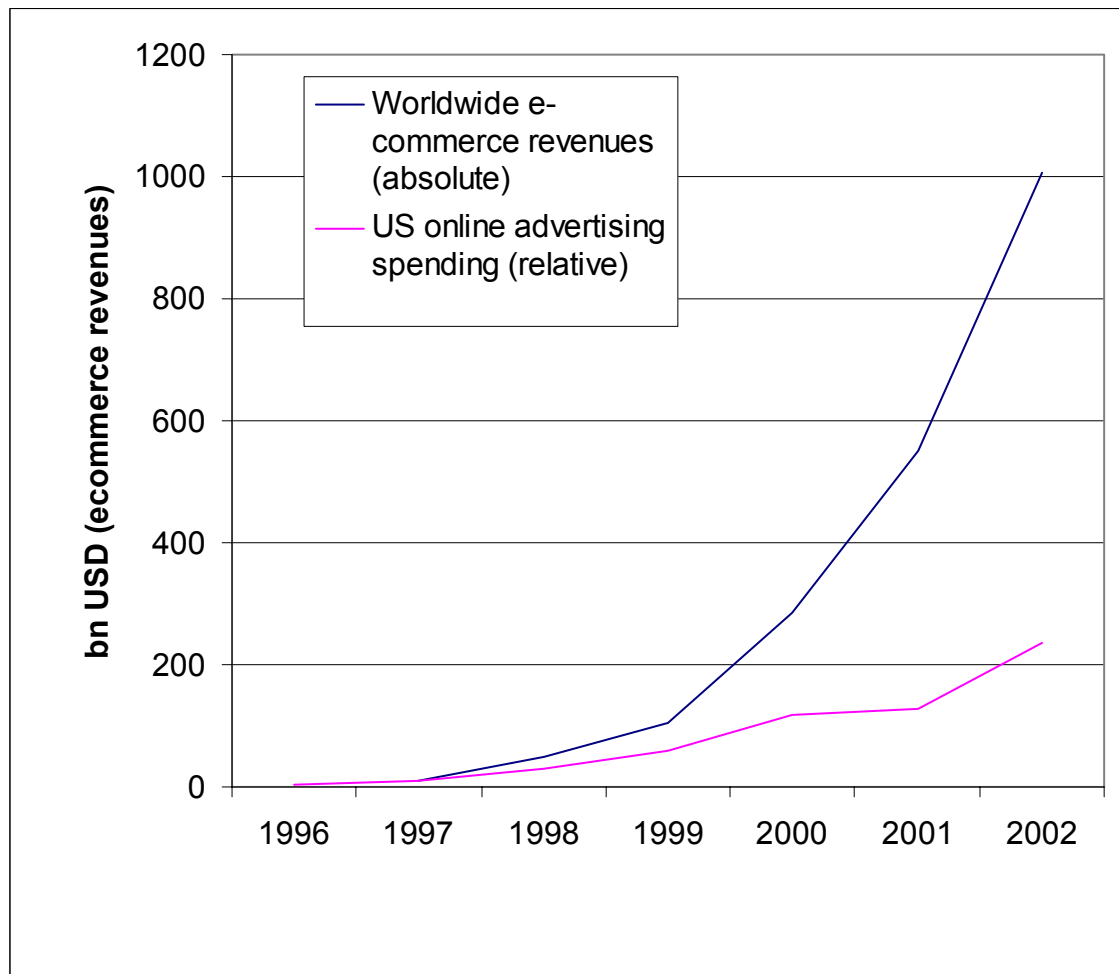
As argued above, high growth rates in GDP are a condition *sine qua non* of emerging markets. In so far as decision making is concerned, high GDP growth rates are predominantly a sign for potentially great opportunities, even though these opportunities have to be analyzed in detail to find out whether they apply for the particular company under review.

As discussed above, the emerging Internet market has many parallels to a large geographical emerging market. It is not yet clear whether its importance is revolutionary, as the term “New Economy” implies or whether the Internet is merely a significant new market. Besides offering tremendous opportunities for efficiency gain, the Web also opens up the chance to market new products to new and existing clients or to extend one’s market reach to new customer segments.

In 2000, approximately 286 billion dollars worth of goods and services were sold over the Internet to businesses and consumers. Thus, the Internet market already compares favorably with the largest emerging economies. China, for example, had a total GDP of 991 billion USD in 1999. The growth rates are even more encouraging on the Internet, partly because of the early development stage. Between 1997 (the first year for which meaningful estimates are available) and 2000, the B2B and B2C Internet market grew about 26-fold. In early 2001, the total market is about 1/3 of the size of China’s but while China currently grows at about 7% annually, estimations for Internet e-commerce growth rates average about 100% per year during the next few years.

⁶ DMC: developing member countries of the Asian Development Bank.

Figure 1.4: Growth in e-commerce revenues (B2B and B2C) and growth of US online advertising spending between 1996 and 2002⁷.



Source: emarketer.com, 2001.

Reliable market growth estimations are difficult to obtain since there is no central institution that would collect this data, as there is in the case of China, for GDP, imports or foreign direct investment. The growth chart for total worldwide e-commerce revenue is the most meaningful, whereas the growth chart for US online advertising spending is somewhat more reliable, as it mainly depends on official data collected by the US Internet Advertising Bureau. The online advertising growth chart, a small sub-category of the total e-commerce revenues, is less impressive but still boasts growth rates of an average of 130% between 1996 and 2001. In that period it grew from 175 million USD in 1996 to 7.1 billion and an estimated 7.6 billion USD in 2000 and 2001, respectively. The latter two figures reflect a sharp fall in growth rates, brought about by the “start-up crisis” of

⁷ The figures for 1996 to 2000 are reliable ex-post estimates, the figures for 2001 and 2002 are plausible estimates made in the first quarter of 2001. The estimations for the worldwide e-commerce market start with the year 1997, before which they were negligible.

the year 2000, when market values of Internet start-up companies collapsed on world stock markets, their funding dried up and advertising spending therefore decreased significantly⁸. This slump, however, is not expected to last for long and will also not be reflected in significant sales revenue decreases for the whole market as most market research firms are still optimistically forecasting tremendous real growth rates in e-commerce revenue for the years ahead.

Not even the fastest growing geographical emerging markets have ever matched these very high growth rates. Thus, the Internet can be considered as the most important emerging market of our times. It can be concluded that both China and the Internet are similarly attractive emerging markets but that overall development speed on the Internet is still significantly higher than it is in the fast growing Chinese market.

1.3.1.2 Evolving regulatory environment

"[G]overnments in emerging markets operate very differently from those in the West" because they are involved in an intricate array of business decisions (Khanna / Palepu 1997: 46). Through experience and connections a company can learn how to handle government regulations on the one hand, and the often weak judicial system on the other hand. Whereas the regulative environment often makes planning obsolete through quick changes, the different judicial system may require specific strategies, to tackle problems in the execution of decisions in a way which may be very different than in a stable environment.

Again a parallel to the emerging Internet market exists. Also in this case, the regulatory environment is evolving together with the market gaining importance. Governments around the world struggle to come to terms with the new-found footlessness of international business. Laws on taxation, which would influence the profitability of e-commerce business significantly are in review in many countries. So are consumer protection and other laws, with partly substantial effect on Web businesses. These initiatives by regulatory bodies add to a changing environment and increase the insecurity of the Internet as an operating environment.

⁸ This "start-up" crisis has some parallels to the Asia crisis of 1997/1998, which was also partly due to over-investment and over-expansion. While both crises damaged investors significantly at least in the short term, neither undermines the long term potential for the respective market. This is particularly evident by the Internet growth expectations, which are somewhat muted for one segment which is strongly related to the investment boom – online advertising spending – but which remain very strong for the overall online economy.

1.3.1.3 Fast changing competitive environment

High market growth rates attract competitors to the new market. As those competitors will be mostly new entrants, it is hard to forecast their emergence, as well as their behavior. Thus, like the other change variables, the fast changing competitive environment makes it difficult to plan ahead in emerging markets.

Compared with other geographic emerging markets, competition greatly intensified in China during the late 1990s⁹. This trend was driven by a combination of the huge attractiveness of the market and the very planning unreliability that the fast changing competitive environment further stresses. Thus, once euphoria hit the boardrooms of multinationals, skeptics, who reigned supreme through most of the earlier years suddenly were not listened to any more. The same lack of strong empirical support for models and scenarios, which earlier prevented market entry, now supported arguments for it. With local governments competing for foreign direct investment, licenses were readily given out and the result was in many cases an oversupply and depressed prices.

A similarly fast changing competitive environment is also present in the Internet economy. It was dominated during the first two to four years by independent start-up companies. During 1999 and 2000, however, more and more large companies started to enter the market place, not only further increasing competitive pressure but also contributing to the characteristic of a fast changing competitive environment.

Such a quickly changing competitive environment, paired with the fast growth in market size makes rapid decision making and decision implementation crucial. Only if the company acts fast enough will it be able to keep in step with the market in which it intends to do business. In a stable environment, speed is also seen as a virtue but it is much less important for the survival of the firm. Large multinationals are used to valuing accuracy of their decision much higher than speed. This is reflected not least in their managers' incentive schemes, which more often than not punish failure much more than they reward success brought about by risky decisions.

The decision-making processes of large multinationals tend to include various committees that have to be consulted, as well as several levels of authorization. In brief, these processes tend to be optimized for accuracy rather than speed. If

⁹ An indication of the increasing competitive pressure is given by figure 1.3, which shows the dramatic increase of FDI during the 1990s, most of which was committed with the internal market in mind.

speed is increasingly important, it follows that these decision-making processes should be modified to better fit the business environment for which the decisions need to be taken.

1.3.1.4 Evolving consumer demands and expectations

Compared to more established markets, consumer demand is less easy to forecast. New entrants, for example, have difficulty in forecasting product demand amongst consumers who only a few years ago had not had enough purchasing power to even consider buying similar goods. Thus, with economic growth, consumer demand evolves as well.

So does consumer expectation on the Internet. Early adapters in the first years were willing to put up with lousy service and difficult to navigate Web sites, but were - on the other hand - unwilling to frequently use their credit cards on the Net. This has changed recently with expectations towards Internet companies increasing and resistance to using new payment systems decreasing.

1.3.2 Characteristics of emerging markets: unfamiliarity

The second group of characteristics of emerging markets can be summarized as unfamiliarity. The following analysis will adopt the perspective of large multinationals headquartered in Western Europe or the United States, which are the main objects of this thesis.

1.3.2.1 Unreliable and unavailable data

Rapid changes in the overall environment can render many long-term plans unreliable, as empirical evidence shows (Lasserre 1993: 59; Lasserre / Probert 1994: 17). The lack of reliable information is probably one of the most important differentiating characteristics of emerging markets with respect to decision making (Khanna / Palepu 1997: 42). In a survey of 167 European executives in the Asia Pacific region, Lasserre found that emerging markets like China, Vietnam or Indonesia consistently scored worse on questions about the quality, accessibility and reliability of data used for strategic planning than more developed Asian markets like Japan, Hong Kong and Singapore (Lasserre 1993: 57ff). This unsurprising finding has significant impact on foreign direct investment decision-making processes because these depend on reliable and accurate information.

Normative studies of decision making usually focus on how to best calculate a project's future cash flows or internal rates of return (Leslie / Michaels 1997; Kirsch 1988; Anand 1993). Behavioral studies find that corporations lend much weight to their quantitative analysis (Kelly 1980; Carr / Tomkins 1996; Van Cauwenbergh, *et al.* 1996). Whereas the discussion about which variable (*e.g.* IRR or NPV) should be used to measure the profitability of a project attracts a lot of attention, the more important question of whether the data that is put into the more or less sophisticated formulae is of any value (especially in emerging markets), is often neglected.

Apart from the obvious problem of generating enough reliable information for evaluation purposes, the lack of information has much more widespread consequences. All types of markets – product markets, capital markets and labor markets – depend on information to function properly. A lack of information therefore creates problems ranging from a weak communication infrastructure, to unreliable financial reporting in the target market, to a lack of certification for education of employees (Khanna / Palepu 1997). These secondary consequences of a lack of information affect decision making insofar as the product, capital and labor market may work significantly different compared to the way they work in developed countries. Decisions based on experience from the latter environment may very well be flawed if applied unaltered to the emerging market under investigation.

To state that the Internet is also characterized by a lack of data may sound counterintuitive at first, as data is ubiquitous and generated by every activity within that particular market. Data required by traditional decision-making methods and models, however, is indeed scarce for young start-up operations. These companies face product markets for which no historical data is available, which makes accurate forecasting a formidable task. Even if the Internet is used simply as a new distribution channel, rather than for product or service innovation, many companies find it difficult to accurately forecast the rate of customer adaptation. The result is the same as in the case of emerging geographical markets: traditional, quantitative decision models, which produce reliable results for relatively stable and predictable markets are of little use in the emerging market environment.

1.3.2.2 Unfamiliar business practices

In many emerging markets, new entrants from distant geographical areas face unfamiliar business practices. For example, the Chinese understanding of a contract, namely as a flexible memorandum of understanding which can be easily changed and re-negotiated, is quite different from a Western point of view, where contracts are considered much more binding. A similar difference in the business environment are the importance of relationships in China (guanxi), which are essential for success but have less of an importance in many Western countries.

Emerging markets also often differ substantially from developed markets in cultural respect (Hofstede 1980). Cultural, but also geographical distance from the home market affects decision making insofar as many of the paradigms and concepts of decision-makers may not be applicable to the host country environment. Therefore, the otherwise reliable judgment of headquarters decision-makers with a good track record in developed countries may be less effective in culturally different environments that are usually far away from the home base, which makes a familiarization with the new market even more difficult.

Especially in the early heydays of the Internet, business practices in new start-up companies differed substantially from those in traditional corporations. Hierarchy and formalities became less important. Independence and empowerment of employees further increased. New remuneration schemes were used and companies saw themselves forced to experiment with new organizational forms.

While some of the most dramatic departures from traditional behavior have since disappeared, the business environment that start-ups or start-up operations of multinationals face is still different from that of the traditional economy. Thus, senior management's unfamiliarity with business practices in distant countries, finds a loose parallel in the new business environment of the emerging Internet market.

1.3.2.3 Little in-house experience

During the early stages of market entry, companies do not have much relevant experience in the target market. The larger and the more international a corporation is, the more experience it will have with emerging markets in general. Such experience decreases the company's unfamiliarity with the new operating environment. For very distinctive markets, such as that of China, with its long communist history, its huge size and various other characteristics that will be explored in more detail below, direct market exposure is necessary to become

truly knowledgeable about the new operating environment. Thus, companies facing decisions for emerging markets, lack of in-house experience adds to the feeling of unfamiliarity.

The same can be said for the Internet economy as well, where large companies, just like start-ups have struggled especially in the early years with the fact that relevant experience was not available within their own organization.

1.3.3 Summary of differences and similarities

Table 1.1 gives a summary of the differences and similarities between stable markets on the one hand and the emerging markets of China and the Internet on the other.

Table 1.1: Differences and similarities between stable markets, China, and the Internet

Characteristic	Stable Markets	China	Internet
CHANGE			
Growth in market size	low	high	very high
Evolving regulatory environment	predictable	fast	yes
Fast changing competitive environment	no	yes	very fast
Evolving consumer demands and expectations	slow	yes	yes
FAMILIARITY			
Unreliable and unavailable data	no	yes	yes
Unfamiliar business practices	no	yes	somewhat
Little in-house experience	no	yes	yes

In summary it can be argued that China and the Internet show a surprisingly close relation with one another. Their markets are both growing fast, their competitive environments as well as consumer demands and expectations are also changing rapidly, as are laws and regulations. These four characteristics make both markets unpredictable because of fast change.

At the same time, both markets are also unfamiliar to Western decision-makers due to unreliable and unavailable relevant data, unfamiliar business practices and little existing in-house experience.

The biggest difference between China and the Internet is the speed of change and market growth. China has been one of the fastest moving geographical emerging markets over the past two decades. The Internet, however, has put this speed of market growth and change – especially in the competitive environment – onto a new level. To cope with this rapid speed is the predominant challenge for decision-makers in the Internet environment. The implications on decision-making processes of this characteristic will be explored in detail in chapter 6.

In all of the seven characteristics from table 1.2, emerging markets differ from stable ones, where growth is much slower, the development of the regulatory environment largely predictable, the competitive environment, as well as consumer demands and expectations often unchanged for many years. Such stable markets are also familiar to decision-makers due to their companies' long lasting activity in such markets, the availability of reliable data and the familiar business practices.

The conclusion to be drawn from this analysis is that decision-making processes which were developed for stable markets and have emerged through experience in stable markets may not be well suited for decisions concerning emerging markets. Thus, a new model of decision-making processes for emerging markets is needed, a goal which this dissertation has set out to meet.

1.3.4 Specific aspects of China

China was chosen for this research not only because it is a typical and important emerging market but also for one more characteristic feature of this country. It is important for this study to analyze not only one strategic decision, but also a company's long term involvement in the target country. Such a quasi-longitudinal approach¹⁰ has many advantages, but it also requires special preconditions to make the research manageable. For practical reasons, it is difficult to analyze decisions made many years, maybe decades ago. China, however, has opened its market only fairly recently with the economic and political reforms of 1978/79. Before that time it was virtually impossible to invest in China. Therefore, the phase of analysis will not be longer than two decades which makes analysis easier without decreasing general applicability. Other markets that opened up even more recently, like Vietnam for example, are so far not large enough and do not host enough multinationals that could be studied.

¹⁰ A "real" longitudinal study would span many years, maybe decades.

Apart from the commonalities, there are some characteristics that must be kept in mind when trying to generalize research findings obtained in a China-centric study. Such China-specific characteristics may influence the decision-making processes of multinationals and – if not properly taken into account – might thus skew the results of the study and restrict its generalizability. The most important of these China specific variables is the government structure.

Over the past twenty years, the government's influence on businesses in the country has changed significantly. Since the start of the reform process in 1978, a largely market-based economy has developed, which led to a weakening of the central government's control of the economy (Lang 1998: 84). At the beginning of the 21st century, the business environment in China is characterized by a market economy and a stable government. The government's unpredictability in issuing new laws and decrees, an often unclear and difficult to interpret legal structure and fast changing competitive environment are all "standard" characteristics of emerging markets as pointed out above.

In the 1980s, however, when many of the survey companies initiated their planning processes for the eventual set-up of operations, China was still dominated by a strong government and the Communist Party of China. In addition, dominant state owned enterprises produced according to 5-year plans rather than in line with market forces.

Other variables that are particular to the Chinese market, like the huge differences between individual regions within the country, are also kept in mind but are less relevant in relation to decision-making processes.

1.4 Types of companies

In the context of decision-making processes, company characteristics are very relevant. The firm size is one of the most important variables, but so are the company's history, its capital structure and management style. The study focuses on Western multinational companies but also includes companies from Hong Kong, as well as entrepreneurial Internet start-ups.

1.4.1 Multinational companies

The term multinational company refers in this study to large corporations with several thousand employees and operations in many countries. The typical multinational company will be organized according to divisions and have several

business units. A corporate center will have a varying degree of influence on the whole corporation but will certainly be involved in strategic decision-making processes for major investment projects.

This definition of multinational companies is held relatively vaguely on purpose because a concrete definition of what should constitute a multinational company and what should not is neither necessary nor helpful. To avoid externalities, the survey companies had to have some characteristics in common. These are mainly firm size (large), level of internationalization (relatively experienced), and structure (usually divisionally organized and not one-product firms). Because of the grounded theory research method which will be explained in detail below, a more concrete definition of the study's objects would not have improved the results. Instead, it may have limited generalizability (Glaser / Strauss 1967).

A narrow focus makes analysis easier because the researcher will have to spend less time analyzing the individual companies in depth. A broad factor, on the other, hand will make the results relevant to a larger target group of companies without requiring them to analyze in depth for themselves whether or not the research results will apply to their special case. In this study, a compromise was reached by having a core sample of relatively similar companies. These core firms came from Switzerland, Germany, and Austria. The firms do vary significantly in company size, international experience and ownership structure. By having based their headquarters in continental Europe, they largely share a similar corporate culture and company history. All of the core companies have grown historically from their European home market to neighboring European markets from where they later expanded usually to the other industrialized countries in Europe and the United States before expanding significantly into other regions like Asia.

In addition to these European core companies, companies from other European countries (France), as well as from outside Europe (US and Japan) were later added to the sample. In interviews with these companies, it was tested whether the earlier findings differed significantly from those of the non-European companies. As no significant and study-relevant bias could be found, it can be assumed that the study's results are indeed valid for multinational companies in general, as broadly defined above.

1.4.2 Hong Kong based companies

Because of their cultural, geographical, historical, and linguistic proximity to China, Hong Kong based companies have potential advantages in critical areas of the decision-making process. They differentiate themselves in these areas from the companies in the core sample. This differentiation helps to look at decision-making processes from a new perspective with the goal to find out how processes can be improved. The study thus hopes to suggest new ideas for both, multinationals, and more local companies as a comparative approach should result in cross-organizational learning effects.

At the same time, Hong Kong based companies operate in an economic system, which is largely comparable with the Western one through its British legal system, many Western trained managers, and an open society. This similarity provides a common ground on which the analysis can be based so as not to be too much distracted by differences that may not be relevant. Hong Kong's status as a part of China is of little importance to this study, as the "Special Administrative Region" is in practice so special that investments from Hong Kong can be and are still regarded as 'foreign' direct investments¹¹.

While the business environment in Hong Kong is closer to that of Western Europe or the United States than the Chinese business environment is, a number of important differences still persist. One of the most striking differences is the domination of two related industries, amongst the largest Hong Kong companies that are invested in mainland China: property and construction. This is mainly due to Hong Kong's particular business environment, which has rewarded early investments in the property sector with huge gains. Therefore, the companies that could grow the fastest and accumulate the most capital, were nearly exclusively property-related businesses. As a supporting activity, these companies have developed construction capabilities in the fields of buildings, and road construction, but also power plant construction and property services like hotel management, which now can be considered world class for the best of the large Hong Kong based property and construction enterprises.

Another difference is management style. Even though most of the large Hong Kong based companies are publicly traded, a majority of the voting rights are usually owned by one family. This often makes the company rather risk adverse

¹¹ The former British Crown colony Hong Kong was returned to the People's Republic of China on 1 July 1997 and was granted by China the status as "Special Administrative Region" (SAR). This status allows Hong Kong to keep most laws and regulations as well as border controls to mainland China.

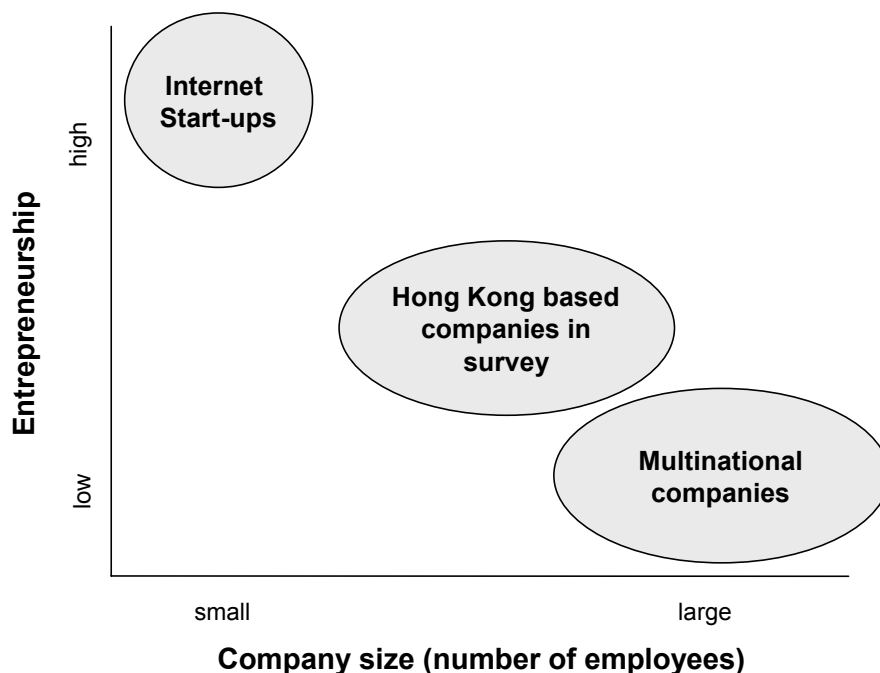
because a large share of a few people's fortune depends on the company. It also contributes to the hierarchical and organizational structure and concentration of power on the top (family) layer of management. Even though the large companies in Hong Kong show a clear aspiration for installing world class management, with managers often holding MBA degrees from renowned US business schools, they usually do admit that their overall management system is less professional than it is at many of their Western competitors.

The differences mentioned above are included in the analysis as control variables, which may influence companies' actions, and need therefore to be disentangled during the analysis process from those variables that form the core of the study, namely geographical closeness, and cultural and linguistic relatedness to the Chinese market. The analysis of Hong Kong based companies in China builds on the findings from the main China study and is reported in chapter 5 of this dissertation.

1.4.3 Internet start-ups

As figure 1.5 indicates, Internet start-ups are much smaller and more entrepreneurial than the other two groups of sample companies.

Figure 1.5: Firm size and entrepreneurship within different survey companies



For the purpose of this study, Internet start-ups shall be defined as very young, highly entrepreneurial, independent organizations that use the Internet as their main market. Start-up companies will be less than about three years of age. The companies can offer products or services to businesses, as well as to consumers but they must rely on the Internet as their main base of operation and distribution channel. Companies that are directly addressed in this research would be largely independent from established corporations and would therefore have the opportunity and necessity to develop their own decision-making processes.

Through the inclusion of an analysis of two Internet start-ups, it can be shown that the research results are relevant to a very broad definition of strategic investment decisions in emerging markets. The analysis also shows how companies can apply the results of this study, each to their individual case.

2 Literature

This dissertation contributes to the strategic decision-making literature by analyzing investment decision-making for emerging markets. The thesis is based on one particular type of investment decision, namely that for foreign direct investments. In chapter 6, the restriction on the emerging market of China is released by showing how the findings are applicable to the emerging Internet market as well. In so doing, the focus will shift from FDI decisions to investment decisions in general.

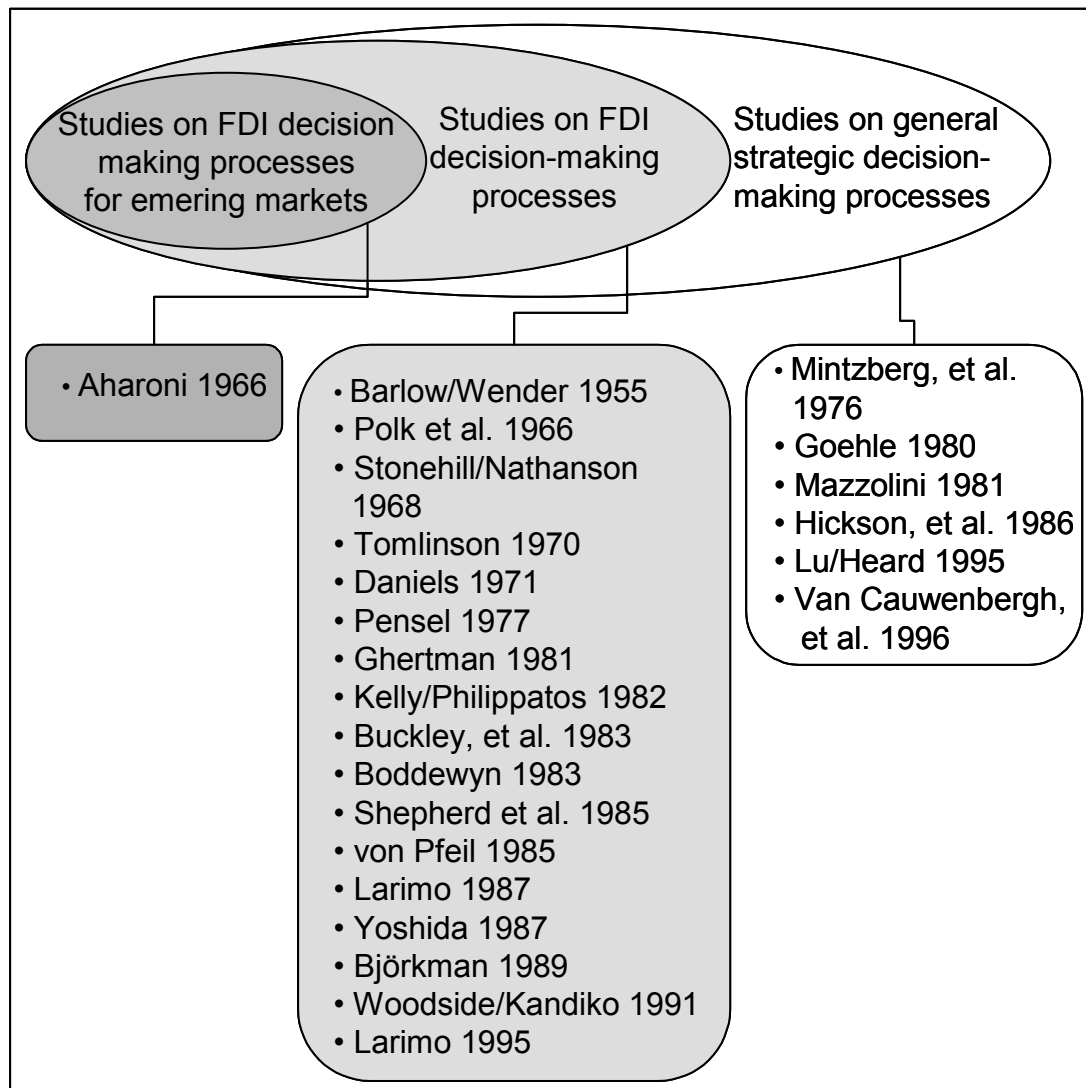
The operating environment of an emerging market strongly resembles that faced by entrepreneurial companies. Thus, even though most sample companies were large multinational corporations, entrepreneurial firms were studied in chapter 5 and 6. This broadening of the research focus has helped to enrich the findings from large corporations with such from companies that constantly operate in emerging markets as was explained in the introduction.

Contributions from the literature to the model could be found mainly in the following areas: the FDI literature, and especially the FDI decision process literature, as well as generally the strategic decision-making process literature, which is not necessarily part of the FDI literature but which has the FDI decision process literature as a subgroup.

2.1 Decisions for foreign direct investments

FDI decisions for a large and important emerging market like China are a sub-category of and closely related to strategic decisions. Within the decision process literature, authors usually focus on one of these two groups. Processes for large foreign direct investments share most of the characteristics with processes of other strategic decisions, thus literature from both areas had to be closely evaluated for this study. Figure 2.1 gives an overview of research papers in this area.

Figure 2.1: Overview of some research into foreign direct investment decision processes

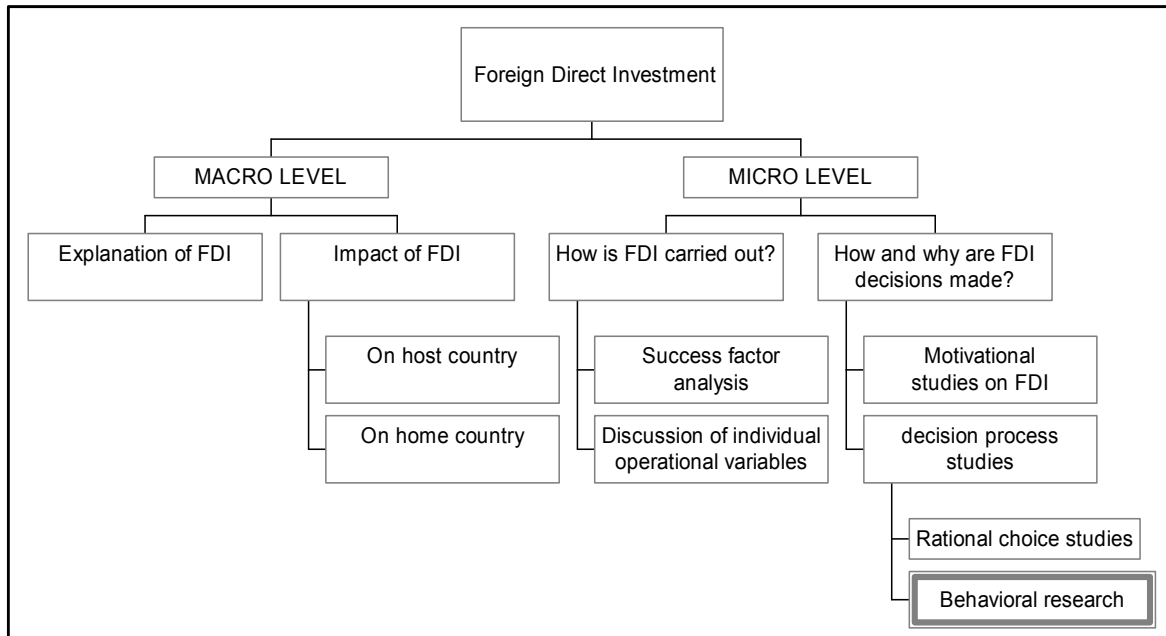


Foreign direct investment decision-making process research is part of a microeconomic analysis of the FDI phenomenon, which tries to answer the questions of how and why FDI decisions are made. It is contrasted by research that is more procedural oriented and tries to answer the question of how FDI is actually carried out. Answers to these questions give success factor analyses and discussions of individual operational variables (see chapter 2.1.3).

On a macroeconomic level, researchers have firstly answered the question of why FDI happens, explaining it with the product life cycle hypothesis (Vernon 1966), oligopolistic reaction theories (Knickerbocker 1973), and the eclectic FDI theory by Dunning amongst others (Dunning 1988). Secondly, they tried to evaluate the impact of FDI on the host country and the home country, often focusing on employment but also discussing other variables (chapter 2.1.2).

Figure 2.2 gives an overview of how these different fields of research are related to each other and where the current study, with its focus of behavioral research on decision process studies, is positioned.

Figure 2.2: Research into foreign direct investment



As figure 2.2 reveals, a first distinction can be made between studies that take a macro economic perspective and such that take a micro-economic (firm-level) one. The macroeconomic studies can be further differentiated, between those that analyze why FDI happens in the first place (chapter 2.1.1 below) and those that explore its impact on either host or home country (2.1.2).

On the firm level, one can differentiate between studies that look at operational variables and ask how FDIs are or should be carried out (2.1.3) and those that try to answer how and why FDIs are being made (2.1.4). The latter can be subdivided into motivational studies that try to give a micro-level answer to a very similar question as is explored on the macro-level in chapter 2.1.1, and those that finally explore the foreign direct investment decision-making process. To discuss the FDI decision making process one can be guided by one of two substantially different goals. The first is to correctly describe the FDI decision-making process and the second is to give normative guidelines or prescriptions of how FDI decisions should be made.

This dissertation is based on behavioral research, as the shaded box on the lower right side of figure 2.2 indicates. It follows a behavioral research approach to analyze decision-making processes. In doing so, the study concentrates initially

on foreign direct investments of large multinational firms. Later on, this restriction is lifted in favor of a more comprehensive research goal, namely to analyze how decision-making processes for emerging markets differ from those for stable ones. The dissertation is descriptive insofar as it describes how decision-making processes for emerging markets differ from those for more established environments. In addition, it has significant normative aspects as it goes beyond a pure description by recommending particular aspects and variables for a given company's decision-making process. The application of these recommendations is explained in detail on the example of two Internet companies in chapter 6.

2.1.1 Why does FDI happen?

The macro-economic question about why FDI happens is usually answered on an aggregate level, using rational choice theories. One of the oldest approaches is developed from the product life cycle hypothesis by Vernon, who argues that the more mature a product and its production process is, the more likely it is to be produced in developing countries for cost saving reasons (Vernon 1966). A different explanation is the oligopolistic reaction theory which states that an initial FDI by one firm induces the other firms in the same industry to follow their competitor abroad (Knickerbocker 1973).

Dunning's eclectic FDI theory tries to incorporate as many reasons for FDIs as possible. He hypothesizes that FDIs happen if the company has in a certain country ownership-specific advantages, internalization advantages and localization advantages (Dunning 1988). Dunning's theory and the others in this tradition of research are situated on an aggregate level, and do not pay specific attention to the individual firm. However, these theories help to understand the rationale of some direct investment decisions even on a firm level. Although they are generally macroeconomic theories, they do help to explain why particular FDI decisions, e.g., the production of product X and not product Y in a foreign country, are made by individual companies. Furthermore, these theories do not help to explain the decision-making process itself, which is the focus of this dissertation. Therefore, they leave a lot of questions unanswered.

2.1.2 Impact of FDI

Studies that analyze the impact of FDI decisions are usually even more macro-economic oriented than those that try to explain why FDI decisions happen. Those studies that deal with the impact on host countries usually analyze

employment and balance of payments effects as well as technology transfer issues (Plum 1995; Spar 1996; Koizumi / Kopecky 1980; Gundlach / Nunnenkamp 1996; Buckley 1989). Others focus on more specific questions like the effects of multinationals' activities in export processing zones (ILO 1988; Feenstra / Hanson 1997), or generally on the effects on industrialization (Pupphavesa 1992; Lim / Fong 1990; Schive 1990).

In a second category studies analyze impacts on home countries, with special respect to home country employment (Paqué 1995; Henneberger / Graf 1996; Franko 1978; Koizumi / Kopecky 1980; Lee 1996; Bellak 1993; Henneberger / Kamm 1996; ILR 1996; Buckley 1989). But effects on other variables, like trade, are also analyzed (Pfaffermayr 1996).

These studies help to understand the setting in which the multinational enterprises make their decisions. They show that there is some anxiety in Western countries where the relocation of production facilities is concerned (Martin / Schumann 1996; Henneberger / Graf 1996: 2). This would, of course, influence the decision-making process and to some extent may have influenced some companies' decisions insofar as most Western multinational companies cite market orientation rather than cost cutting as their most important reason to invest in China (Wang 1996; Ortmanns 1991: 54f). They show that the effects on the host country depend on the specific characteristics of the direct investments, which helps to explain why many target countries, including China, try to regulate FDIs in detail (Plum 1995: 253). The goals of the home countries of course often contradict the aims of the multinational companies, which explains much of the difficulty that can be encountered during the negotiation process.

This group of studies does not touch the FDI decision-making process itself but points to important factors during the process: first, the consideration given to concerns in the home country society as well as in the company itself, especially what the effects on labor are concerned; and second, the way of accommodating goals from host country governments.

These two questions were discussed during the interview process to increase the general understanding of the background to the investment decision.

2.1.3 How are FDIs carried out?

Switching to the microeconomic level of analysis, the question of how FDIs are carried out has attracted a great deal of attention. In this field of research two

types of studies have been done. On the one hand general success factor analyses are performed, many of them with a clear focus on China (Zielke 1992; Trommsdorff, *et al.* 1995; Trommsdorff / Wilpert 1994; Luo 1995; Levy 1995; EIU 1997). On the other hand particular operational factors are being discussed (Roehrig 1994; various articles in the journal 'China Joint Venturer'). In this dissertation the discussion of the optimal FDI strategy for a given strategic business unit and for a given country is of general interest to provide an informed basis of the actual analysis. In this context, the following kinds of questions are answered: Should companies invest in China through joint ventures or wholly foreign owned enterprises (China Joint Venturer 1995; Peerenboom / Kearney 1996; Vanhonacker 1997)? What types of products fit the market? How important are connections to do business successfully in China (Luo 1997)? More operational studies look at questions of how to effectively manage operations in China (see above); how an optimal distribution system should look like (Kukovetz 1997); or generally what the special characteristics of the Chinese market are (Tang / Reisch 1995).

These studies are of value to help find out what kind of information companies need for their investment decisions. This information concerns (among other things) the choice of partners, the specific characteristics of the industry, general knowledge about managing in China and know-how in negotiating with Chinese partners. While these studies are useful in helping to understand what kinds of questions need to be asked, they still discuss questions which only provide the background to the research. The goal of this dissertation is not to find out how a China strategy should look or how companies should operate in China – which is what the studies in this sub-chapter concentrate on – but, rather, what characteristics the decision-making process should have, to make optimal decision making possible.

2.1.4 How and why are FDI decisions made?

Finally, authors have asked how and why FDI decisions are made. The first question is answered by motivational studies, whereas the second question encompasses those studies that are directly related to this research project.

Within the context of motivational studies for foreign direct investments, authors investigate the initiating forces of FDIs. One can generally differentiate between two main groups, market-oriented vs. cost-oriented strategies. As mentioned above, most European investors in China follow market-oriented strategies, either

actively, by initiating the investments themselves, or reactively, by being pushed (often by their main customers) to invest in China.

Behavioral studies, which may also focus on decision-making processes (see below), often concentrate on the motives for FDI. One of Aharoni's goals, for example, was to analyze in detail why companies wanted to invest in the relatively small market of Israel and not somewhere else (Aharoni 1966: 9). It is important to know the motives for the investment abroad, to know what type of information needs to be searched, and what types of problems might have to be confronted during the decision-making process.

However, analyzing the motivation of investing in an emerging market is not a goal of this research, but rather taken as given. Again, it is a question of process and result. The process of how the decision is made to do a cost or market driven investment is of interest here. The decision itself is only marginally interesting. Therefore, the question of why a company chose China and why it wants to produce for the local market rather than for export is not being asked or answered. Instead, it will be shown in what ways the process which led to this decision differs from that of more established markets. This question is core to the current research process and is dealt with in detail in the following chapters.

2.2 Rational model of decision-making processes

Historically, the first approach to explaining decision-making processes comes from a rational choice perspective. Rational choice analyses do not require field research for generating hypotheses but rely entirely on generating hypotheses through mathematical manipulations and logical reasoning from an axiomatic standpoint. The results of this line of research are prescriptions about how decisions should be made, *i.e.* an optimal process of decision-making is constructed and recommended for application in the real world. Models in this field usually emphasize a comprehensive and thorough analysis during the decision-making process (Fredrickson / Mitchell, 1984).

The two most important axioms of the traditional rational choice models are profit or utility maximization on the one hand, and security or knowledge of the probability distributions on the other hand. Studies on foreign direct investment decision-making processes from this background include those that try to evaluate the risk involved in FDIs (Brewer 1981), those that look at very specific questions in the decision-making process (Chi / Fan 1997) and those that compare different

methods of evaluating investment projects (Van Cauwenbergh, *et al.* 1996; Carr / Tomkins 1996; Leslie / Michaels 1997; Kelly / Philippatos 1982; King 1975).

Various adaptations of the traditional model exist and researchers have tried to make it more realistic by creating models that aim to include such occurrences like monopolies or oligopolies and the like (Chamberlin 1946; Rothschild 1947; Marshall 1936). These modifications were never substantial enough, however, to correctly reflect the very complex organizational environment that managers face when making their decisions.

The rational model proposes that decision-makers should conduct an exhaustive analysis of the environment as well as the company's internal capabilities, identify and evaluate all feasible alternatives and develop a comprehensive plan to reach the organization's goals (Ansoff 1965; Hofer / Schendel 1978; Porter 1980).

Thus, the main criticism on this approach of analyzing decision-making processes has never changed: the models do not explain actual behavior (Aharoni 1966). This was pointed out clearly by Eisenhardt and Zbaracki in 1992 when they argued that the debate about whether organizations follow the rational model was no longer very controversial, as too many shortfalls of this model had been highlighted.

With this insight in mind, researchers started to look for other ways to analyze decision making in organizations. What they often failed to do, however, was to draw conclusions about their findings. The reason for this is obvious: Usually, behavioral research methods are not suitable for generalization, which would be needed for the drawing of sound recommendations. However, the logic of recommendations based on unrealistic assumptions of the real world may be easier to defend but are generally not very helpful for practitioners.

By using sound and rigorous research methods and by analyzing a relatively large sample of firms in detail, this study improves the generalizability of the conclusions. Therefore it comes much closer to normative recommendations for decision-making processes than other researchers have come so far.

2.3 Behavioral studies of decision-making processes

Behavioral researchers have questioned the assumptions of the rational choice model. They argue that organizations are not able to carry out comprehensive analysis of alternatives because of bounded rationality (Simon 1945). Instead, as well as engaging in cognitive simplification, managers stop their search once a

satisfying alternative has been found (March / Simon 1958; Lindblom 1959; Schwenk 1984). The list of reasons why the rational model does not hold continues to grow, with managers' political behavior attracting relatively much additional attention (Quinn 1980; Eisenhardt / Bourgeois 1988).

Most behavioral scientists have found that foreign direct investment decisions, as well as strategic decisions in general, can be analyzed with a phase model framework (Simon 1976; Mintzberg, *et al.* 1976). Some sort of data gathering phase is followed by a strategy development phase, which finally leads to a selection or choice phase.

Whereas not all researchers find empirical evidence for the phase approach, it remains a helpful framework to understand decision-making processes. Followers of the 'phase theorem' argue that "activities of one kind dominate others at any point in the decision making process" (Björkman 1989: 14). An early proponent of this view was Simon with his "IDC" model where he argued that 'intelligence' dominated the first part of a decision making process, being followed by 'design' which means the search for alternatives. The last phase was 'choice' among those alternatives. Simon did realize that any decision making process would in reality be much more complex than this model suggests. He argued, however, that, "nevertheless, the three large phases are often clearly discernible as the organizational decision process unfolds" (Simon 1976: 3)¹².

The principal view that a decision-making process can be understood within the framework of a phase model is also supported by many other researchers (e.g.; Mintzberg, *et al.* 1976; Mazzolini 1981). Some researchers, however, who tried to test whether the phase theorem holds reached diverging conclusions. Witte, for example, who did not study FDI decisions in particular but important purchasing decisions instead, did not find support for the phase theorem. But Witte argued that some activities, in particular the gathering of information as well as choice, were done in all 'phases' of the process (Witte 1972: 176ff.). Similar results were obtained by March and Olsen (1976) as well as by Anderson (1983).

Analyses of why these differences exist indicate that they may, firstly, depend on the methodology of the research process, with interview studies relying on participants' recollections tending to support the phase theorem. Secondly, very novel decisions tend to be solved in a less structured way where phases cannot be clearly distinguished any more (Björkman 1989: 16f.).

¹² First published in 1945, Simon's study was the first of its kind.

In summary, the data refuting the phase theorem do not seem to be strong enough, especially because the alternative studies fail to present a better framework for structuring the process of analysis. The results of these studies will have to be kept in mind during the research process, however. Especially the 'phase' of data gathering tends to extend over the whole process. Phases are valuable concepts for analysis but it must be kept in mind that they are not followed in a completely linear way, as the process is much more complex (Aharoni 1966; Eisenhardt / Zbaracki 1992). Acknowledging this, and acknowledging that also other activities can take place at more than one point in time during a decision making process, the phase theorem will still be a useful tool for the analysis.

2.4 Research on strategic decision-making processes

It was argued above that the behavioral approach was most promising in generating interesting findings. Within that approach the phase model helps to structure the researcher's thoughts. Over the years, a relatively large number of researchers have tried to describe and explain decision-making processes from a behavioral perspective, usually using some sort of phase model to guide their research efforts. The most important of these undertakings will now be discussed with the goal to distill from all that academic work a base model for decision-making processes.

In organizational theory, several different models of strategic decision-making processes in general, and foreign direct investment decision-making processes in particular, have been proposed. Phase models often form the theoretical framework of empirical research in this area (e.g. Björkman 1989, Larimo 1995). Normative literature would postulate sequential phases, such as problem recognition, information gathering, development of alternatives, analysis, authorization and implementation. Most behavioral researchers would modify this sequential process with feedback loops, disruptions, and partial re-starts of the process (e.g. Mintzberg, *et al.* 1976). Others, like Witte (1972), would reject the phase theorem as a sequential approach to decision-making but would accept the value of categorization and classification of the various activities within a decision-making process. Table 2.1 (below) gives an overview of some of the most significant contributions in behavioral decision-making process literature, which will be discussed in greater detail later. These studies were based on a behavioral approach pioneered by the Carnegie School of Behavioral Research (Cyert / March 1963).

Table 2.1: Important studies of decision making processes

Author	Type	Phases	Variables / Findings
Simon (1945)	Strategic decisions	(1) intelligence (2) design (3) choice	Base model
Aharoni (1966)	FDI decision-making processes	(1) initiating force (2) investigation process (3) decision to invest (4) reviews and negotiations	Participants in the system and their roles, interactions, and mutual influences; streams of information, strategy, structure, rules of conduct and behavior (uncertainty avoidance, sequential search); bargaining process
Witte (1972)	Strategic decisions	(1) problem recognition (2) information gathering (3) development of alternatives (4) evaluation (5) choice	Rejects phase theorem
Mintzberg, <i>et al.</i> (1976)	Strategic decisions	(1) identification (a) recognition (b) diagnosis (2) development (a) search (b) design (3) selection (a) screening (b) evaluation, choice (4) authorization	Control, communication, political; interrupts, scheduling delays, feedback delays, timing delays and speedups, comprehension cycles, and failure recycles.
DIO (1983)	Strategic decisions	(1) start-up, (2) development, (3) finalization	Independent variables: influence, power; contingency variables: people, organizational levels, phases, power, nature
Nutt (1984)	General decisions processes	(1) formulation (2) concept development (3) detailing (4) evaluation (5) implementation	Process types: historical, off-the-shelf, appraisal, search and nova model.
Hickson, <i>et al.</i> (1986)	Strategic decisions	n/a	Three types: constricted, sporadic, fluid processes, separated along the dimensions dispersion and discontinuity.
Björkman (1989)	FDI decision-making processes	(1) pre-decision making period (2) problem definition (3) solution development (4) evaluation	Finds that developing a single theory is futile

Author	Type	Phases	Variables / Findings
Nutt (1993)	Decision making	(1) signals, (2) intentions, (3) concept development, (4) detailing, (5) evaluation, (6) installation; plus choice and diagnosis	Idea, issue, objective-directed, re-framing types of decision making identified.
Papadakis (1998)	Investment decisions	n/a	Rationality, financial reporting, formalized rules, co-ordination devices, decentralization, communication, politicization, problem-solving dissension, duration time tested on correlation with success

While some of the studies in this table focus on the various phases of decision making (e.g. Mintzberg, *et.al.* 1976; Witte 1972), others (particularly Nutt 1993; Hickson, *et al.* 1986) do not stress the phases but focus on other ways of differentiating between typologies of decision making. The above quoted studies improve understanding of decision-making processes by each drawing the reader's attention to one or more aspects of decision making previously overlooked. Most authors do not attempt to disprove competing models because of the limitations of their own research methods. Generally, they would point out that it is helpful for scholars as well as practitioners to be aware of the variables they have identified, which could be important in the situation under consideration.

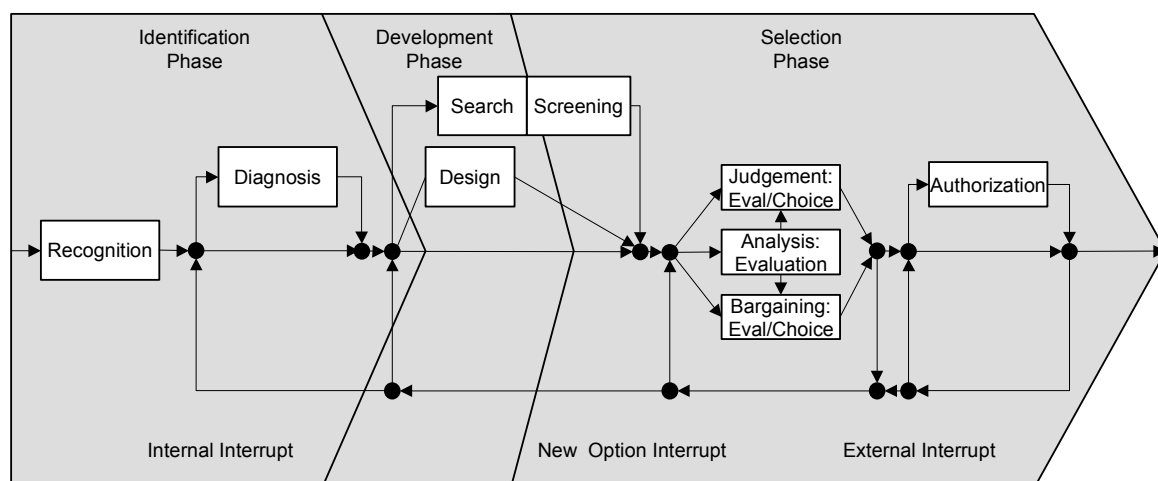
One of the most detailed and practical of the decision process studies is Mintzberg, *et.al.*'s 1976 model of strategic decision-making processes. The model is well grounded in field data, with 50 processes studied and 25 of them analyzed in depth. Developed for unstructured decision processes, the model should be appropriate for foreign direct investment decisions in new and unknown markets. It was therefore used as a base model to discuss and incorporate the findings of other authors, as well as to form the basic framework for the current research into decision-making processes in an emerging market environment.

Mintzberg followed Simon's three-phase I-D-C (intelligence - design - choice) model but renamed the phases as identification, development, and selection (Simon 1945; more detailed in Simon 1976). These three phases are described using seven central routines shown as boxes in figure 2.3, which are enhanced by three sets of supporting routines. The central routines are the decision recognition and diagnosis routines in the identification phase; the search and design routines

in the development phase; the screening, evaluation/choice routines (shown in three separate but linked boxes), and finally the authorization routine.

The three sets of supporting routines include decision control routines, decision communication routines, and political routines. The relationship between these different routines are explained by six sets of dynamic factors. These factors are: interrupts, scheduling delays, feedback delays, timing delays and speedups, comprehension cycles, and failure recycles. The model suggests that a typical decision process would flow from problem recognition to project authorization but it does not insist that all stages must be present in every decision-making process. The model is thus not in conflict with studies that reject the phase theorem (Witte 1972; Mayntz 1976; Hickson, *et al.* 1986), as it accounts for the possibility that phases and routines within phases may occur in any order (Mintzberg, *et al.* 1976: 252).

Figure 2.3: Mintzberg, *et al.*'s general model of strategic decision processes



Source: Mintzberg, *et al.*, 1976: 266

2.4.1 Identification phase

The first phase of the strategic investment decision-making process is the 'decision identification' phase. Here, the investing firm recognizes that a new country may provide opportunities for investment. This recognition evokes an active diagnosis process in which management seeks to tap into existing information channels and to open up new ones, in order to gain a better understanding of the situation. During this phase, the first resources are invested in the decision-making process, to collect information and search for new investment opportunities. Aharoni (1966) points to the importance of this phase,

as this is the phase where it is decided whether an upcoming project will receive top management support. Aharoni also agreed with Cyert and March (1992, first edition in 1963) that the research during the investigation phase is motivated, simple-minded and biased. Other important variables in this phase include the relative power within the organization to influence the outcome during the bargaining process, as well as organizational learning from previous decisions.

The triggering of the decision-making process depends somewhat on the firm's state of readiness. Previous related decisions (previous FDI projects) usually make subsequent decisions easier and the ensuing decision process shorter (Aharoni 1966, Ghertman 1981). Organizational variables, like the existence of special organizational units or the familiarity of the top management team with the issue at hand, are also important factors.

A decision-making process is also more likely to be initiated if managers perceive that there is a discrepancy between the current situation and some existing standard or expectation. Similarly, the initiation of a decision-making process is more likely when an opportunity provides a ready solution to an existing problem (Mintzberg, *et al.* 1976: 253).

Larimo, in his 1987 study on Finnish firms, highlighted the triggering of FDI opportunities if firms have some prior business relations with the target country (Larimo 1987). Triggering factors are necessary to initiate the FDI decision processes. Such factors often come from outside the firm, such as the fear of losing a market, the sudden realization that many competitors have already entered a certain market (bandwagon effect), or strong competition in the home market (Aharoni 1966: 55). However, it has also been pointed out that triggering factors may come from inside the organization, where action is initiated when a certain threshold is reached through an accumulation of stimuli (Björkman 1989). Björkman also observed that final alternatives were usually clear to decision-makers early in the investment process and that a general readiness for FDI had to develop before any proposal had a fair chance.

2.4.2 Solution development phase

The goal of the development phase is to come up with one or more solutions relating to the 'how' and 'why' of investing in a new country. Through the usual search and design routines, the firm would either find existing solutions based on its prevailing methods or develop new solutions. Larimo (1995) found that firms usually develop few alternatives at any one time. Björkman, also studying Finnish

firms in 1989, went even further by asserting that firms would usually investigate only one alternative at a time. Many studies have revealed that for greenfield investments, alternative solutions were seldom considered outside the first solution which met with the decision maker's criteria. An array of variables, such as the percentage of ownership, location, and JV partner, could influence solution development and the make up of the final strategy (Aharoni 1966).

2.4.3 Selection and decision authorization phase

During the selection phase, the firm seeks to evaluate the available options. The decision-making process comes to an end with the authorization to implement a project (Mintzberg, *et al.* 1976). It is generally difficult to differentiate between evaluation and choice which tend to appear simultaneously. Methods for evaluation may range from intuitive judgment to more formal investment calculation methods. Which of these options to choose is a core theme of this study, as the method of evaluation is closely related to the amount and quality of available data.

Screening with special criteria in mind may be done at an earlier stage. According to Aharoni (1966), reports written in the later stage of the process were generally more a selling tool than proper analysis. Larimo (1995) reported that firms tend to evaluate and decide on each project separately rather than pick one alternative out of many, as is assumed in traditional rational-choice theory.

Like most other models of decision-making processes, Mintzberg's model does not include the implementation or operational phases. The model allows for a multitude of feedback loops within the decision process itself but does not allow for feedback from other, similar decision processes. This is the case because Mintzberg specifically focuses on unstructured decisions, *i.e.* decisions that "have not been encountered in quite the same form and for which no predetermined and explicit set of ordered responses exists within the organization" (Mintzberg, *et al.* 1976: 246).

Past decisions, however, do influence future ones and need therefore be considered in a field research design. The current research project aims at correcting this shortcoming by including the implementation phase in the scope of the analysis. It is hoped that this will improve the applicability of the research results especially to situations which are somewhat related to each other, *i.e.* by all involving significant investments in a foreign country.

2.5 Other models of decision-making

In addition to the two main models of decision-making processes (rational choice and behavioral), researchers have suggested other models, which should be discussed in the following.

One of the most widely cited ones is the “garbage can” model of Cohen, *et al.* (1972). Decision-making processes according to this model are chaotic with solutions emerging randomly.

“Logical incrementalism” is a model proposed by Quinn (1980) as a synthesis between the rational, behavioral, and political approaches. According to his model, the organization continually reassesses its strategic options in relation to the company's characteristics, and develops in a stepwise process.

Langley, *et al.* (1995) offer inspiring insights by rebuking the tendency to focus on the dichotomy between rationality and irrationality and between a focused, sequential process on the one hand and a chaotic process on the other hand. Langley *et al.* argue that it may be impossible to identify specific decisions within organizations, that organizations can act also on a strategic level without consensus and that decision and implementation are entwined. They also argue that decision-makers draw on insights and intuition, as well as factual knowledge, an argument that enjoys strong support in this study's findings section.

Recently, dynamic models of the strategic decision-making process were advanced. Strategic option theory (Bowman / Hurry 1993; Sanchez 1993, Hurry 1994) is particularly appropriate for application to the foreign direct investment decision process. According to this theory, managers can create real options by making small investments. If the investments turn out positive, they would exercise these options by increasing their investments within the particular market. In the alternative case, they would withdraw resources, thus abandoning the option without having lost significant sums. Thus, strategy becomes an incremental process where small investments are very important because of their high option value.

The above mentioned models have in common that they open different perspectives to the decision-making process. They focus the analyst's attention on specific aspects that had been previously overlooked. None of them, however, sufficiently and accurately describe actual decision-making processes, nor do they suggest how they could be improved.

For the current research project, none of the above mentioned models is well suited as a framework to guide the research. This function is therefore best fulfilled by the phase model described in the preceding section. The models described here contribute therefore mainly by highlighting aspects that had to be further explored in the interviews. These included predominantly the degree of randomness of processes, the importance of intuition within strategic decision-making processes, and the idea of seeing an investment project as a real option.

2.6 Typologies

By comparing common elements of a number of case studies, researchers try to establish typologies of decision-making processes. In Mintzberg's first study on strategic decision-making processes (1973), the author identified three typologies, namely entrepreneurial, adaptive and planning. In the entrepreneurial mode, a strong leader takes sole responsibility for far-reaching and also risky strategic moves. Power is much more distributed in the adaptive type, where a number of executives make incremental decisions in reaction to current problems. If an organization follows the planning type of strategic decision making, it systematically analyzes alternatives and makes much more strategic, rather than only opportunistic, decisions. The author concluded, however, that organizations rarely acted according to a pure type but made decisions involving a mixture of all three typologies. While Mintzberg did not analyze differences in these typologies according to markets, his findings do support the notion that organizations can change – actively or passively – their decision-making process and do not follow just one standard approach.

This finding was later supported by Hart (1992), who identified five typologies of strategic decision-making processes, namely, the command, symbolic, rational, transactive, and generative types. Similarly to Mintzberg (1973), Hart (1992) also argued within his integrative framework approach that an organization may employ several different decision-making processes. He even suggested that organizations which have developed the capability to decide among multiple process types would achieve better performance. Hart followed up on this theoretical study with a later empirical investigation in which he found that companies that utilize multiple decision-making processes did indeed outperform other firms which decided only along one type of decision making (Hart / Banbury 1994). This finding strongly underscores the importance of the present research project, as it gives support to the argument that the choice of the right decision-making process is highly performance relevant.

In Mintzberg, *et al.*'s (1976) study, they separated their 25 core cases into seven decision-making types, which differ in the number of feedback loops, phases involved and other minor characteristics. Due to the limited sample size, these typologies do not appear to be very reliable. This conclusion was supported by the findings of Nutt (1984), who based his research on a similar framework but separated his cases into five basic and 12 secondary decision-making typologies, thus differing significantly from Mintzberg's work. He further modified these typologies some 10 years later when he came up with four new basic typologies and eight secondary ones (Nutt 1993).

Hickson, *et al.* (1986) identified through their substantial field research (150 cases studied in 30 organizations) only three basic typologies of decision processes, for which they could cite relatively strong statistical support. These three typologies differ on two dimensions: (1) discontinuity, which describes how easily the process flows through the organization; and (2) dispersion, which refers to the degree of centralization of the decision-making authority. The three typologies are: (a) Fluid Processes, which proceed steadily and speedily along formal channels; (b) Sporadic Processes, which are informally spasmodic and protracted; and (c) Constricted Processes which are narrowly channeled. Whatever the decision typology, managers and administrators were usually satisfied with the outcome although there seemed to be a slight preference for Fluid Processes.

Unlike Hickson (1986), Nutt (1993) found that one decision typology (Reframing) is much more successful than others. Similarly, Papadakis' findings (1998) strongly support the thesis that the characteristics of a decision process can affect organizational performance significantly. Important variables include decentralization and formalization.

A number of researchers have proposed typologies based on variables like the roles of senior managers, the degree of rationality with the process, or the extent to which decision planning and formulation clearly precede implementation (Allison 1971; Bourgeois / Brodwin 1984; Mintzberg / Waters 1985; Nonaka 1988).

One can therefore conclude that although there is no single generally accepted typology to characterize decision-making processes, as a group they do affect organizational performance and should therefore be important management tools.

2.7 Risk and decision making in emerging markets

The assumed or actual risk of decisions in general, and especially that of investment decisions in foreign countries, receives a lot of attention in the literature. “Risk” as an expression is used widely in the literature even though authors are actually referring often to uncertainty or even ambiguity rather than risk itself (Laverty 1996).

According to the mathematical definition, “risk” refers to the case where the probability of every alternative is known, even though the actual outcome is not. Decision making under uncertainty, in contrast, would refer to a case where the probabilities of alternatives are not known with certainty.

During strategic decision-making processes even the alternatives are usually not known. This is why Mintzberg *et al.* (1976) introduced the concept of ambiguity, “[...] where almost nothing is given or easily determined.” (p. 251). Thus, even if the literature or interviewees talk about the “risk” of investing in, say, China, it should be understood that the term is used in the popular way for expressing any condition of risk, uncertainty, or ambiguity. The following discussion will also stick to the popular expression, even though the concept referred to as “risk” should be understood as an environment of ambiguity without known probabilities of decision outcomes.

The trade-off between expected value and risk plays a major role in rational decision theories. The researchers rejecting the normative model of decision making proposed new ways of explaining how companies choose between alternatives. It was found that decision-makers are usually risk averse and are influenced by many factors other than risk and potential pay-offs (Wharton 1992).

Prospect theory, as applied to organizations by Fiegenbaum and Thomas (1988), argues that potential outcomes are evaluated relative to a neutral reference point and are expressed relative to this fixed reference point as gains or losses (Kahneman / Tversky 1979; Bazerman 1994). This theory can explain risk-averse, as well as risk-seeking behavior, depending on where the reference point is set. This explains why some companies view investments in China as risky, whereas others are more concerned about the risk of not investing. The first group of companies has their status quo as a reference point, whereas the second group is more concerned with the possibility of losing out, seeing their competition establish a foothold and finding it therefore more risky not to get involved.

It follows that investing in emerging markets is not necessarily a hugely risky task, as not investing may be even more risky for the company if the market develops

as forecast and most competitors take advantage of investment opportunities. Focusing on the alleged high risks involved in investing in an emerging market like China, as done, for example by Fowler (1997) may therefore blur the analysis rather than enrich it.

2.8 Knowledge transfer and organizational learning

Insights into decision-making processes are not confined to process studies. The organizational learning and knowledge transfer literature also provide important insights. Shrivastava, for example, shows how decision-making processes can be improved over time through organizational learning, which produces heuristics that are organizationally shared, consensually validated and integrated systems (Shrivastava 1983). The processes can also be improved if explicit or tacit knowledge (Polanyi 1997) created during one decision-making process is shared within the organization through internal knowledge transfer (Heppner 1997; Laßmann 1992).

The goal of internal knowledge transfer in respect to this research project is to make information and experience collected from past decisions, available for current decisions, be they in the same or different division or strategic business unit (SBU). As this internally generated information and experience is not always available to outside competitors, it may prove to be a very important success factor and its utilization should be beneficial for the company.

Several measures to ease the process of transferring internal knowledge are proposed. One of these is a person-centered form. Through teaching-style interactions between employees it is hoped that tacit knowledge can be made explicit and can also undergo critical reflection, thus further stimulating its applicability. Through such measures, knowledge and skills would be cognitively anchored in the organization (Heppner 1997).

Organizational measures may substitute or broaden personal ones. Organizational measures like job rotation, frequent informal contacts or central organizational units help to transfer the knowledge that is saved in routines and organizational techniques. Such a central unit may be very useful by gathering relevant knowledge on an organizational basis and by applying it to many different, but still similar, projects (Heppner 1997).

To organize internal knowledge transfer, one can differentiate among three basic organizational forms, namely, no independent organizational unit, an independent

unit with a consulting function, and a unit with decision-making authority (Laßmann 1992: 285ff). The ways how information and experience about a past investment project are being transferred within an organization is very important to this research project. They are therefore analyzed in some detail below.

2.8.1 Knowledge transfer without organizational structure

Knowledge transfer without an organizational unit responsible for such measures requires direct communication between the different organizational units, e.g., the SBU with useful experience and the SBU that is about to invest in the emerging market without such prior experience. Such communication can be carried out spontaneously and without order, or through the establishment of dedicated groups (Delfmann 1995: 159f.).

This sort of knowledge transfer has the advantage of being simple and flexible. This is especially beneficial if the required knowledge and experience can be articulated easily, and is simple in its application (Mintzberg 1992: 20). Knowledge transfer would be achieved orally, in written form through guidelines, reports, memos, etc., or through internal seminars and similar arrangements (Heppner 1997: 334). Problems may arise insofar as there would not be anybody responsible for the transfer process and there might be insufficient incentives to transfer knowledge, especially if the divisions are very independent from each other.

2.8.2 Knowledge transfer through an organizational unit

An organizational unit has an integration function between the two SBUs involved in the knowledge transfer process (Galbraith 1977: 155). Knowledge transfer can either happen exclusively via this function or with additional personal and direct communication. This sort of set-up is especially useful if potential conflict areas have to be dealt with. It may also reduce the transfer time. Such an organizational unit should concentrate on consulting rather than directing the activities of the strategic business units (Clark, *et al.* 1992). Instituted project teams can thus greatly facilitate horizontal knowledge transfer (Nonaka / Takeuchi 1995: 107).

2.8.3 Knowledge transfer with decision-making authority

Finally, some degree of decision-making authority may be delegated to the organizational unit responsible for the knowledge transfer. This may be important when big barriers to knowledge transfer need to be eliminated (Heppner 1997: 341). In such cases, the effects of a reduction of the autonomy of both sender and receiver of knowledge will have to be assessed.

This discussion has sketched the ways in which organizations can transfer experience and learning effects within the whole group. Such an understanding is especially important in the context of this dissertation, which includes the implementation phase of various decisions in the analysis. In contrast to studies focused on one particular decision project, learning effects become therefore especially important.

2.9 Summary

This review has discussed those parts of the strategic decision process literature, FDI literature, and a number of smaller research fields, that were most relevant to the research project.

It was shown that most prior studies on strategic decision-making processes do not distinguish between the types of market that the company intends to operate in. In chapter 1, it was shown, however, that emerging markets differ significantly from stable markets. This dissertation therefore fills the gap in the literature brought about by the lack of focus on this difference. The result of this study is a model based on past findings from the areas of general strategic decision process research, FDI decision-making process research, and related fields. It adds to this existing knowledge significant new insights from a relatively large-scale field research effort. The model will be developed and discussed in detail in chapter 4.

In addition, this study is the first to apply findings from geographical emerging markets to the technical emerging market of the Internet. In doing so, it provides start-up companies, as well as established corporations, with an understanding of the factors relevant to decision-making in this very important new emerging market. This will be the focus of chapter 6.

In its endeavor to propose a new model of investment decision-making processes for emerging market, this dissertation follows Huff and Reger's (1987) six recommendations for future strategic process research. Firstly, it builds on existing theory and findings, which were discussed in detail in this chapter.

Secondly, it imports concepts and findings from related areas, which is why the study also includes entrepreneurial companies from Hong Kong and such operating in the Internet economy, in addition to the main focus on Western multinational firms. Thirdly, it considers the organizational and environmental context, which was discussed in chapter 1. Next, it reflects the content of the decisions under consideration – in the case of this research project, investment decisions – which were discussed in this chapter in relation to other types of strategic decisions. The current study also varies research methods, which will be shown in the next chapter. And finally, it aims for non-intuitive, but supportable, hypotheses. The findings in chapters 4 to 6 will give ample empirical evidence for the strong support of the model from field data, a goal which could be achieved by choosing the research method of grounded theory research.

3 Research methods

The research method used for the main part of this project presented in chapter 4, is the grounded theory approach to qualitative research proposed by Glaser / Strauss (1967). This research method as applied in the current project is described after a general introduction to qualitative research methods.

The second major section of findings of this project, discussed in chapter 6, is based on a longitudinal case study. This second, and distinctively different, research approach as applied here is discussed in the present chapter as well.

Finally, the research progress is described to show how the two methods enabled the researcher to build the theory from scratch. This explanation shows why the chosen research methods were suitable for meeting the goal of formulating a theory of decision-making processes for emerging markets.

3.1 Qualitative research versus quantitative research

This research project had three goals. The first one was to support the development of a conceptual framework for foreign direct investment decision-making processes. The second one was to compare companies from different geographic areas, according to criteria which were to become clear during the research itself. The final one was to apply the research results on a practical example of two start-up companies. All three goals make a qualitative, rather than a quantitative, research approach necessary. A quantitative research approach would require a predefined model with operational variables. Neither was available at the outset of this research project. Additionally, as decision-making processes are very complex and difficult to fully comprehend, the questionnaire or survey research method is insufficient. Therefore, nearly all important contributions in this area use a case-study approach based on personal interviews (e.g. Cyert / March 1963; Aharoni 1966; Mintzberg 1976).

3.2 Theoretical sampling

The purposeful selection of companies that are included in the field research sample represents a key decision point in any qualitative study (Creswell 1998: 118). Quantitative researchers have to be especially careful with sampling, as biases in the sample can significantly alter the research results (Stier 1996: 115).

For such studies, the method of random sampling is so predominant, that some authors don't even mention alternative ones (e.g. Hartmann 1995).

This is quite different with qualitative approaches, where sampling methods like 'opportunistic', which would be completely inappropriate in quantitative research, can also be suitable for certain qualitative research purposes, e.g. by being thus able to take advantage of the unexpected, which might yield new insights (Miles / Huberman 1994: 28). To be more specific, in grounded theory, "[t]heoretical sampling is the process of data collection for generating theory whereby the analyst jointly collects, codes, and analyses his data and decides what data to collect next and where to find them, in order to develop his theory as it emerges" (Glaser / Strauss 1967: 45). Thus, participant companies had to be chosen "based on their ability to contribute to [the] evolving theory" (Creswell 1998: 118). The entirety of all multinational companies had thus been examined and those were chosen which were thought to best contribute to the evolving theory.

The first sampling strategy was to initially concentrate only on Swiss, German and Austrian multinational companies. The focus on these countries of origin is based on their common geographical, linguistic and cultural distance from China. The reason why Scandinavian or maybe French multinationals were not initially included was based on convenience considerations. For the second and third phase of the research project, this geographical restriction has been loosened and interviews with a number of multinational companies from other countries were held, which were considered to be necessary for advancing the theory, just like the method of theoretical sampling demands.

Some of the companies invited to cooperate in the research project refused to do so, usually citing a lack of time; others agreed to cooperate at a latter stage. In summary, a total of five invited companies refused to meet the researcher for interviews. A brief analysis of publicly available documents about them and their engagement in China did not indicate that the research project would suffer from any bias because of their exclusion.

According to the definition of 'multinational company' from the first chapter, the first target was a group of large European companies with significant investments in China. 'Significant' meant more than two production facilities in the country. Therefore, apart from the size in terms of number of employees, the number of joint ventures or wholly foreign owned enterprises in China was the second criterion for consideration in the sample. The reason was that the research goal is to study complex, strategic decision-making processes. Founding only one subsidiary can on the one hand seldom be dubbed 'strategic market entrance', and

offers on the other hand less opportunities for a detailed analysis than does the creation of several subsidiaries.

However, as the method of theoretical sampling permits, there were two exceptions to this rule. One of them was the inclusion of Sulzer AG, which operates only one production facility in China. It was nevertheless included due to Sulzer's interesting organizational structure, which promised to offer valuable insights and thus promised to support the theory building process. Besides, Sulzer's only venture in China is a relatively rare wholly owned subsidiary, which was actually one of the very first such organizational structures permitted by the Chinese government. These two exceptions make Sulzer interesting for the study for another reason, namely the call for checking the meaning of outliers, *i.e.* exceptions to the rule (Miles / Huberman 1984: 237).

The other exception, was the pharmaceutical company, Merck Darmstadt, which had not established any operating joint venture so far. The reason for including this company was that its first joint venture failed only in the very last instant, an event worth analyzing as it is usually not easy to get data of non-investments which can be compared with successful investment projects.

3.3 Grounded theory approach

Choosing the appropriate research method is not always easy. Tesch structures and compares as many as 46 'brands' of qualitative research, although many of them overlap or are synonyms for each other (Tesch 1990: 58). But also authors who concentrate on more general 'traditions' rather than very specific 'brands' offer many choices. Creswell compares, for example, five traditions in detail and Denzin and Lincoln, nine (Creswell 1998; Denzin / Lincoln 1994). For this dissertation, the author has compared and analyzed all of these traditions and methods and concluded that the method of *grounded theory* would be most useful in this particular case. The main reason is that this method was explicitly designed to help researchers handle large amounts of qualitative data and generate or discover a theory which is grounded in this data (Creswell 1998: 56). Tesch puts grounded theory in the same category (finding connections between / among categories) as the approach by Miles and Huberman (Miles / Huberman 1984), which she labels 'transcendental realism' and of which some features were also used during the data analysis part of the project (Tesch 1990: 64).

The qualitative research method of grounded theory was first articulated by the two sociologists, Barney Glaser and Anselm Strauss, in 1967. Later it was

elaborated by Glaser (1978), Strauss (1988) and more importantly by Strauss and Corbin (1990) as well as by other authors through the usage of this particular research method.

The purpose for presenting a new method was, in the words of Glaser and Strauss, to show "*how the discovery of theory from data - systematically obtained and analyzed in social research - can be furthered*" (Glaser / Strauss 1967: 1; italics in the original). The theory, which the researcher develops, is articulated towards the end of the study and must be solidly grounded in the data. In their 1967 book the two authors argued that the researcher should approach his or her data with as little existing theory in mind as possible. This stance was later moderated by Strauss and Corbin (1990) but defended by Glaser (1992) who attacked Strauss vigorously. Following Strauss and Corbin (1990) as well as other authors (e.g. Fox-Wolfgramm, *et al.* 1998: 94), this dissertation takes a moderate view, however, by not disregarding existing theories out of hand, but by using such theories to guide the research.

Even though grounded theory has entered the field of management research only fairly recently, it can still be regarded as an established method for analyzing issues involving business organizations (Konecki 1997; Manning, *et al.* 1998; Fox-Wolfgramm, *et al.* 1998). The method of grounded theory influences all aspects of the research process, from sampling to data analysis and theory building.

3.4 The Interview Process

The following discussion describes the interview process in some depth, as it was the main method of data gathering. The quality of the overall results depends on the proper planning, execution and analysis of the interviews with managers of sample firms.

3.4.1 Method of Interviewing

For interviewing individuals, there are two main types of interviews in social research, structured and unstructured ones (Fontana / Frey 1994: 363ff.). The latter can also be called 'focused' interviews which conveys the meaning that the interviewer focuses on some research questions but does not prepare any specific questions in advance (May 1997: 109ff). Focused interviews were used as the main method of data gathering for the following reasons.

Firstly, focused interviews, in contrast to structured ones, are the preferred data gathering method in qualitative research. With their open-ended character, they allow, “to challenge the preconceptions of the researcher, as well as enable the interview to answer questions within their own frame of reference” (May 1997: 112).

Secondly, this type of interview also allows the researcher to actively consider the concerns and frames of reference of the interviewees (Bryman 1988: 47). The unit of analysis is the firm and the decision-making process of the whole organization needs to be studied. However, it is possible that representatives of the same company may have different perspectives about a specific topic. These differences can be influenced by a variety of reasons, of which the hierarchical layers of their own organizational unit (headquarters, regional headquarters or local subsidiaries) is of particular importance. Another important factor that could result in managers having different opinions may be differences in job functions (managers or project team members). Therefore, the method of doing interviews must be flexible enough to ask the right question to the right people. Drawing up a special questionnaire for each subgroup of interviewees does not seem to be helpful, because the goal is not to compare, say, the views of regional headquarters managers across different organizations, but to understand the 'whys' and 'hows' of decision making in each organization separately.

On the other hand, there are some bits of information that need to be gathered from all companies and some questions need to be raised with every interviewee. These questions, called 'structural questions' by Spradley (1979: 120), have changed - more precisely mostly expanded - over time when the model-building was progressing. Therefore, these general guidelines that aid the interviews have changed as well.

To sum up, the method of focused interviews enabled the researcher to follow his research goals without restricting the interviewees in their freedom to talk about the topic in the way they thought fit. “Thus *flexibility* and the discovery of *meaning*, rather than standardisation, or a concern to compare through constraining replies by a set interview schedule, characterise this method”, which is exactly what is needed for thorough grounded theory research (May 1997: 113; sic, italics in original).

When writing about interviewing, it is necessary to mention that great emphasis should be placed on how the interview is constructed, which questions are raised, how trust should be build up, how well the researcher needs to be prepared, and so on. The focus of this dissertation does not allow discussion of these important

topics at great length, but it should be pointed out that these methods and techniques were all taken into account throughout the field research¹³.

To preserve as much data as possible, all interviews were recorded on tape whenever feasible¹⁴. Soon after the interviews, these tape recordings were transcribed word-by-word for further analysis later on. When tape recordings were not possible, special attention was given to a quick write-up of the field notes.

3.4.2 Data Analysis

Data analysis has to be seen as an ongoing process which does not only begin after the field research. "Analysis during data collection lets the fieldworker cycle back and forth between thinking about the existing data and generating strategies for collecting new - often better quality - data; it can be a healthy corrective for built-in blind spots; and it makes analysis an ongoing, lively enterprise that is linked to the energising effects of fieldwork" (Miles / Huberman 1984: 49). Following this advice, data analysis has accompanied the field research phase and was done partly in parallel to it. This parallel data analysis phase has helped in modifying the research questions during the interview process based on the results of previous findings. The model could thus emerge from the data, gaining shape and precision with each interview.

A second analysis phase was done several months after the field research phase was completed. This ex-post analysis had the advantage of a certain distance from the data because some time had passed since the last interview. The detailed written notes were of particular importance for this ex-post analysis phase. It would have been impossible to do a detailed analysis several months after the interviews without having proper written documentation.

The main purpose of the continuous analysis phase was to uncover new factors, within the decision-making process, that appeared to be important. The focus of the ex-post analysis was on categorizing the research findings in the form of variables to enable the construction of a useful and illustrative model.

In what follows, this 'coding' of data (interview transcripts and other data sources) according to the grounded theory approach is described. It will be shown how methods like open, axial and selective coding, 'memoing', development of

¹³ Books by May (1997), Atteslander / Kopp (1995) and Stier (1996) were useful in drawing attention to this topic and explaining how the field research phase should be structured.

¹⁴ The only exception being the few phone interviews and some interviews in Hong Kong, where the interviewees objected to taping the conversation.

categories and a central phenomenon were applied in the present research project.

3.4.2.1 Open coding

As a first step in the data analysis process, the data (*i.e.*, the interview transcripts) are segmented bit by bit (words, sentences, paragraphs etc.) to form initial categories of information (Strauss / Corbin 1990). For each category, several subcategories or properties have to be found. These properties are then in turn dimensionalized by showing which possibilities the property can take on. Each category, which can be composed of events, or instances of phenomenon, or the like, is given a label which helps to analyze the data from a more detached perspective. By slowly reducing the number of categories, themes in a study are uncovered (Creswell 1998, 242).

This process of open coding was done twice for this dissertation. The first round of open coding was performed during the field research phase itself in parallel to the field interviews. During this phase, the process of open coding helped to crystallize the most important findings from many pages of interview transcript. The result was a collection of relatively specific codes (variables or categories) with their corresponding quotes, as well as memos that captured the researcher's ideas and ad-hoc analysis.

Over time, the number of codes increased to several hundred, as it was initially difficult to decide on more broadly defined categories. Thus, at the end of the field research phase it was necessary to re-code the data with more narrowly defined variables. This process of double coding had not been described in the literature earlier but proved useful for this specific research project. As the researcher had already a very thorough understanding of the most important factors in connection with decision-making processes for emerging markets, much more useful categories and variables could be chosen in the ex-post analysis. The number of variables thus decreased from several hundred to 21. The goal was to define the variables so that they would be mutually exclusive and collectively exhaustive in relation to the research project. The analysis presented in chapter 4 is based on these 21 variables.

3.4.2.2 Axial coding

In axial coding, the information is assembled in new ways after open coding is completed. First, a central phenomenon (*i.e.*, a central category about the phenomenon) has to be identified. Next, causal conditions are explored, and actions or interactions between the central phenomenon and other categories are specified. The context, as well as the intervening conditions, which influence the actions or interactions (strategies) are identified and the consequences (*i.e.*, the outcomes of the strategies) are delineated. During axial coding, a visual model is already formed, which connects the categories and thus uncovers interrelations and dependencies.

Axial coding was done both in parallel to the interview process, and also in the ex-post analysis. At the beginning of the process, concepts started to emerge that were related to several variables. Axial coding was the process of connecting the various concepts and variables in a meaningful way.

3.4.2.3 Selective coding

In the final coding phase, the central phenomenon is systematically related to other categories, validating those relationships and filling in new categories that need further refinement and development (Creswell 1997: 242; Strauss / Corbin 1990). The categories of the axial coding model are integrated to form hypotheses (or propositions) that can be presented in the form of a narrative story or an elaborated diagram. The results of this selective coding phase, mainly done during the ex-post analysis, comprise the model presented in chapter 4.

3.4.3 Constant comparative method

A central procedure in grounded theory research is to compare incidents applicable to each category, integrating categories and their properties, delimiting the theory and writing the theory in a process of constant comparison (Glaser / Strauss 1967: 105ff; Strauss / Corbin 1994: 274). Similar to Sutton (1987), in this research the ideas generated by the literature review of chapter 2 were used as a rough framework and as guidelines. During the field research process, the researcher traveled back and forth between the emerging model and the evidence. The variables suggested by the literature were the basis for the first few interviews. During these talks, their importance for the current research project

was analyzed. With a progressing field research phase, the importance of the literature decreased as more and more findings could be uncovered in the field.

3.4.4 Development of the theory

The theory usually has the following components: a central phenomenon, causal conditions, strategies, conditions and context, and consequences (Creswell 1998: 58). The first type of theories for grounded researchers is 'substantive', which consist of hypotheses and concepts that are closely related to the subjects under study (Glaser / Strauss 1967: 79). Through generalizations, using the method of constant comparison (see above), substantive theories are converted into formal theories for more widespread use. However, very general application in the form of theories about society at large is not a primary concern (Lamnek 1995: 125).

The model described in chapter 4 of this dissertation is a substantive theory according to this definition. It is very closely related to the underlying data. The possibility for a more general application of the model is achieved through logical analysis and more field research with entrepreneurial companies in Hong Kong and, later, the Internet. The dissertation concludes, therefore, with a formal model (or theory) of decision-making processes for emerging markets.

3.4.5 Caveats

Strauss and Corbin (Strauss / Corbin 1994) warn that the increasing application of grounded theory in qualitative research may result in some works of dubious quality. The two authors warn in particular that grounded theory rests on variation (e.g. looking at a basic process from different perspectives), on theoretical coding, which conceptualizes how the substantive codes relate to each other as hypotheses (Glaser 1978: 72), and on constant comparison. Having these warnings in mind, there should be no doubt that the current application of the method of grounded theory produces very interesting and soundly based insights into the topic under investigation. It was shown above how the research method was applied rigorously as well as intelligently to the particularities of the current topic under investigation, resulting in a well-grounded model of decision-making processes in emerging markets.

3.4.6 Computer aided data analysis

A substantial amount of data was gathered during the research project. Through a total of 98 interviews, more than 600 pages of single spaced transcript were produced. As this written documentation is the most important source of data for the whole research process, special attention must be given to the analyzing process. There are detailed guidelines available on how data should be analyzed in a grounded theory framework (see above). Doing this manually would be a very tedious task that could easily result in tendencies to avoid a strict categorizing of the data bits as demanded by the research method.

Fortunately, computer programs exist which assist the researcher in his or her task to analyze large quantities of qualitative data. After evaluating various available programs, the researcher decided to choose ATLAS/ti because this program allows researchers freedom in theory-building and presenting his ideas graphically, as well as making direct contact with the data possible.

It must be noted that even though the developers and retailers of such programs for qualitative data analysis quite readily propose to use them for purposes like testing qualitative theories, the main reason for using ATLAS/ti is to aid the data indexing or coding process that is required from a grounded theory researcher (Kelle 1997: par. 6.3). The features of graphically connecting codes and categories somewhat improve the researcher's understanding and help in presenting the evolving ideas, but theory building remains of course completely in the researcher's realm.

3.5 Data sources

By far the most important data sources were personal interviews conducted on the companies' premises. Additional data sources were also evaluated, as will be explained below.

There were two types of interview partners: Firstly, members of the companies that were included in the study, and secondly, other experts who helped broaden the researcher's understanding of the topics involved. The latter type of interviews included meetings with people from service organizations like law and consulting firms, as well as representatives of government bodies or journalists who were knowledgeable about the local environment or the sample companies. These interviews complemented the study but most information was gathered through interviews with members of the sample companies themselves.

Representatives of the sample companies had to be closely involved with the decision-making process for direct investment in China. If possible, the researcher tried to arrange interviews with those people who were involved with the company's first investment project, as this was usually the most interesting and path breaking one.

For the purpose of a thorough understanding and uncovering of as many aspects as possible, a maximum heterogeneity of the interview partners was targeted. For this reason, and to include as many organizational perspectives as possible, people from usually two organizational levels (headquarters, regional headquarters, or local headquarters and local subsidiaries) were interviewed during the field research phase.

Most interviewees from the corporate headquarters were members of the management board responsible for operations in China. Interview partners on the regional headquarters level (in Hong Kong) were usually the Chief Representative or the Asia or Greater China Regional Manager. In China, most interview partners were either China President or equivalent or the General Manager of a local production company (joint venture or WFOE).

The number of interviewees differed from company to company. Sometimes the number was influenced by practical considerations, or time assignments by the company. Usually, however, the researcher could meet as many managers as were required for the project. This number was held to a maximum of four to five, because the concept of theoretical saturation was followed strictly (Glaser / Strauss 1967: 61). This demands that one should keep interviewing only until the point at which most of the information gained through additional questions or interviews is already known, and the incremental new information is too small to warrant more efforts.

Data obtained from interviews was supplemented by data obtained from documentation, observation, journals and so on (see table 3.1 below). The various sources were used for different purposes as table 3.1 shows. Interview data was by far the most important source of information. Historical data, like dates of establishments of ventures, scale of such ventures, etc., were usually not gathered through relatively unreliable interviews – (unreliable for such precise questions), but through company reports or written, survey-style requests to informed people in the organization under investigation. This written documentation provided the researcher with valuable background information, necessary for a thorough and unbiased analysis of the decision-making processes themselves.

Table 3.1: Additional sources of evidence

SOURCE	EVIDENCE
Annual reports	<ul style="list-style-type: none"> • Financial standing • Scope of activities • Organizational structure • Board members • Strategic plans • Scale of investment • Information about individual subsidiaries • Number of employees
Internet homepages	<ul style="list-style-type: none"> • Recent developments (i.e. press releases about new projects) • More information on the organization • Information on group companies
Reuters data bank	<ul style="list-style-type: none"> • News articles on investment projects in China over the past 10 years
Academic publications	<ul style="list-style-type: none"> • Past analyses of relevant activities of the company (e.g. Schütte 1994)
Survey questionnaires answered by company's employees	<ul style="list-style-type: none"> • Specific additional information that needs to be answered in a reliable way and can be found in internal documents (rather than the memory of individual employees)
Organizational charts	<ul style="list-style-type: none"> • Structure of the organization
News articles	<ul style="list-style-type: none"> • Current projects of the company in China and other relevant current developments
Personal observation	<ul style="list-style-type: none"> • Working climate in the company; judgment on the degree of progressiveness
Feasibility studies; business plans	<ul style="list-style-type: none"> • Details about the decision-making process
Other internal documents like strategy papers etc.	<ul style="list-style-type: none"> • Details about the decision-making process

3.6 Validity of the findings

In qualitative research in a behavioral setting, attaining the ultimate truth cannot be a requirement for a study. It has to be made sure, however, that the descriptions, conclusions, explanations and interpretations are correct and credible and therefore valid (Maxwell 1996: 87). 'Validity threats' (Maxwell 1996) or 'rival

hypotheses' (Huck / Sandler 1979) which would prove the theory wrong have to be ruled out.

For the theoretical model itself, various validity threats may surface. The following counter-measures were therefore carried out. Firstly, an active search for discrepant evidence and negative cases was undertaken (Maxwell 1996: 93). This search was supported through the rigorous method of grounded theory research, where every interview transcript was coded. Whenever a new category or variable was discovered, the database was searched for negative cases. Discrepant evidence that was discovered through this process was then analyzed as to whether it was a serious threat to the new variable or whether it would be a special case for which an explanation could be found. If significant counter evidence was found, the variable was considered as not supported enough by the field data. The whole research process was completed when no more data was found that either supported or weakened the model.

Another important measure against validity threats is to search for alternative explanations, which can be done by getting feedback on the evolving theory from third parties who are either familiar with the phenomena and settings, or strangers of varying degrees to the situation. At some point researchers are too close to their data and therefore they need "a significant other" asking relevant questions which help to see new insights (Hughes 1994: 45). The most important such referee was the main supervisor to this dissertation, who closely followed the research project. Other sources for alternative explanations were mainly discussions with the participating companies about the preliminary findings of the research project.

The potential problem of adopting a one-sided perspective is avoided by a special kind of triangulation: Interviews held about the same topic with the same company's representatives on different hierarchical levels. Even though some questions changed according to the interviewees' position, some remained the same, which helped improve validity. Other, more common, methods of triangulation like the study of material from different sources, like newspaper or journal articles, company reports, and so on, were also used (Marshall / Rossman 1995: 144). In summary, Miles and Huberman's advice to "...self-consciously set out to collect and double-check findings, using multiple sources and modes of evidence, [so that] the verification process will largely be built into the data-gathering process, and little more need be done than to report on one's procedures" was followed closely (1984: 235).

3.7 Generalizing the findings

Generalization is another issue and a tricky question to answer in qualitative research. Internal generalizability refers to the requirement that the model must hold for the survey companies themselves in relation to the Chinese market. To be of value to a larger public the model should also apply to other multinational companies, preferably also to emerging markets other than China. Thus, outside generalizability is a goal worth pursuing.

Without probability sampling, which is rarely done in qualitative studies and was not possible for this study, an explicit claim about generalizability will not be possible. During the planning and execution of the research, the goal of generalizability has always been pursued – which is why it is now possible to argue a strong case for outside generalizability of the findings.

One of these arguments is that general recommendations can be made if there are no obvious reasons not to believe that the results apply more generally (Maxwell 1996: 97). To increase generalizability, one can also explicitly extend the theory to other cases (Yin 1989: 38f.). This is the explicit purpose of chapters 5 and 6 of this dissertation which extend the research findings to different companies (smaller and more entrepreneurial ones) and even different emerging markets (the Internet as opposed to China).

Another method would be to plausibly explain how the theory could be extended to other cases, for example by including the respondents' own assessments of generalizability to other situations (Hammersley 1992: 189ff; Weiss 1994: 26ff.). This has been done by asking interviewees whether China was a special case or whether the specific occurrence under discussion would also apply to other emerging markets or to the whole organization. The answers to these questions directly influenced the results reported in chapter 4 where China-specific findings are clearly noted as such. Several interviewees had had experience in Latin America or other emerging markets previous to their engagement in China, which made them particularly important for this kind of analysis.

The model itself is therefore written with respect to generalizability. This required some loss of precision in the description of decision-making processes for China but it increased the possibility of applying the results to other emerging markets. Apart from the measures discussed here, the method of comparative analysis, as described above, was devised to achieve empirical generalizability (Lamnek 1995: 115). “By comparing where the facts are similar or different, we can generate

properties of categories that increase the categories' generality and explanatory power" (Glaser / Strauss 1967: 24).

To summarize the discussion of validity and generalizability, the researcher wants to express his confidence of achieving validity to a satisfactory degree, mainly by making himself alert to validity threats that surfaced during the process of doing field interviews. By asking the right questions, comparing the results with that of other researchers and by analyzing the potential barriers to generalizability, it was also possible to a large extent to point out those circumstances where the model would still be applicable and those where the generalizability might be in jeopardy.

3.8 Testing the model

In contrast to some other qualitative researchers (*e.g.*, Marshall / Rossman 1995: 146), one of this dissertation's goals is to come up with a model that is replicable, *i.e.*, that also holds if other researchers either try to replicate the current work or test the model empirically. Therefore, the research design must not only be valid but also reliable. "[Reliability] refers to the degree of consistency with which instances are assigned to the same category by different observers or by the same observer on different occasions" (Hammersley 1992: 67). The goal of reliability is hoped to be achievable by adopting a very thorough research approach and keeping the reader informed of all the data gathering and analysis steps (Silverman 1993: 146).

This model of multinationals' decision-making processes for emerging markets is hoped not only to provide interesting insights from a scholarly perspective but also to help companies improve their decision-making processes by assessing the impacts of these projects on their organizations. For both target groups it would be important to know whether the hypotheses proposed in the model do actually hold for other companies that were not included in the survey, for other emerging markets and for other points in time.

Above, it was discussed which methods would make generalizability of the model possible, instead of being just a representation of the observations made during the field research phase. In chapters 4 to 6, which deal with the researcher's findings, it will further be pointed out which aspects of the model are particularly likely to hold in other cases and where problems may occur. Without proper testing, however, these assumptions of generalizability will be no more than just that – assumptions. Unfortunately, it would exceed the scale of this dissertation to do the statistical testing in this piece of work, because this would require

gathering substantial amounts of data from companies that were not included in the original sample, in order to avoid doing tautological tests. Besides, the researcher's own tests would have much less weight than those of independent scientists, because of most researchers' tendency to (unconsciously) over-stress supportive data and ignore contrary one.

Instead of statistical tests, the model is applied to a specific situation involving two Internet companies in chapter 6 of this dissertation. This application shows the usefulness of the model and will be an important tool for other companies wishing to make use of the findings for their own organizations.

As a final remark to this topic, one should note that the model presented in this dissertation will be more like a theory, rather than only a collection of hypothesis. As theories "are never disproved but only found more or less useful", testing is not a necessity for an important contribution of this dissertation (Silverman 1993: 2). So 'testing' of the model would be in the form of judging the usefulness of the theory itself, as well as the validity of hypotheses that may be deduced from the theory. This testing of the usefulness is the preliminary goal of chapter 6.

3.9 Research progress

The field research phase was started with only a limited number of hypotheses in mind, in the hope of uncovering a large number of additional variables, characteristics and interdependencies. For this reason, grounded theory research was chosen as the most suitable research method. The main underlying hypothesis is that corporate decision-making processes should be adapted for decisions in emerging markets.

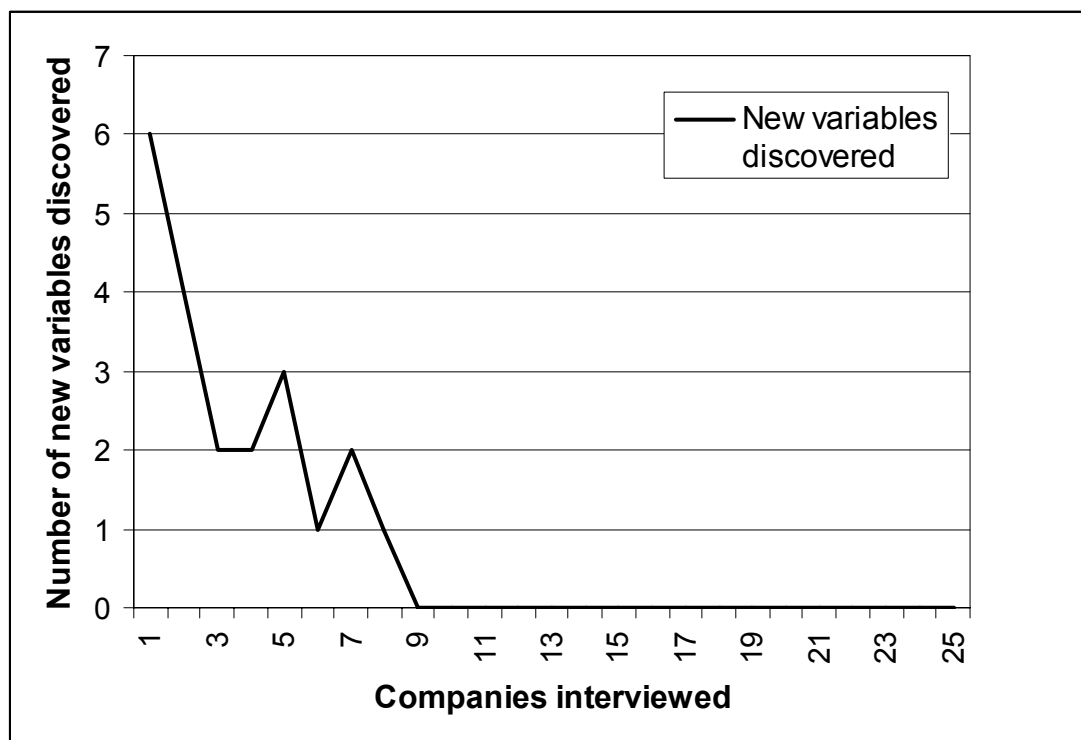
Based on the available literature and a brief pre-study, involving two middle-sized Austrian companies, an initial interview guideline was compiled. During the research progress, this guideline was constantly changed and adapted to account for the new insights won during previous interviews. Thus, following the recommendations of the grounded theory approach to theory building, the model for decision-making processes slowly emerged from the data.

Every new variable or potentially important characteristic that came to light during an interview was discussed in following ones. Variables for which enough empirical support could already be found were given less priority in subsequent interviews to avoid an inappropriate length of interview time.

This first and most important part of the qualitative field research was conducted during three distinctive phases. The first phase took place in summer 1998. During that time the researcher had interviews at the multinationals' corporate headquarters with board members and other senior managers responsible for operations in China. The second phase took place in winter 1998 in Hong Kong, where meetings with a number of representatives of regional headquarters of Western companies were held. The final field research phase took the researcher to the target country China itself, where interviews with the local managers of the sample companies from phase one were held. Additionally, interviews with local subsidiaries of other companies from stable, developed countries (the United States, France, and Japan) were held during this phase as described in more detail above.

This process of gradual saturation of the decision-making model is visualized in Figure 3.1.

Figure 3.1: Gradual saturation

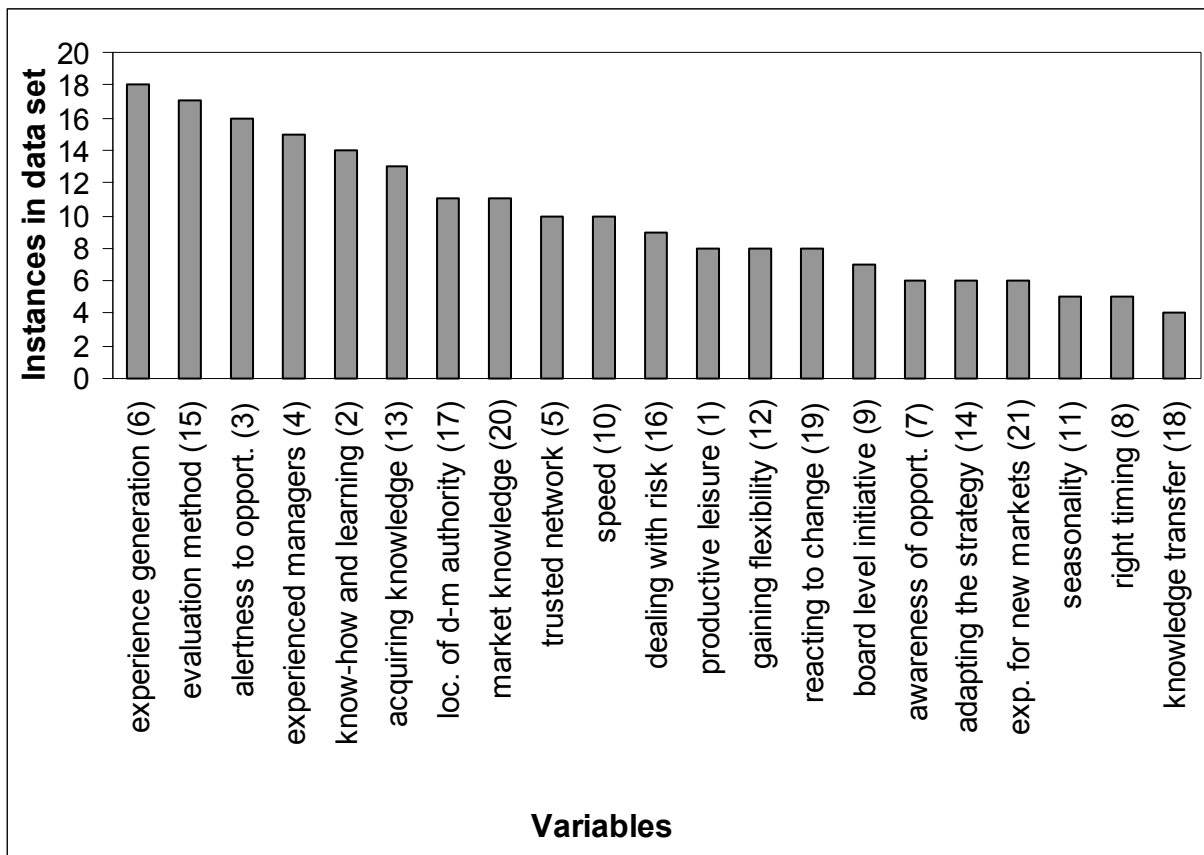


The dotted line shows the number of new variables that were discussed during the interviews. With company number 1, for example, six of the model's 21 variables showed up in the discussions. As it was the first company, all six variables were

new. With the second company that was added to the sample, four new variables were discussed, together with some of the previously uncovered six. Company number 8 was the last company where new variables were uncovered. By then all the model's 21 variables had been mentioned¹⁵.

The interviews with the other companies did therefore not help to uncover new variables. They were not futile, though, as they increased the empirical saturation of the research project. Figure 3.2 shows the degree of empirical saturation for all 21 variables that will be discussed in depth in chapter 4. As a minimum, a variable was observed with at least four companies. The mean number of such occurrences was much higher, though, at nearly ten instances. The maximum number was 18 for the “experience generation” variable. The result of this process is a model that is strongly grounded in field data.

¹⁵ The numbers on the x-axis signify when the respective company was added to the sample. This is the time aspect. The figure does not show precisely when a certain variable was added to the analysis, as all interviews within the same company are subsumed under the position of the first interview. The figure does therefore not imply that no new variables were added during later phases of the field research. Instead, it implies that no new variables could be uncovered through extending the research sample to companies from outside Switzerland, Germany, and Austria, which were the countries targeted in phase one of the research process.

Figure 3.2: Empirical saturation of the model's variables¹⁶

3.10 Summary of research methods

Figure 3.3 depicts the whole research process. As step one, data was gathered on large multinational companies and their activities in mainland China. From this database a sample of companies that met the preliminary criteria of company size, scope of activity, industry and geographical base as explained above were chosen. After contacting these companies, interviews were arranged, conducted and transcribed with those companies that were willing to participate in the research project. This was phase one of the field research and shown as step 3 in figure 3.3. Steps 4 and 5 comprise coding of the data and preliminary analysis.

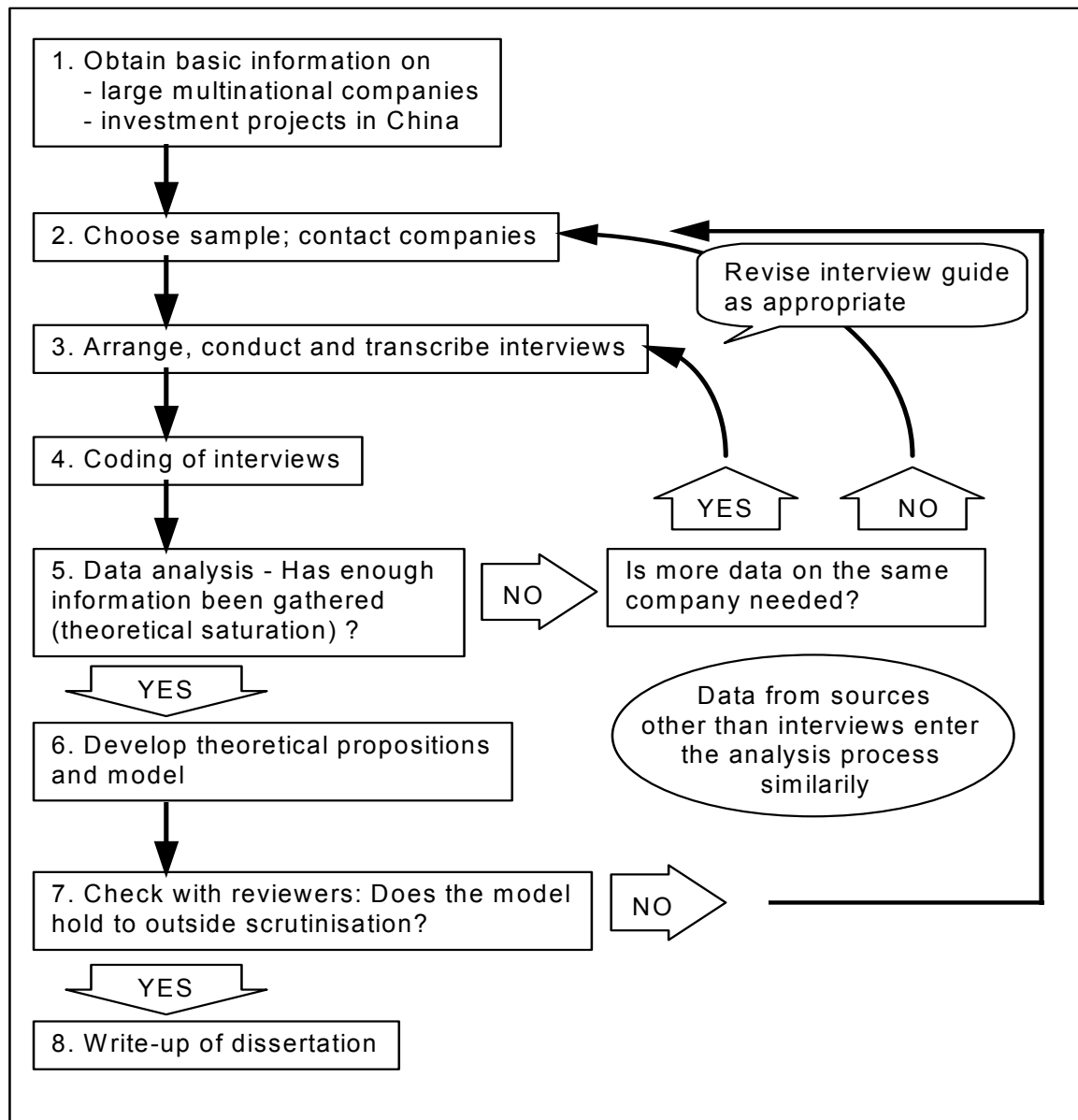
After the first interviews, more interviews were needed, both in already-studied companies (first arrow) as well as in companies that were not yet part of the sample (e.g., companies that have their main decision centers in Hong Kong).

¹⁶ The numbers in brackets refer to the number in table 4.3, which gives an overview of the model's variables. Table 4.3 also contains the full names of the variables, which are partly abbreviated in figure 3.2.

During the interview process, the interview guide was continually developed, and additional material as summarized in table 3.1 was gathered.

When new interviews did not yield any more significant insights, the theory-building process was completed and the discussion of the research results with other people (as explained above) was undertaken. The final step was the write-up of the dissertation.

Figure 3.3: Flow chart for data analysis



3.11 Case studies with Hong Kong based companies

The second part of the field research focused on large Hong Kong based companies. The goal of this phase was to understand how these entrepreneurial

firms coped with the emerging market environment in comparison to their Western competitors. The goal was not to build a model, which would have warranted a grounded theory approach, as outlined in the preceding chapter. Instead, the researcher wanted to identify differences to the processes uncovered in multinational firms and to see how the emerging model of decision-making processes applies to more entrepreneurial firms.

According to this different research focus, a different research method was chosen. Thus, the Hong Kong part of the analysis followed the case-study method of qualitative field research. Companies were contacted and semi-structured, open-ended interviews were held. Additional written material was analyzed similar to the process for the core sample companies described above.

This research project focuses on large multinational companies that operate substantial investment projects in China. Therefore, for comparison reasons, most Hong Kong companies that were invited to participate in the project are also large companies. Making use of the freedoms allowed in qualitative research, the sampling strategy was pragmatic insofar as companies were primarily included for their potential contribution to a better understanding of the issues involved (Corbin / Strauss 1990). Therefore, not all companies were pre-selected but several were added to the sample during the research process.

3.12 Comparative case studies of Internet start-ups

The third part of the findings section is based on an in-depth, longitudinal case study of projectmarket¹⁷ (a B2B start-up company) and a case study of eLance (projectmarket's main competitor). To be able to conduct this longitudinal field research, the researcher worked as projectmarket's manager responsible for its operations in China on a part-time basis between May and December 2000. Through this close interaction, it was possible to analyze the development of the company through one of the most important phases of its lifetime.

This field research phase within projectmarket was concluded in early January 2001 with a series of in-depth interviews with the company's senior managers and other relevant employees, thus capturing the perspectives of different participants in the company's various strategic decision-making processes. The analysis of

¹⁷ Because US based eLance was ultimately more successful than its European competitor, it was decided that an alias should be used for the less successful company in this close comparison (projectmarket).

internal and external documents, as well as feedback from the managers on the evolving theory further improved the study's validity (Maxwell 1996).

In addition, eLance, projectmarket's main competitor, was included in the analysis. Documents were studied and phone interviews held. Given the researcher's familiarity with the topic under discussion and the two companies' industries, the study of eLance could be much more focused and briefer than the in-depth study of projectmarket.

3.13 Summary

This dissertation contains three distinctive sections of findings. As each one of them serves a different purpose, different research methods need to be used. This manuscript therefore combines three methods for qualitative field research within one study.

It firstly uses the method of grounded theory research to draw a model of decision-making processes in emerging markets. As the researcher left known grounds far behind to come up with a significantly different model from what was already known about such processes, the method of grounded theory research is appropriate.

The second part of the field research findings broadens the analysis to entrepreneurial decision-making processes in general. This broadening of the analysis is done by reference to particular cases of companies, rather than by building a new model. Experience with actual entrepreneurial firms provided the insights that allowed the expansion of the initial model, which focused on Western multinational companies. Because of this different research goal, a different research method was required. A case study approach was found to be the most appropriate for this particular section and thus carried out among Hong Kong based companies.

The goal of the final findings part was twofold. On the one hand, an indication should be given of how the model could be expanded even further to the emerging technical market of the Internet. On the other hand, the researcher wanted to show in a very concrete and detailed way how the model could help improve decision-making processes in an organization. Thus, similar to the second findings part, a case-study approach was deemed appropriate but in deference to it, a more detailed analysis was warranted. As very little previous research existed in the field of Internet start-up companies, a very detailed study was necessary

that would focus on the inner workings of decision-making processes in such entrepreneurial organizations. To achieve this goal, the method of intensive, longitudinal case-study research was selected and carried out.

The focus of this research project was the building of a model for decision-making in emerging markets, and thus the large grounded theory research study on Western multinational companies' investments in China is the most important part of this project. The other two parts of the field research are, however, a useful extension of the core findings insofar as they strongly support the generalization of the model and show its normative implications for practitioners.

4 Strategic decision making for emerging markets

In this chapter the findings of the field research phase concerning foreign direct investment decision-making processes of multinational companies in the emerging market of China are reported. This phase was started with background knowledge of existing research in decision-making processes (discussed in chapter 3 above) and the hypothesis that decision-making processes for an emerging market like China would differ from those that take place in a more stable market environment. The three most important characteristics of emerging markets that influence these processes have been described in chapter 1 above. They are firstly, the market's high potential; secondly, the unfamiliarity with its culture and business practices; and thirdly, its relative high degree of instability.

While the focus of this study were FDI decisions in China, the goal has been to uncover the most important factors that affect strategic decision processes in a wide variety of emerging markets, not necessarily restricted to geographic ones, or even China. For that reason, the findings will be presented as generally as data allows and as specifically as is useful. An in-depth discussion of the potential for general applicability of this study's findings follows in chapter 4.5.

Chapter 4.1 starts by discussing the main findings in relation to current theoretical phase models of decision-making processes. Chapter 4.2 discusses the variables within one of the two main phases, the preparation phase. Chapter 4.3 continues by discussing the characteristics of the different parts of the project decision-making phase. Chapter 4.4 summarizes the model and discusses its implications for management.

4.1 Two plus six phases

Entering, or not entering, a large emerging economy like China is clearly a strategic decision, which may substantially alter a company's competitive position. Most of the survey companies saw it that way, citing in support of this notion the heavy commitment of top management time and the revenue (in some cases substantial) generated in the new investment destination. While the general decision to get involved in China should be seen as a strategic one, the subsequent decisions to open further operational units are less strategic in nature.

Although the initial two or three investment projects may seem at first to be similar in size and scope, only the earlier one is usually really path breaking. Thus, in the analysis of decision-making processes, one needs to differentiate between the

country-entry decision and subsequent project decisions. While the whole process should be considered strategic, there are more operational sub-processes, namely those of subsequent investments, either by a second and third division or by the same division in different regions in the country.

It is usually not possible to put a specific start date to the country-entry decision-making process. It starts very early during the first contacts with the target country, be they for exports or for just informal information gathering purposes. The organization usually does not realize at this stage that it has actually started a market entry decision-making process. This first, fuzzy, phase of 'decision recognition', in the words of Mintzberg *et al.* (1976), has very important effects on the speed as well as the direction of the firm's development in the target country.

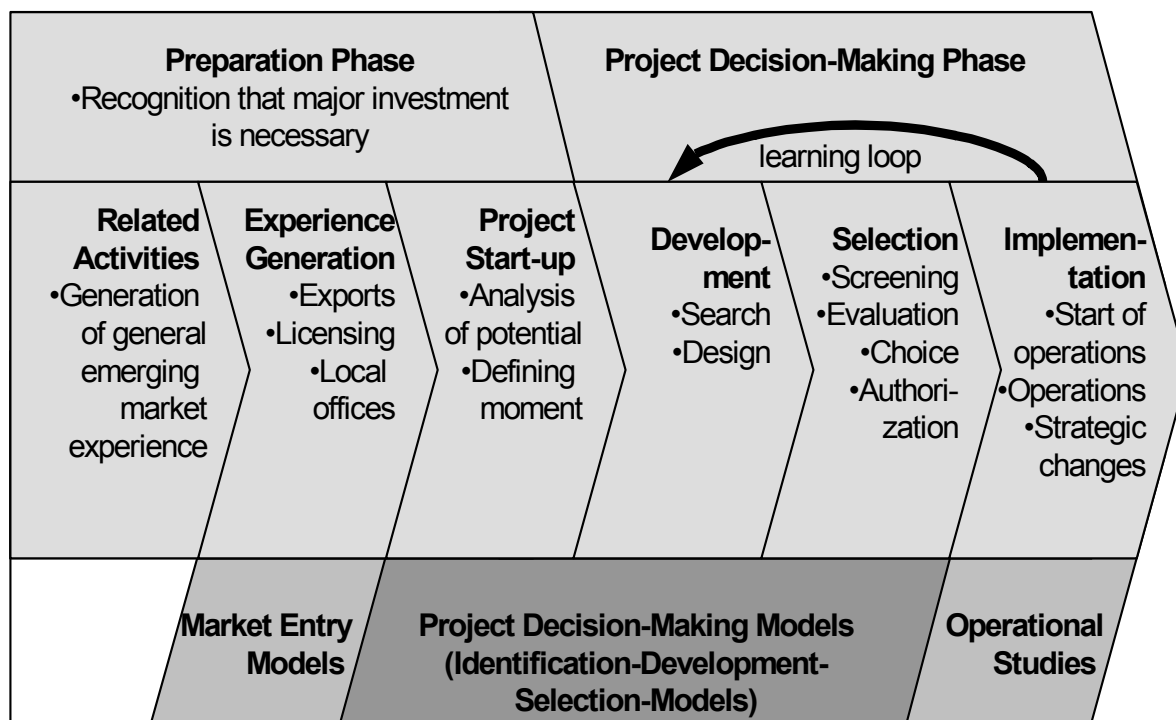
The end of the country-entry decision-making process coincides with the start of the 'first investment project' decision-making process. At this point in time, the organization has decided that the country is of interest to itself and that it is now ready to investigate specific investment projects. The following project decision-making process (see figure 4.1) is presented in a fashion similar to the strategic investment decision-making processes described in the literature, to allow for ready comparison. The preceding country-entry decision-making process, however, is necessary for a complete understanding of how companies enter emerging market economies.

Figure 4.1 gives an overview of the two main phases and six secondary phases that will make up the model of decision-making processes for emerging markets. This core model is the starting point for the discussion of all relevant variables, which follows in chapters 4.2. and 4.3, to be summarized in chapter 4.4.

The base model for decision-making processes in emerging markets, as found through this study, consists of the two main phases – Preparation and Project Decision-Making. These two main phases can be differentiated further into three distinctive phases for each part. These are the Related Activities, Experience Generation, and Project Start-up phases, during the Preparation Phase, and the specific project decision making phases during the Expansion Phase: Development, Selection, and Implementation, respectively.

The learning loop that reaches from the Implementation Phase back to the Development Phase underscores the model's cyclical aspect.

Figure 4.1: Base model for decision-making processes in emerging markets and relation to existing literature



The bottom part was added to figure 4.1 to show how the model relates to existing literature. One can see that the model actually combines three distinctive streams of literature. The Experience Generation phase includes activities like exporting, licensing deals and the opening of local offices. All these issues are discussed in studies of market entry and international expansion. The next three phases form the core of the project decision-making models with the usual “identification” phase broadly overlapping with the proposed model’s Project Start-up Phase¹⁸. Finally, a multitude of operational success factor studies focus on what is called here the Implementation Phase.

One of the main theoretical contributions of this paper is therefore the integration of these three distinctive streams of literature into one model for strategic decisions in an emerging market environment.

4.2 Preparation Phase

In the following analysis section, ample reference will be given to the sample companies. Instead of presenting lengthy individual case studies, the following table will give an overview of the variables relevant for individual companies'

¹⁸ Minor differences, which are the reason for the different names, are discussed below.

decision-making processes. For anonymity reasons, the companies in the table are in random order.

Next to the company's number (which it will be referred to in the following discussion) is an indication of the size of its China operations. This means that the first company in the firm, for example, would have 3-9 joint ventures and wholly owned subsidiaries in the country.

Table 4.1: Overview of research results for the Preparation Phase

Com-pany #	Brief overview of main empirical results
1 , (3-9 JVs ¹⁹)	<ul style="list-style-type: none"> - Starting early on, with licensing (from the 1980s) and exports. - Based on business trips to the market, decision to invest was taken in 1988. - Initially very careful approach with prolonged negotiations; first project operational only in 1995.
2 ; (>20 JVs)	<ul style="list-style-type: none"> - Long preparation period starting at the turn of the century through exports, to which licensing was added in 1978, the opening of representative offices in 1979, and joint ventures in 1985. - Insights and hunches from local market and observations of the competition.
3 ; (4-9 JVs)	<ul style="list-style-type: none"> - Company exercises general alertness for investment opportunities. - Group's GM started to push China business. - First investments opportunistic, follow-the-customer strategy.
4 ; (>20 JVs)	<ul style="list-style-type: none"> - Early entry through direct investment (1983). - Experience from local people actively sought after.
5 ; (4-9 JVs)	<ul style="list-style-type: none"> - History of local presence. - Investment proposals are made locally, in the market.
7 ; (4-9 JVs)	<ul style="list-style-type: none"> - Early market entry in 1985.
8 ; (4-9 JVs)	<ul style="list-style-type: none"> - Studied market carefully before entering with joint venture in 1992. - Uses sales force extensively to keep studying the market. - HQ not very experienced about China; decision quality improved with delegation of decision-making authority to the market.
9 ; (1-3 JVs)	<ul style="list-style-type: none"> - Exposure to China through exports since 1970s. - China opportunities explored since mid 1980s; first subsidiary (WFOE) opened only in 1995. - Extensive market study with many trips to gather information.

¹⁹ Joint Ventures as well as wholly foreign owned enterprises.

Com- pany #	Brief overview of main empirical results
10; (4-9 JVs)	<ul style="list-style-type: none"> - Push to start operations came from the HQ. - Relatively long (several years) investigation and data gathering phase with market studies before entry decision was taken.
11; (1-3 JVs)	<ul style="list-style-type: none"> - China has not had priority in the company. - Market intelligence was gathered through exports and sales offices.
12; (4-9 JVs)	<ul style="list-style-type: none"> - Chairman's strong interest in China made focus for investment activities possible.
13, (4-9 JVs)	<ul style="list-style-type: none"> - First license already in 1979. - Followed in 1987 with first joint venture.
14, (>20 JVs)	<ul style="list-style-type: none"> - Investment ideas come from the field, thanks to strong local presence from early on.
15; (4-9 JVs)	<ul style="list-style-type: none"> - China experience since the early 20th century. - Market knowledge built from regional office in Hong Kong. - Strategic study in 1993, opened up board-level-driven expansion drive. - Manager from the Asia division given decision-making authority for expansion plans.
16; (1-3 JVs)	<ul style="list-style-type: none"> - Emerging market experience gathered in other developing countries around the world. - CEO pushed and wanted to take the risks, thus early market entry in 1983.
17; (1-3 JVs)	<ul style="list-style-type: none"> - One of the first companies in the industry to enter the insurance market.
18; (4-9 JVs)	<ul style="list-style-type: none"> - Started with some, but not significant, export business. - Before investment in the 1990s, company was not considered ready for the Asian market. - Learned from experience of other MNCs.
19; (10- 20 JVs)	<ul style="list-style-type: none"> - Had some export business prior to expansion through FDI. - First representative office was founded in 1988. - Before key decision was taken, nobody pushed for strong expansion, nobody was strongly interested, therefore only slow development before key decision. - Corporate HQ together with regional headquarters made a strategic decision and released a flexible budget for market penetration efforts. - Entry was possible just before the full speed rush of other companies (1991/1992). - One board member pushed market entry even in light of a negative strategy study.

Com-pany #	Brief overview of main empirical results
20; (10-20 JVs)	<ul style="list-style-type: none"> - First joint venture already in 1986. - Built Asia experience through employing Chinese in HQ.
39 ²⁰ ; (10-20 JVs)	<ul style="list-style-type: none"> - First contacts early on (1982) through business trip to the country. - Further contacts, data research, and observations followed. - One board member pushed strategic decision for strong market penetration in 1990.
40; (>20 JVs)	<ul style="list-style-type: none"> - First contacts already in 1979 through visit of trade fair; exports have never stopped since turn of century. - 1985 opening of representative office for information gathering purposes. - Prolonged negotiations with first joint venture partner to 'get it right' from the start.
41; (4-9 JVs)	<ul style="list-style-type: none"> - Technical cooperation from very early on (since 1980) in addition to exports from Hong Kong. - Already 1988/89 close to conclusion of an investment project, which eventually was not carried through. - Major market entry efforts only after 1992 strategic decision, pushed by one board member and local (Hong Kong) management.
42, (1-3 JVs)	<ul style="list-style-type: none"> - Dedicated organizational unit drives and supports the foreign market entry of the company's divisions. - Export and licensing before FDI. - Strategic board decision taken in 1989; decision on first investment in 1990; operational in 1992.
43; (4-9 JVs)	<ul style="list-style-type: none"> - In 1997, joint venture followed the 1994 opening of a representative office with marketing purposes. - Board initiative responsible for strong expansion in China.
44; (1-3 JVs)	<ul style="list-style-type: none"> - Board initiative was driver for expansion in China.

4.2.1 Overview of the Preparation Phase

The Preparation Phase, as shown in Figure 4.2, consists of three parts – the Related Activities Phase, the Experience Generation, and the Project Start-up Phase²¹. The most important variables of each of these phases will be discussed below in detail. The main purpose of this Preparation Phase, from a decision-making perspective, is the acquisition of market knowledge and experience. The

²⁰ Organizations 21 to 38 were from Hong Kong and are not included in the discussion of chapter 4.

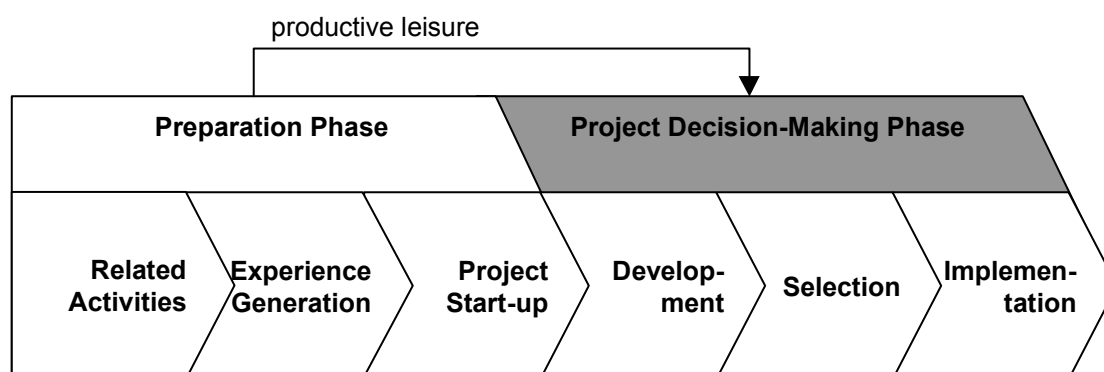
²¹ The concept called “productive leisure” and, expressed through an arrow in figure 4.2, will be discussed in the end of this section.

company typically slowly evolves through the three sub-phases, thus becoming more and more familiar with the target market.

For most companies, the important learning aspects of the Preparation Phase are not more than byproducts, which are sometimes not even properly appreciated. This is the case because the increase of experience is an effect of normal business dealings with the target country, reaching from exports and licensing deals to the opening of representative or sales offices. Thus, no large investment in learning is necessary, as it usually occurs automatically as a side product of profitable business deals.

Drawing attention to the importance of the learning effects of these business deals is very important, though, as the company will benefit from them the more aware it is of them and the better systems it builds to take advantage of them. The following discussion will draw attention to the most important variables and show how companies can benefit by focusing on these learning effects.

Figure 4.2: Preparation Phase



4.2.2 Related Activities Phase

The Related Activities Phase starts when the company first sets foot into an emerging market that is somewhat related to the current market under consideration. By dealing with this other emerging market, the company builds up experience in how to deal with unfamiliar and unstable environments. Some of the knowledge acquired within this first emerging market, which it may have entered years or even decades before the current one, will be particular to that market. Other aspects, however, will be transferable. The field research has overwhelmingly shown that emerging market experience gained in related markets can have a great impact on new market entry decisions. The corresponding variables (experienced managers, organizational know-how and learning

processes, and alertness to opportunities) are all among the five empirically most-saturated variables as figure 3.2 in chapter 3.9 has shown²².

4.2.2.1 Experienced managers

Most multinational companies take ample advantage of the opportunity to move managers from an established emerging market to a new one. The China manager of company 4, for example, worked in Iran and Slovakia prior to his placement in Shanghai²³. One of his most important tasks was to bring advanced organizational and procedural knowledge of a sophisticated multinational company from the headquarters to the local operations. To do this efficiently, however, he needed to know which structures and processes could be transferred easily, which had to be adapted for the local market, and which should be entirely replaced with local ways of doing things. To make the right decisions, he needed the advice of his local managers but he could also take advantage of his ample experience from Iran and Slovakia. While both countries are very different from China, all three markets had a number of characteristics in common – cultural difference from the home market, a fast changing competitive environment, and a relatively unsophisticated base of local managers and local business partners.

The China president of company 12 adds that problems like corruption, and methods of how to deal with such issues, are very similar within groups of emerging markets and quite different from issues important in developed industrial countries²⁴.

Likewise, the manager of company 8 had earlier experience in Singapore and Malaysia, before being transferred to China²⁵. While he soon realized that he had to pursue a very different sales strategy in China compared to what was possible for Malaysia, he did benefit from knowing how to stop his corporate headquarters' tendency to interfere with local affairs. While the strategies themselves were different, they were both different again from that of his company's home market. The transferable piece of learning was therefore the awareness of such possible differences and how to explain them to corporate decision-makers.

²² The more often a variable like “experienced managers” is mentioned in the interviews (in this case 15 times), the higher its empirical saturation (compare discussion in chapter 3.9).

²³ 4: 134; References to interviews with sample companies have the following format: company number (referring to the number in table 4.1) : [colon] line number from the interview transcripts.

²⁴ 12: 394 - 400

²⁵ 8: 133 - 135

The China president of company 12 strongly agreed when asked whether experience gained in one emerging market was transferable to another one²⁶. He pointed out that doing business in an emerging market was much more complex than in an established one. A general manager from an industrial country would therefore often be not prepared enough to face the very different, and in many cases much bigger, challenges in the emerging market of China. He summarized that being able to transfer a manager from, say, Vietnam to China or China to Vietnam offers a lot of benefits by dramatically shortening the corporation's learning curve²⁷.

Other local managers of survey companies had experience from India (company 13, 39, 42), Hong Kong (company 15, 19, 39) and Taiwan (company 39), or even Poland (company 43)²⁸. This related experience has helped them raise awareness of foreign cultures, appreciate flexibility, and adapt more quickly, thus increasing the company's efficiency in the target market²⁹.

By transferring managers to the new emerging market, these companies could thus reap benefits by cutting the time required for the new manager to adapt to local circumstances. The benefits, however, are not only operational. Early in the decision preparation phase, local experience becomes highly important. As managers rotate back from their foreign placements to the headquarters, they bring with them a wealth of international experience. A number of sample companies pointed to the parallels of the development in Japan and China. A board member of company 41 pointed out that he realized this parallel development and the potential of the market. Knowing that the company did not make any money in Japan for the first 15 years of its presence there, he urged the company to adopt a long-term strategy for China as well³⁰. He could do so because he spoke with authority, having managed a – (then) emerging market subsidiary and advancing to the very top of the multinational's hierarchy. The experience gained in a related emerging market thus enabled him to realize China's potential early on, which made him push the company towards a strong expansion strategy.

Similarly, company 43 explained how their experience in the emerging Polish market has helped them to better assess the market potential in China, drawing

²⁶ 12: 184 - 186

²⁷ 12: 187 - 189

²⁸ 13: 107; 15: 91 - 92; 19: 122 - 124; 39: 50 - 52 and 102 - 103; 43: 255 - 258

²⁹ 41: 1059

³⁰ 41: 384 - 387

parallels what the availability and reliability of data is concerned³¹. The how-to of building a local operation, the estimation of the kind and number of people who would be required in which positions, and the experience of what substantially lower productivity actually means (and its effects), were also part of the learning curve acquired through earlier emerging market activities.

4.2.2.2 Organizational know-how and learning processes

Company 16 is an excellent example of how experience gained in one emerging market does not only benefit actual operations in related markets, but makes market entry possible in the first place. This company was faced with the opportunity for a major investment project very early after the opening of the Chinese market. There was very little data available for research and because of the required minimum size of the factory, capital investments had to be substantial if the company wanted to go ahead with the project. While not having had any significant contacts with China at that time, the company was an early mover in many South American emerging markets. In Mexico and Brazil, for example, the company had established leading market positions earlier than its European and US competition. This earlier engagement in these markets helped in two ways during company 16's decision-making process whether or not to enter the potentially lucrative but also highly risky Chinese market.

Firstly, the earlier successful projects made the company internally very confident to be able to enter another large emerging market. While the differences between East Asia and South America were recognized, the company also noted that the main similarities, namely the – (then) relatively closed economy, the huge government influence, the early stages of the target industry, and the process of how know-how creation, could be exchanged and transferred.

At least as important as the internal confidence of being able to pull off such a huge project, was the favorable negotiation position in contrast to its competitors. The Chinese government had to choose the best foreign partner to build up the local industry. By seeing what company 16 had achieved in its South American markets, it was not only confident that the company would be able to deliver on its promises, but also that the effects on the home economy would be beneficial.

A very similar strategy was pursued by company 40, a truly global multinational. They started in the late 1970s to host Chinese government delegations at their

³¹ 43: 22 and 255 - 258

corporate headquarters in Switzerland, as well as inviting them to Asian markets like Singapore. In Singapore and other Asian markets, the company could show how its investment projects benefited the host country. It also proved that it was committed to the country it chose to enter and was willing to work together in a mutually beneficial partnership.

Company 40 also actively transfers local knowledge from one emerging market to another. They do so by rotating managers internationally and by tapping into past experience of similar countries. For China, experience from a number of emerging markets proved useful, for instance, from Indonesia and Taiwan. Decision-makers access historical documents, as well as discuss with experienced colleagues how to deal with issues that may have had precedents in other countries. This knowledge transfer usually works through company 40's Swiss headquarters, where staff with ample management experience keep an overview of what has gone on in the various markets and which new issues relate to past ones³².

Thus, experience gained through earlier activities in related emerging markets can benefit a company in many ways and has thus a significant impact on the whole market entry, as well as project decision-making phases. As company 42 pointed out: "Most of those companies that succeed [in China] have Asian operations. You have to be first successful in Asia outside China. That would be a good starting spring board to look into the Chinese market. If you are already successful in Asia, you understand already something of the Asian mentality. If China is your first investment in Asia, it's a big jump"³³.

4.2.2.3 Alertness to opportunities

An enhanced general alertness to investment opportunities could be found in companies with related activities in other emerging markets. Companies with ample experience in a number of emerging markets tend to more easily pick up signs of a new market opening than companies with less international experience. This alertness to opportunities is a major competitive advantage if the new emerging market is large and potentially attractive, as is the case with China.

Most early entrants that managed to build up a large position in China have had ample emerging market experience in related markets. Prime examples are companies 2, 14, 16, and 40, all of which found it natural to move into the new

³² 40: 662 - 663

³³ 42: 522 - 526

emerging market of China. They consider themselves as truly global multinationals, eager to enter any new market which starts to look attractive.

The alertness-to-opportunities aspect of related activities in other markets, therefore, helps the company in timing its investment strategy. If a company is alert to new opportunities, it will be better prepared to choose the right moment for market entry. This is particularly important for companies with products that are required early in a market's growth. A prime example is the fiercely competitive soft drink market. As a consequence, Coca-Cola announced, only days after the passing of new investment laws, its intended entry to North Korea.

4.2.2.4 Summary of the Related Activities Phase

Figure 4.3: Related Activities Phase

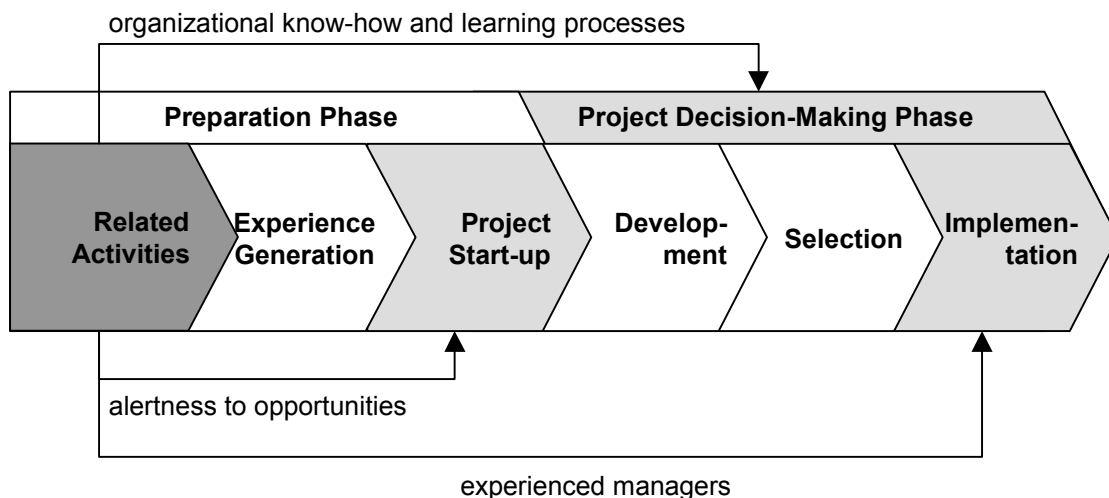


Figure 4.3 is a graphical representation of the discussion above. It shows how the Related Activities Phase influences other phases of the decision-making process.

Experienced managers refers to the gains in efficiency, speed, and cost savings made possible by transferring proven, trusted, and experienced managers from a similar market environment to the new country. It also refers to the efficiency gained through transferring such experienced managers to the corporate headquarters, who are then more attuned to local developments and will be able to form effective teams with local managers to run the everyday business.

The establishing of **organizational know-how and learning processes** has an impact on the whole project decision-making phase. This relationship refers to the

learning effects made possible by similar activities in related markets, as described by the example of company 40 and others above.

Finally, **Alertness to opportunities** has its main impact on the Project Start-up Phase, as it helps the company decide when the time is ripe to start a dedicated market-entry process.

4.2.3 Experience Generation Phase

The Experience Generation Phase comprises all those activities that are carried out in the market before full-fledged market penetration efforts are launched. In contrast to the previous phase, the company is now directly engaged with the target market. Activities within this phase comprise exports, licensing deals, and the opening of representative and sales offices. In special cases, small, opportunistic – therefore non-strategic – direct investments would also be considered as part of the Experience Generation Phase. This, in those cases where the initial investment is not followed up with further investments. Generally, however, direct investment projects are much larger and strategically more important than any activity within the Experience Generation Phase and would therefore be part of the Project Decision-making Phase described in chapter 4.3.

Direct exports provide the usual avenue for companies to establish the first contacts with the target country. Here, the company is in direct contact with the target market's customers, whereas indirect exports involve a middle man from the home, or a third market, and thus no direct contact with the target market is established. Indirect exports are therefore inferior means to acquire experience with the target market even though they may have some test market or brand-building effect. Such brand-building effect was experienced by company 40, which saw its products indirectly exported to China during the 1950s and 1960s, even after it had stopped direct export activity in response to the communist take-over. Thus, through indirect exports, the brand name, which was built during the first few decades of the 20th century, could be partly preserved.

When the volume of exports reaches a certain level or the country otherwise manages to appear on the radar screens of senior managers, visits to trade fairs³⁴ or important customers will be carried out. A further step within this market entry phase would be the granting of licenses to local companies, which many multinationals have historically preferred to direct investments as a means to gain

³⁴ 39: 207 - 208

a slice of a growing market without incurring significant financial risks. Company 1, for example, started talks about possible licensing deals in 1980, when direct investments were still a very remote possibility³⁵. Company 13 was even faster and granted the first manufacturing license as early as 1979, eight years before its first joint venture was established³⁶.

During the Experience Generation Phase, the company progresses to a more advanced stage of market entry by establishing the first permanent basis in the target market through opening representative or sales offices. The opening of such an office requires very small expenditures, compared to the investment in an equity joint venture or other operational unit. In China, for example, most Western companies invested a minimum of around USD 5m in a production facility, whereas professionally run representative offices normally do not cost more than 5% of this sum³⁷.

Because of the small costs and because of the accounting treatment as operational costs of the business unit, rather than the corporation's investment, opening such an office does not require an extensive decision-making process. For these reasons this phase is considered to be part of the Preparation Phase, rather than constituting the first actual investment project. Of all variables that were discussed and that emerged during the field research project, the importance of some sort of local presence for experience generation during the decision-making process was mentioned most often (see figure 3.2).

4.2.3.1 Trusted network of contacts

A network's value grows exponentially if new constituencies are added. While personal networks may grow a bit slower than the rate expressed in the mathematical formula, it remains true that for building a network one needs time and patience³⁸. A local presence can help a lot in this respect. A senior corporate manager from company 40 who used to hold several management positions in China, pointed out repeatedly how helpful his Chinese "godfather" and

³⁵ 1: 33 - 34

³⁶ 13: 29 - 32

³⁷ These are the author's own estimates based on his own experience in the country and answers to such questions by a variety of sample companies.

³⁸ The value of a network can be expressed through the possible number of connections between individual members or constituencies of the network. N members can be connected through the sum of 1 to (n-1) connections. If there are n members and 1 member is added, the value increases not by 1 but by (n-1), thus the exponential growth rate.

“godmother” were³⁹. While being a Chinese himself, he still relied on these two close friends for most of his market experience, as he has been brought up abroad and therefore lacked some of the closer insights into the market environment.

Good contacts are useful to gain access to lucrative business deals, but they are also very helpful in the decision preparation phase. Company 41 expressed it the following way: “if one keeps good relations to the local governmental organizations, it is relatively easy to find out what path one should follow”⁴⁰. To achieve this level of closeness, one has to have the ability to listen and the time available to win trust. While it may usually take substantial investments, rather than merely a representative office, to build up very intensive relations, that is not always the case. Company 42 attributed its success in avoiding a joint venture construct, in favor of a wholly foreign owned entity, to the company's excellent personal contacts to the then-mayor of Shanghai and current Chinese Prime Minister, Zhu Rongji⁴¹.

As did many other multinationals, company 18 also had business activities in China before starting an investment project. They supplied products to larger development projects, usually with the participation of an international partner who knew the company from other markets. This export activity helped company 18 to build an initially small, but later useful, network of contacts. One of these contacts was a sales representative of a trading house, who would eventually become the manager of company 18's first factory in Shanghai. As contacts with this person were built up over many years, there was plenty of time for trust to grow between the future general manager and the investing company. This trust, in turn, enabled the company to rely on that person for important contributions during the project decision-making phase. Through him, a company with relatively little direct exposure in the new emerging market of China could access a pool of experience built up over half a lifetime of doing business in China.

Trust is a variable that features prominently in any discussion about decision-making in emerging markets because “[t]rust is the base for success”⁴². It comes in a number of varieties. It is never given but always acquired, which is why one could talk of performance based trust. Trust within an organization reduces the requirement for tight control, thus speeding up decision-making processes. It does so by allowing the headquarters to rely on dependable feedback from the region,

³⁹ 40: 452 - 453

⁴⁰ 41: 747 - 751

⁴¹ 42: 65 - 66

⁴² 43: 334 - 336; quote from the interview with the local CEO of a European multinational.

and the region to trust that headquarters' decisions are well balanced and promote the company's overall goals⁴³. Trust between a company and its local stakeholders reduces suspicion, thus improving business relations.

In an efficient multinational, the headquarters can trust their local operations to feed them with reliable data and informed suggestions. This enables them to outsource most data collection tasks to the place where direct access to the most timely data is fastest: the region itself. Some data would be impossible to obtain from the distance; other information is reported in media but need to be interpreted to become useful⁴⁴. A certain level of trust between recipient and provider of such information is always required. Unfortunately, this is not self-evident as the following quotation from a German multinational proves: "Trust between HQ and local management must be in place. When dealing with different cultures, this trust decreases rapidly. As a principal, the board really trust only itself"⁴⁵. In another company, the current general manager was not trusted while he was still a mere translator, thus potentially very helpful information was not properly considered⁴⁶.

Similarly, one manager of company 19 complained that, even after many years of building a strong local presence, central decision-makers still relied on media reports for about half of their understanding of local conditions⁴⁷. In his eyes, media reports can never replace local insights, which he considers to be much more accurate. As a result, he felt that the headquarters were, at the time of the interview,⁴⁸ too pessimistic in relation to Asia, rather than jumping at the opportunity to be able to buy assets at depressed prices. Companies like GE Capital as well as a few sample companies (e.g., company 40) did exactly that: Realizing that the Asia crisis of 1997/1998 was more of a resting period rather than a major set-back, they bought up assets on the cheap.

On the other hand, the sample also included a number of companies whose managers expressed their happiness with the degree of trust within their organization. One example is a manager who stated, "that the one very first rule is: 'We trust the regional manager' "⁴⁹. Such trust helps speed up decision-making

⁴³ Based on 11: 55 - 57

⁴⁴ 1: 426 - 428

⁴⁵ 39: 79 - 80

⁴⁶ 42: 168 - 169

⁴⁷ 19: 403 - 407

⁴⁸ The interview took place in November 1998, at a time when the Asia crisis was still a top priority and major concern.

⁴⁹ 7: 104 - 105

and data research efforts enormously. It voids the necessity for large scale checks or significant own activity by headquarters staff, who are often very unfamiliar with the target market.

A small local office is one of the best ways to build up trust because it allows for it to grow naturally over time. Over the first few years, the headquarters will have ample opportunity to check the reliability of local recommendations and the usefulness of data they receive. Thus, trust can grow naturally, based on a strong track record, making decision making an increasingly speedy affair. The headquarters will not have to re-check the information they receive, but just balance recommendations from one region with those from another to figure out how best to invest scarce company resources⁵⁰.

Trust can be established most easily if people from the headquarters are sent to the target market. Working in the region, it is usually easy for them to establish trust with their fellow local employees and other stakeholders. As they are still trusted by their colleagues back in the home country, these people become very effective bridges between the local operations and the central decision-makers⁵¹. If such trusted channels of communication exist, certain potentially controversial measures and decisions will not meet strong resistance. The headquarters, for example, may be puzzled by some actions take by local managers, which may appear very strange in their eyes. However, if they can rely on the local judgment they will not obstruct those actions. On the other hand, local managers may feel angry if their recommendations are not followed; but they will not develop such emotions if they have trust in the central decision-makers and realize that the headquarters may have more information than they do, thus making their recommendations less attractive to the company as a whole⁵².

Especially in the build-up phase, the decision whom to send to the region is crucial. Representative or sales offices are not particularly sexy, *i.e.*, they are small operations with a limited range of opportunities for local managers. Thus, senior people are seldom sent to the region, not least because doing so would be very expensive. Senior people, however, have an important characteristic, which is the trust they enjoy in the eyes of the corporate decision-makers. As company 19 points out, if the local person is trusted by the headquarters, this trust will be reflected in the headquarters' analyses of the projects he proposes⁵³. A swift and

⁵⁰ Deduction based on 5: 58 - 59

⁵¹ 10: 81 - 82

⁵² 15: 143 - 147

⁵³ 19: 281 - 284

strong market entry will therefore be strongly aided if trust can be quickly established between local operations and central decision-makers⁵⁴.

During ongoing operations, trust is required not only at the top of the hierarchy. Also middle managers should have trust in local operations, even though they may be many thousands of kilometers away. Middle managers make purchase decisions, transfer knowledge (or might be reluctant to do so), and should be helpful if local operations need support. But building trust in these levels is a big challenge according to the experience of company 41⁵⁵. Technical co-operation deals, managed by not more than two or three people around 1980, was for company 41 the root of its China business. This early engagement is still remembered, even 20 years hence, thus showing how much impact a small goodwill gesture can have⁵⁶. The interviewee, the CEO of the multinational's largest Chinese factory, continues by drawing a vivid picture: "China is not the place for casual sex". One cannot arrive in the country for a series of short meetings and take the next flight out thinking one has solved all problems. "You need people who build up trust over an extended time, who can read between the lines and who find out after the meeting what the partners actually think"⁵⁷. Seasoned and trusted managers can provide this function handsomely if they operate from a local office and are given the time necessary to establish the multinational in the market.

Company 42 knew from other markets that to be successful one needs to have contacts with local people and one needs to make friends with them. But making friends takes a lot of time and once one is about to start a major investment project, time is in short supply. The company therefore focused during its export and licensing activities on the personal aspect of doing business with China. Its sales managers traveled extensively in the country and the company went to great lengths to avoid disruptions in the building of relationships caused by transferring people to different departments.

Once companies are aware of the importance of these personal ties, they can introduce measures to keep them growing, rather than disrupting them through an extensive promotion or re-location policy. In company 40, for example, the China managers remained consultants even after retirement to keep consistency in the company's dealings with its Chinese partners.

⁵⁴ Argument also supported by 40: 496 - 497

⁵⁵ 41: 777 - 779 and 836 - 839

⁵⁶ 41: 698 - 700

⁵⁷ Both citations: 41: 850 - 856

Grooming future general managers is a vital function of early sales or representative offices, as well as regional headquarters⁵⁸. Similarly to what was argued above in the discussion of the Related Activity Phase, a local presence provides the company with a ready supply of tested employees who know the company, as well as the market. Thus they will be able to speed up development once the decision for a fast - and expensive - market penetration is taken.

4.2.3.2 Experience generation and learning

The effects on experience generation and learning are some of the most important during the preparation phase, as the discussion below will show. This variable is directly relevant to the decision-making process, as it explains how decision-makers build up their intuition through direct experience in the market.

The discussion of indirect exports above has already given one example of how a company can learn about local preferences through exports during the Experience Generation Phase. Another example is the experience of company 18, which shows that the first step of direct contact can readily give answers to questions as to, "How should we sell products and conclude a major supply deal in China?" At the time of the deal itself this may not look as if it carries any significant weight. Activities like that, however, earn dividends higher than those expressed in operating margins alone. Once the time is ripe to design a long-term market penetration strategy, to decide which product market to focus on, or to plan capacity for the first local production facility, the benefits of learning will be reaped. Internal data will be available for analysis, valuable first contacts will have been made and there will be people with firsthand market contacts who can be integrated into the decision-making process.

Company 1 stressed the experience generating effects of licensing deals during a first contact phase in a similar manner. The interviewee emphasized the important knowledge generation effects of sending people to China to work with local companies on a short-term basis, and in turn, to host Chinese delegations at the headquarters. While the first activity gave the company firsthand experience in the target market, the second activity brought the top decision-makers in close contact with partners for a growing business relationship. Subsequently, one of the licensees evolved to become joint venture partner once the company was ready to commit to the market in a more significant manner.

⁵⁸ 19: 259 - 260

The manager who was crucial to company 39's China business also gained his first exposure to the market with the help of export business generated through a Hong Kong subsidiary. At a time when the corporate headquarters did not lose a minute on thinking about China, he built up an invaluable feeling for the market and strong experience based intuition. He became a true "China hand", a qualification that remained relatively unmerited for some time but became extremely useful once a strategic decision on the company's further market penetration had to be made.

Besides exporting, an activity which, thanks to indirect exports via Hong Kong, never fully stopped even during the 1950s and 1960s, company 40 also engaged in a variety of other activities reaching from country visits to participation in trade fairs. This all preceded actual investment activity but was far from detached from it. The company always believed that at some time full-fledged market entry through direct investments would be possible, and pursued a clear strategy of experience generation and network building. Frequent contacts to relevant government agencies helped to tap into a source of reliable information, as well as remaining on the government officials' radar screens once a suitable investment project would come up.

Company 2, a multinational doing business in a completely different industry than company 40 (but which has by now a similarly large number of local joint ventures and fully owned subsidiaries), has pursued the same strategy. It was also one of a small group of Western companies that kept exporting to China during the difficult years of strict communist rule and isolation. Through these export activities, the country always remained on the headquarters' radar screens and it was therefore able to pick up the very first signs of the opening process, which would make a larger scale market penetration possible.

While the learning and experience generation effects of a local presence are usually more of a side effect rather than the actual purpose of establishing an office in the target market, some companies do exactly that. They realize how important it is to generate an in-depth view of the market and are thus willing to invest resources for this purpose. Their example should help other companies make the right decision when they evaluate the advantages and costs of opening such an office. It may well be that an operationally slightly unprofitable operation will provide significant paybacks at a later stage, thanks to the improvement of decision quality achieved through it.

The main reasons for establishing a representative office for company 1 were the acquisition of experience and the gaining of access to decision-makers within the

government bureaucracy⁵⁹. Company 11 argues similarly, saying that through their sales offices in China, they “have laid down a solid base in local organization and market intelligence. A solid base for further growth”. In this case, the primary reason was as it usually is, to sell the company's products, but the side effects as an information gathering unit featured high in the priority list⁶⁰.

The survey companies were generally unanimous in the praise of the information and knowledge gathering effect of local offices⁶¹. The interviewees did have difficulties, though, to quantify or otherwise specify these positive effects, which makes it difficult for decision-makers to decide whether opening such an office would eventually pay or not. That may be the reason why pure information gathering purposes are scarce and the sales office function is much more common. Company 39 supported this argument by saying that the corporate headquarters would “take advantage of” the local sales people, who are the most well tuned “antennas”, for inputs to strategic consideration of how to organize distribution or how to calculate which costs would have to be incurred for a variety of different expansion plans⁶².

While some characteristics are the same within a wide variety of emerging markets, others are very specific to a certain location. China, for example, is a huge country with many very different regions. Culture, language, and even business practices vary accordingly. Thus, as a local manager of company 2 pointed out, having a sales office in Hong Kong, for example, may not be sufficient to properly understand the markets in Shanghai or Beijing. A local sales office directly in the target country may therefore be much more effective than a sort of regional headquarters that deals with a larger variety of markets⁶³.

Other companies, e.g., number 5, argue, however, that a truly local office is not always required. During its intensive evaluation and data-gathering period, it sent up to 20 people from its Hong Kong office on fact finding missions to mainland China. Such an intensive effort would have been all but impossible if this venture would have had to be started and organized in Europe. While an office in Shanghai or Beijing may have provided even more accurate - or at least cheaper -

⁵⁹ 1: 93 - 95

⁶⁰ 11: 66 - 68

⁶¹ 39: 369 - 371; 39: 776 - 778

⁶² 39: 780 - 782; 39: 944 - 947

⁶³ 2: 122 - 123

results, company 5 was happy with its nearby, but still somewhat detached, office in Hong Kong⁶⁴.

Company 10 stressed the direct effects of a local presence on the decision-making process. The interviewee, who had previously worked in the corporate headquarters, expressed his surprise at how differently one could interpret the same facts, simply by moving directly into China and seeing things with a more complete understanding of local conditions. He pointed out that certain requirements and practices were not easily explainable to local headquarters, but made perfect sense when seen with a mindset that was more attuned to the local situation⁶⁵. The company thus uses its regional offices as an elongated arm of the headquarters and delegates decision-making tasks to its representatives in the field. As most of the regional office's full time employees are sent to the target country after having acquired significant experience in the headquarters, trust between the two entities is exceptionally high. This, in turn, enables the efficient delegation of decision-making authority to the local office, resulting in much better-informed and higher quality decisions, which have only to be rechecked against the global positioning of the whole corporation.

Through a local presence, consumer insights can be easily built up⁶⁶. While a consumer survey may also be done in a one-off effort during an intensive development phase, government insights truly require time, patience, and a stable long-term commitment from within the market⁶⁷. Being able to read between the lines is a quality that is useful in many emerging countries, particularly in China. Company 12 found its local offices to provide invaluable help in interpreting laws and commenting on the real direction in which the government was moving. Especially considering these government contacts, a local presence right in the center of the market is the most attractive option⁶⁸. But also more generally, company 12 pointed out that even stationing managers in Hong Kong would not be sufficient, as, "speed is quite different whether you are directly in the market or outside. Within China you have the day to day pressure and things are being done today rather than tomorrow"⁶⁹. As meetings with top officials are sometimes set up on very short notice, having an office within the capital offers great benefits, on top of the clear demonstration of commitment to the market.

⁶⁴ 5: 46 - 47

⁶⁵ 10: 72 - 75

⁶⁶ 12: 96 - 99

⁶⁷ 12: 286 - 287

⁶⁸ 12: 376 - 377; 39: 952 - 956

⁶⁹ 12: 378 - 380

Company 40 said that, “[...] it was difficult to set up the first office in China but we managed it. The day we did, we could see a quantum change in even the export business”⁷⁰. The company was so satisfied with the knowledge generation effects of local representative offices, that they modified their market entry strategy slightly and opened representative offices very early on during their market entry preparation phase for central Asia during the 1990s⁷¹.

4.2.3.3 Awareness of investment opportunities

The awareness of investment opportunities effect of direct activity in the target market is similar to the variable “alertness to opportunities” discussed in chapter 4.2.2.3. In this section the focus is on becoming aware of actual investment projects and the requirement for a full-scale market entry, rather than a general alertness that a new, potentially profitable market might emerge.

One of the most important benefits of an early local presence is the awareness effect. Even if the small office costs only very little money or actually operates profitably due to the volume of exports it manages to generate, it leaves a mark on the organization in any case. Companies that have opened an office in China would consider the country much more prominently during strategy reviews. Thus they will be less likely to overlook this huge potential market when planning the overall development of the firm.

At the same time, the local office will alert the headquarters of major new developments and opportunities that may open up suddenly and, in that case, require immediate action before the window of opportunity closes again. Dedicated employees in the target country are very efficient antennas who keep scanning the airspace for business opportunities. Company 19 is only one example of many where the push towards a stronger market presence with significant direct investments came from the country. The local employees kept lobbying with the specialists in the various business units to come to China and analyze the market. Through this activity the specialists would realize that the country was stable enough, and offered a high enough potential, to warrant a proper market entry through direct investment projects⁷².

⁷⁰ 40: 410 - 412

⁷¹ 40: 403 - 405

⁷² 19: 176 - 179

Such lobbying is crucial, as in most companies a general reluctance to invest far abroad can be observed⁷³. This reluctance can be best overcome if regional managers keep explaining the benefits of local operations, thus forcing decision-makers to consider this option, which eventually may well be very beneficial to the company.

For this decisive push to bring a new market into the mind of decision-makers, a regional headquarters may also be beneficial. Local managers have a much better overview of regional developments and can alert line managers within strategic business units of such trends. So while the usefulness of regional headquarters - which usually take the unsatisfactory organizational form of a cost center - is often challenged by the heads of SBUs, they play a vital role in opening new markets. Company 19 has had strong regional headquarters in Hong Kong and is certain that its market entry into China would have come much later and at a much less opportune time, were it not for the lobbying activities of this unit⁷⁴.

4.2.3.4 Analysis and conclusion

Figure 4.4: Experience Generation Phase

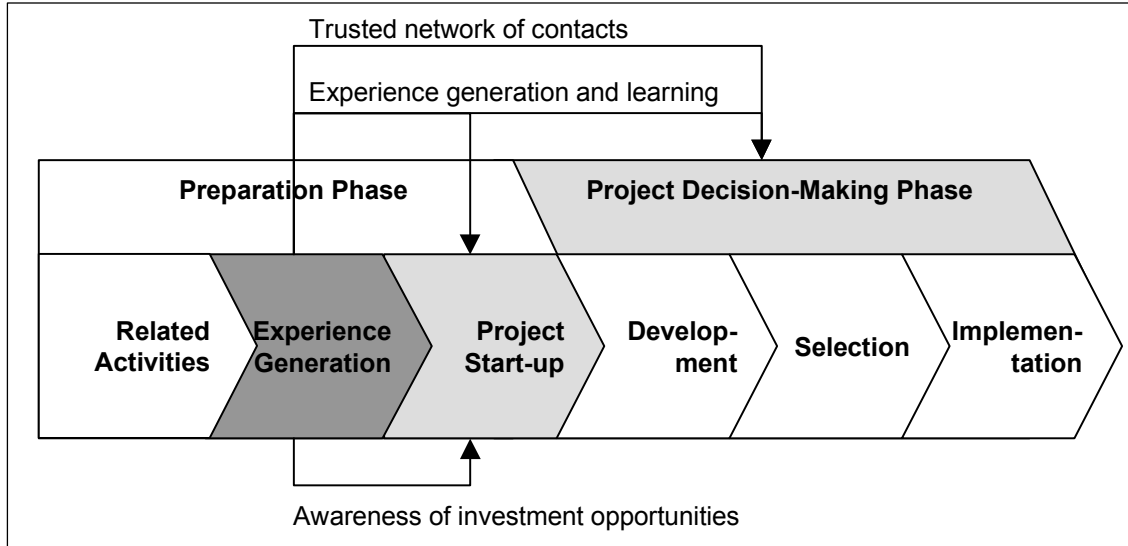


Figure 4.4 is a graphical representation of the discussion above. It shows how the Experience Generation Phase influences other phases of the decision-making process.

⁷³ 39: 84 - 85

⁷⁴ 19: 185 - 186

Experience generation and learning are, as the name of the variable indicates, its most important characteristics. The generation of experience through direct activity in the market, like exports or the opening of representative offices, generates a lot of data that will prove very useful in a later Project Decision-Making Phase. At least as important is the awareness this phase creates within decision-makers at the headquarters. Through direct experience, decision-makers in the headquarters, as well as in the field, learn what life is like in the market and what is important when deciding for the market. They therefore acquire relevant experience, which strongly enhances the reliability of their intuition. Especially in the Project Start-up Phase, but also later throughout the Project Decision-Making Phase, intuition will be very important to decide quickly in an environment characterized by little available information.

The establishing of a **trusted network of contacts** is another critical component of the Experience Generation Phase. A network of initial business relationships, as well as a pool of managers who can be entrusted with spearheading market penetration efforts, will significantly speed up processes during the subsequent Project Decision-Making Phase. The effect will be felt in the decision Development Phase through a ready supply of available information. Not only can the abundant data be used in the selection phase, through the informed recommendations of trusted field managers and advisors, but also in the Implementation Phase, by having managers ready who are experienced enough to be entrusted with heading new ventures.

The creation of **awareness of investment opportunities** has direct impact on the next phase, the Project Start-up Phase. The more business the company is doing in the market, the more investment opportunities it will get through various other contacts. Internal managers will draw attention to such opportunities, as will potential partner firms, customers or distributors. If top management gets involved at this early stage of market entry, such investment opportunities will be considered much more seriously than in companies without any commitment generating activity in the target market.

4.2.4 Project Start-up Phase

The Project Start-up Phase is approximately the same phase that most behavioral researchers into decision-making processes call Project Identification Phase. During this decision-making phase, the company reaches the conclusion that the target market should be entered with a substantial direct investment program. The

company may decide on founding only one subsidiary, but it might also at that stage decide on a large-scale strategic development plan. Generally, the phase consists of the analysis of the potential, which either follows from or is replaced by a defining moment during which a senior decision maker suddenly realizes that his or her company must become more active in the target market.

4.2.4.1 Bard level initiative and commitment

Path-breaking new projects are seldom achieved without strong backing from the top hierarchy within an organization. This is even more so the case if these projects carry considerable risk, as the market entry to China does. In many sample companies not only board level backing was necessary, but also actual initiative from the top. Even in divisionally organized firms the corporate board may need to take action to induce strategic business units to consider investments in a newly emerging market. One senior executive expressed it the following way, referring to a colleague from a corporate unit, rather than one of the divisions: “[er] *hat den Hund zum Jagen gebracht*”⁷⁵. In that particular company, market entry to China had been considered earlier by one of the other strategic business units. But before corporate board members, in this organization with a relatively strong corporate leadership, took initiative themselves, they would do the opposite, *i.e.*, discourage SBUs from considering early market entry. Reasons to dissuade SBUs from such early activities focused on the lack of readiness of the corporation or the unit. Entry to China was seen as a major project, which had to be approached patiently and fully prepared. An SBU that was not strongly profitable or had other unfinished international business projects like, for example, recently-started joint ventures in other markets, was not seen as being able to afford to take on the huge task of venturing strongly into China⁷⁶.

A large number of sample companies agreed that the most important push to venture into China came from the board level, usually in the form of a visionary and committed CEO⁷⁷. All of these companies agreed that the China business would not have been possible - or at least not at an early time - if this commitment had not been present. The main reasons are the size of the investments necessary and the risks involved. For the individual manager in a large corporation, taking a huge gamble is not an attractive option because of the

⁷⁵ 1: 174 - 175; German saying for: “He has helped the dog start hunting”

⁷⁶ 1: 176 - 178

⁷⁷ 3: 64; 12: 61 - 63; 15: 94 - 95 and 106 - 107; 18: 169 - 170; 19: 303 - 305 and 308 - 311; 39: 80 - 82 and 203 - 205 and 397 - 400; 40: 384 - 387 and 499 - 501

biased, individual payoffs, which are in most multinationals either explicitly or implicitly skewed towards risk avoidance⁷⁸. In contrast to middle – or even most senior – managers, the corporate leaders have much less bias towards risk avoidance, as appearing visionary is being seen as highly positive. By accepting much of the responsibility for the market entry decision, they make it much easier for the rest of the organization to follow.

Leadership from the top is not only important for risk reduction purposes but also to simply alert the whole organization to new market potentials. Managers in charge of SBUs are often too much engrossed in their day-to-day business to have the time and foresight to investigate significant new strategic moves.

It should be noted, though, that board level initiative does not necessarily have to be the result of the personal drive of one individual. It can also be based on the results of a strategic study, as some sample companies prove⁷⁹.

A third reason for the importance of top leadership is the amount of resources necessary to make such a market entry feasible. Apart from the cash-out investment funds, a large-scale engagement in China requires significant personnel resources, including the company's top executives. Many project proposals get cut off at low levels of an authorization process if the decision-makers believe that the project has no chance of getting funding in the end. Once this imagined or real danger of authorization failure for projects is removed, many more are being proposed simply because the likelihood of succeeding in gaining authorization increases⁸⁰.

Building a proper business in an emerging market like China takes time and, therefore, requires a relatively long-term view of the investing company. Whether or not the luxury of running up losses for several years can be enjoyed has a major impact on the subsequent development. Because managers are usually evaluated on relatively short-term performance goals (see discussion above),

⁷⁸ Performance related pay is usually tied to relatively short term performance criteria and only rarely includes option values for strategic decisions, which - e.g. in the case of China - may result in paybacks delayed many years from the time the decisions was taken. Thus, a decision to invest in China would result in costs now, with payoffs accruing in many cases only to the current manager's successors.

The skew towards risk avoidance can be partly mitigated by granting managers long-term stock options. Such measures would work if the capital market functioned well in correctly valuing a company and its potential for future cash flow generation. As stock markets in reality do not value companies particularly accurately, granting stock options may be a step into the right direction but is certainly not an easy and final solution for the problem at hand.

⁷⁹ 15: 94 - 95; 39: 57 - 58

⁸⁰ 12: 61 - 63 and 39: 80 - 82

emerging markets need top level commitment to overcome these inherent dissuasions against long-term investments.

Companies with a more short-term view are forced to pursue an opportunistic rather than a strategy driven development plan. Such opportunistic investments may pay off, and even more importantly, may induce the company to a review of its China strategy. Generally, however, a properly planned and funded market entry will lead to a better penetration and better returns on a long-term basis. A short-term orientation on quarterly results, forced onto some multinationals by their investors, is not beneficial for future-oriented investments in China. Some companies - which, being European, may yet have little experience in dealing with newly assertive investors - start to find it difficult to invest money into projects that will pay off only in the medium-term. Others, however, do not let performance pressure come into the way of a sound long-term strategy⁸¹. This may prove very positive as the example of company 41 shows, which - as already mentioned above - started to make substantial money in Japan only after 15 years of prolonged operational losses⁸².

To build a network and establish trust require a lot of time, and, thus, a long-term perspective and plan⁸³. A local manager of a medium sized multinational concludes, "if a company cannot make a strategic decision in favor of a long-term development strategy, it should better keep its hands off China"⁸⁴.

4.2.4.2 Right timing and defining moment

The question whether early or late market entry is "right" cannot be answered once and for all⁸⁵. It very much depends on factors like the readiness of the firm, the state of development of the market and its competitive environment, to mention just a few. While a recommendation as to when a company should enter the market is therefore not feasible, the interviews do show how a multinational can prepare itself to be able to make the market entry decision in the right moment. Thus, a firm has "right timing" if its capabilities match the requirements of its operating environment.

⁸¹ 40: 979 - 981

⁸² 41: 384 - 387

⁸³ 61: 769 - 772

⁸⁴ 42: 230 - 232

⁸⁵ Argument supported by, for example, company 40: 320 - 322

This being the case, the company should try to time its investment at the opportune moment (proactive timing). This idea is generally accepted and also mentioned in the literature (Aliber 1970, Buckley and Casson 1981). How it can be achieved in practice is more difficult to assess. The best way to do so is to be prepared and to keep observing the market. Thus, a very early start of the Identification and Market Entry Preparation Phase is essential for a correspondingly opportune start of the Project Decision-Making Phase.

Company 42 has pointed out that, “China is great for investment but the question is how big and when”⁸⁶. Since many industries – as well as the overall market – develop in cycles, it is important to get in at the right time. To do so, swift action may be necessary. The only way to actively manage this process is by having “antennas” in the market through first contacts, and more importantly, a local sales or representative office. If these local antennas have the communication and feedback channels available to make themselves heard in the corporation at large, the chances are high that the company will manage to proactively time its larger-scale market entry. In this way the company will avoid having to jump onto the bandwagon and enter the country at a time when everybody wants to do so out of a fear of being left out of the game. This is exactly what happened during the mid 1990s, when many companies crowded into the market, driving up costs of establishing a presence, while at the same time a product glut in many areas depressed their initial sales figures.

How does a company move from the Preparation Phase to the actual Project Decision-Making Phase? In some multinationals it is a gradual development, where foreign direct investments are simply a higher level of commitment than the previous steps and are undertaken with the goal of conquering the market. In other companies, however, the decision to enter the market via direct investments is a major strategic re-direction, and in this case is often followed by what can be described as the “defining moment”.

The concept of the “defining moment” can be found in Reinmoeller / Chong (2000). According to the authors, a defining moment is a particularly important point in time when an existing (previous) state is punctuated and irreversibly altered. Through the defining moment, the organization directs the energies of its members to a new course. In the decision-making environment, the defining moment would kick-start the actual Project Decision-Making Phase. The company does not yet know what sort of project it will eventually implement but the decision on an actual

⁸⁶ 42: 510 - 511

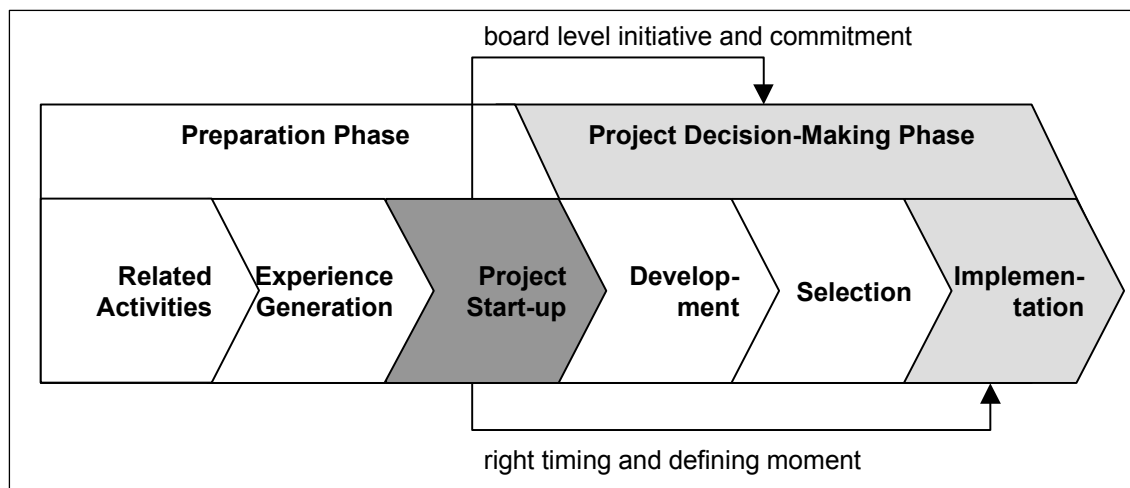
project is now recognized as being the goal of the process under way. Usually the CEO, company president or another senior executive suddenly realizes that “something has to be done” about the Chinese market. Tacit knowledge that was accumulated over the years, during the Preparation Phase, suddenly materialized in a decision to start investigating a potential investment in the target country in more detail.

Defining moments may come in various forms. For company 41, it was a fact-finding trip by senior board members to China, which opened the eyes of the senior executive who was responsible for Asia. He suddenly realized the great potential in this emerging economy, stopped conservative licensing projects that were already underway, and kick-started a fast paced decision-making process with the aim of investing directly in China⁸⁷.

For company 15, the defining moment was the conclusion of a general study on the Asia/Pacific market. In the case of company 19, a senior board member started a decision-making process for FDI to China in spite of having a negative study in hand. He used the study as a starting point for a closer examination of the market and concluded that a more intensive market penetration strategy was necessary.

4.2.4.3 Summary of the Project Start-up Phase

Figure 4.5: Project Start-up Phase



In many companies a **defining moment** during the Preparation Phase kick-starts initiatives to develop an actual investment project. When such a defining moment

⁸⁷ 41: 317 - 319 and 629 - 631

happens or should happen is related to the question about the right timing of the start of the Project Decision-Making Phase. To achieve the right timing, both an early start of the Preparation Phase, as well as strong and trusted communication channels, are necessary.

Board member, and preferably CEO, **initiative** and commitment are critical for speedy evaluation of investment options and final authorization.

4.2.5 Productive leisure in the Preparation Phase

During the first contacts, the company becomes more and more ready for a deeper involvement with the target market. The company builds up experience and sometimes even adapts internal processes to be in step with the new emerging market environment. Company 1 exemplifies this idea by stating that they did not want to force themselves to action in China. Instead, they let things go their natural way. Thus, the company exercised what Reinmoeller and Chong (2000) have called “productive leisure”. Experience is built up in a leisurely way without any urge to move fast. No money is yet being invested, quite the contrary, as money is made through export and licensing deals.

During the Preparation Phase, speed is not yet important for two reasons. Firstly, investment sums are still low and stakes therefore not particularly high. Secondly, if the company has realized the new emerging market's potential early on, it may not yet be attractive enough to warrant a more intensive market penetration activity. Many companies have to wait until the market has grown to a certain threshold, before which demand for the company's products or services is very low. The proposed model's argument would be that until the market is ready, the company should observe the market and learn from it in a Preparation Phase characterized by productive leisure. If timed rightly, the company will be fully prepared for a larger scale market entry, once the conditions are ripe. Then, speed will become much more important, as the next chapter will show.

4.3 Project Decision-Making Phase

After the company has made the strategic decision to substantially increase its position in the target market, the actual Project Decision-Making Phase starts. During this phase one or more investment projects are designed and evaluated, and a decision is made as to how the company should proceed. An Implementation Phase follows the authorization of a project. Either sequentially or

in parallel, more than one investment projects may be considered, especially if the company has a variety of divisions.

The inner workings of the Project Decision-Making Phase uncovered in this research project by and large support the earlier findings by behavioral researchers reported in chapter 2. At first glance, the process itself does not look very different, whether decisions in developed or emerging markets are considered. Interview partners usually pointed out that projects under analysis for the Chinese market have to follow the same rigid authorization process as those for other markets⁸⁸. Similarly, written reports and other documents have to follow standard outlines and procedures⁸⁹.

There are differences, however, and these differences are not only subtle but of great importance, which was the main reason why this research process was undertaken⁹⁰. The differences are neither so much in the step- or phase-wise approaches, nor in the number of meetings to be held or people consulted. Instead, the differences are about a number of variables, which have not been analyzed in depth by previous researchers. Such variables include the intensity of data research, the requirement for adapting the corporate strategy or organization, the way flexibility is achieved, and so on. It is those variables on which the following discussion will concentrate to uncover the differences for decision-making in emerging markets. A manager of a Swiss multinational summarizes this argument well by saying "It might sound like a standardized approach, but it is not. It can be really adapted to the local environment"⁹¹.

An overview of the empirical results of the Project Decision-Making Phase is given in table 4.4. A detailed analysis of the three analytical sections of this phase follows, namely, the Project Development, Project Selection, and finally the Implementation Phase.

⁸⁸ 1: 183 - 184; 5: 38; 9: 123 - 125; 10: 40 - 44; 12: 196 - 199; 16: 81 - 85; 39: 254 - 257; 40: 402 - 403; 41: 329 - 400 and 483 - 487; 42: 203 - 207

⁸⁹ 2: 159; 15: 273 - 276; 18: 270 - 271; 19: 230 - 231

⁹⁰ Differences and particularities could be uncovered in interviews with all companies. The extent of these differences varied, however. The discussions in the previous and this chapter draw heavily on these findings.

⁹¹ 12: 315 - 316

Table 4.2: Overview of the Project Decision-Making Phase

Com- pany #	Summary of empirical results
1 , (4-9 JVs)	<ul style="list-style-type: none"> - Long lasting negotiations with different partners; proper and detailed process important because of ownership structure, which needs to be optimal to achieve flexibility later on; analysis itself is relatively brief. - Speed partly dependent on Chinese partners; once first investment was done, others followed quickly afterwards. - HQ had to initiate, only then SBUs followed. - Speed is more important now than earlier because of the substantial investment sums.
2 ; (>20 JVs)	<ul style="list-style-type: none"> - Negotiators need to understand the market very well; local sales people are therefore suitable in this phase. - Reports from the local market must be high quality, from well-informed people. Knowledge acquisition works through independent unit in charge of investments, local offices, and the move of the decision-making center to the target market (from Hong Kong to Beijing). - Decision-makers must have good understanding for market and local conditions.
3 ; (4-9 JVs)	<ul style="list-style-type: none"> - Initially no sophisticated process, gut-feeling reliant, research is of little help, competitors' reactions are unknown; later, local people become increasingly important and a structured process emerges. - Company starts with small, low complexity, and relatively low risk projects. - Initially, concentration of China activities with the group's GM; later: local market acts highly independently.
4 ; (>20 JVs)	<ul style="list-style-type: none"> - Initially, detailed research is not meaningful because of fast developing competition. - Utilizing of experienced managers from company's activities in similar emerging markets.
5 ; (4-9 JVs)	<ul style="list-style-type: none"> - Data gathering through strong local presence; local proposals are authorized by HQ; HQ relies on local market. - Standard approach to investment decision-making, globally fairly consistent. - Local market acts highly independently; decision-making center moves to target market (from Hong Kong to Shanghai).
7 ; (4-9 JVs)	<ul style="list-style-type: none"> - Outside consultants involved to bring in knowledge. - Decision making is fast because of market knowledge and trust of regional managers. - Decision-making power delegated to region; formal feedback structures exist; respect for local culture is being taken seriously; different company structure exists for different regions.

Com- pany #	Summary of empirical results
8; (4-9 JVs)	<ul style="list-style-type: none"> - Speed considered as very important. - Trust between HQ and China not high enough. - Initially strong HQ control, but HQ does not know market well, thus mainly export activity, rather than concentration on local market; now more local control and input; HQ model does not work in China. - Emerging market experienced manager for China; some cooperation within Chinese group companies.
9; (1-3 JVs)	<ul style="list-style-type: none"> - Lengthy negotiation to achieve a good deal; not overly eager to enter China quickly because of other opportunities elsewhere. - Own study and consultants; decision-making process relies heavily on data; does groundwork itself. - Relatively fast decision-making process because of privately controlled company; nevertheless, lots of scenario building and detailed studies as intuition is not trusted for Chinese market. - Large investment amount right from beginning; flexibility through ownership control; communication very important.
10; (4-9 JVs)	<ul style="list-style-type: none"> - Market study done by SBU, not by central units. - Detailed, structured process involves SBUs, board, committees, etc.; decision would be easier to make in country, thus local head office moves to country and entertains bridging function. - Communication via HQ and local HQ for investment related questions.
11; (1-3 JVs)	<ul style="list-style-type: none"> - Market information gathered by own office. - Close communication between HQ and region; both sides must understand the issues well.
12; (4-9 JVs)	<ul style="list-style-type: none"> - Consumer insights are most important, thus own market research is necessary; experience from other emerging markets is used. - Final approval process is very important; gut feeling of local managers, as well as HQ, important to judge figures; but data must support judgment; HQ dominates. - Strong country president, well respected locally and in HQ; reporting to regional HQ in Singapore, thus two reporting lines; decision-making happens fast, speed very important, ongoing battle between centralization and regional decision making.
13, (4-9 JVs)	<ul style="list-style-type: none"> - Structured decision-making process; decision-making authority resides at the HQ. - Bridging function by local CEO with lots of HQ experience.

Com-pany #	Summary of empirical results
14, (>20 JVs)	<ul style="list-style-type: none"> - In own business, planning figures are quite reliable; own market research is key. - HQ important for authorization, local HQ more support function. - Mainly country organization, communication with local HQ, local HQ strengthens knowledge transfer within country.
15; (4-9 JVs)	<ul style="list-style-type: none"> - Hunches very important for decision making; direct market research with potential customers. - Relatively fast decision making as China is well integrated in group structure with high level people here. - Close cooperation between group companies is very important for knowledge sharing.
16; (1-3 JVs)	<ul style="list-style-type: none"> - Knowledge from Latin America very useful during decision-making process.
17; (1-3 JVs)	<ul style="list-style-type: none"> - Support from the HQ is very important; such support has lacked recently so development speed decreased. - Market brings new expansion ideas to the top but they do not realize opportunities well.
18; (4-9 JVs)	<ul style="list-style-type: none"> - Prolonged discussions and negotiations. - Trust very important; key manager has bridging function; China experience in HQ very valuable. - Authorization process is standardized; SBUs are very independent. - Experience from other emerging markets is valuable; GM with China experience is hired, who had been in contact with the company through earlier business deals in the region.
19; (10-20 JVs)	<ul style="list-style-type: none"> - Process is done properly, resolutely, and quickly. - For data, company concentrates on fundamentals; intensive know-how is self-acquired; planning is considered as very unreliable. - Trust improves speed; close communication is important, as is bridging function between region and HQ. - Rapid development after first implementation; each SBU creates China group; knowledge transfer happens mostly within SBUs and through them; power is centralized at SBU. - RHQ's task at the beginning was to push SBUs to pursue deals in the target country; its function later moved from strategic to support. - Spain was partly used as a model for China.
20; (10-20 JVs)	<ul style="list-style-type: none"> - Long and detailed planning from early on; some gut-feeling involved; lengthy corporate authorization process which includes committees. - Utilizing of experienced managers from company's activities in similar emerging markets.

Com-pany #	Summary of empirical results
39; (10-20 JVs)	<ul style="list-style-type: none"> - Brief analysis phase as local offices supply company with data. - Board initially not risk-taking enough; after first investment project is carried out, decisions are made quickly: a lot of JVs are formed quickly. - Holding has decision-making authority. - During the start-up phase, China is not part of SBUs but corporate center has responsibility.
40; (>20 JVs)	<ul style="list-style-type: none"> - Careful negotiations, no rush in first project; data does not have to be detailed. - Delegation of decision-making authority to the region; direct line to group CEO speeds up decision-making process significantly. - First JV operational in 1990; lots of learning generated; speed increases significantly since then.
41; (4-9 JVs)	<ul style="list-style-type: none"> - First investment requires a lot of time; process becomes increasingly faster since then. - Before first direct experience, knowledge transfer happens from other firms. - Before defining moment lots of resistance in board to China investments. - Delegation of decision-making authority is key to rapid development; clear responsibilities and reporting lines are important.
42; (1-3 JVs)	<ul style="list-style-type: none"> - Timing rather than speed important. - Insists on 100% ownership to remain flexible; planning itself not very important; data gathering through own grass-roots investigations; planning reliability low because of structured economy, where plans can change dramatically. - Regional HQ and specific local organizational unit important to push project; SBUs do not cooperate much; organizational unit responsible for market entry, and one manager, build the bridging function.
43; (4-9 JVs)	<ul style="list-style-type: none"> - Focus on speed; case-by-case evaluation; speed depends on negotiating team. - Most know-how was bought, because only some Asia know-how existed previous to market penetration. - Communication via important HQ person in China; Asia division very independent.
44; (1-3 JVs)	<ul style="list-style-type: none"> - Decentralization to the region important; not very much communication with the group. - HK arm still responsible for China.

4.3.1 Development Phase

During the Development Phase, the company undergoes an active search for new investment projects and / or designs a strategic development plan. The phase may be very short if a suitable project is brought to the attention of management early on. It may even be the case that such market driven action had been the main reason for the project start-up decision in the first place. Generally, however, the Development Phase is rather lengthy, and in the case of China usually involves several visits to the country and first discussions with potential joint venture partners.

4.3.1.1 Gaining flexibility

For decision-making in emerging markets, flexibility is very important. Most survey companies pointed out that they tried to be as flexible as possible with their strategy. The reasons for the need for a flexible strategy can be found in the fast developing market. This speed of growth and change makes planning very difficult. In addition, during the early phases of market entry, management intuition is not yet very well grounded in experience, which is why initial decisions have to be modified frequently later on, during the Development Phase. Companies with flexible solutions, who are able and willing to carry out changes once the need arises, will have the advantage in such an environment.

During the field research, basically two ways of how companies try to achieve flexibility in their decision making could be uncovered. The first approach is to do so by keeping the investment sum per project low; the second approach is to gain flexibility through tight control of the investment.

Coupled with a relatively large number of projects, the strategy to achieve flexibility through a small project size has two effects. On the one hand risk is spread over a larger number of product markets, localities, and usually also joint venture partners⁹². On the other hand flexibility is gained, as one can increase investment – and thus exposure – relatively quickly in those areas that provide the most profit potential. As these areas often become apparent only after project start-up, investments in multiple potentially-promising projects may pay off very well.

Whenever possible, companies try to keep their first investment project small in size, which is both a risk reduction and a flexibility strategy⁹³. The first project of

⁹² 39: 97 - 98

⁹³ 1: 299 - 301; 41: 230 - 232 and 495 - 496; 43: 99

company 3, for example, required only about 1% of the capital investment of large foreign direct investment facilities⁹⁴. At the same time, complexity will be kept small so that the project is as easy to implement as possible and offers learning opportunities for later⁹⁵.

Risk-averse companies will further try to have a number of supply contracts signed already at the time of market entry, to cover as many costs as possible. This particular strategy works best in the case of a follow-the-customer market entry strategy⁹⁶. Other companies also use the investment sum as a means to keep exposure, and thus, risk, down during the first one or two investment projects⁹⁷. Reducing risk in that way does come at a cost, as the efficiency of small operations is jeopardized in a booming market. The considerations seems to be, however, that if the positive scenario does indeed materialize, increasing capacity later will be less expensive than carrying the risk of having a huge factory that manufactures products for a non-existing or miniscule market.

With the flexibility through control approach, a multinational tries to gain flexibility through tight control of the investment. This strategy works best in industries with relatively small fixed asset investments. It works less well in very capital-intensive industries where the modification of a plant may waste substantial parts of the investment. The flexibility through control strategy usually targets full or strong majority ownership⁹⁸ of the local subsidiary.

Within a joint venture, flexibility is always somewhat restricted. Decisions to fundamentally alter a strategy need to go through a lengthy decision-making process in both partner companies. This process often turns out to be very rocky, as the Chinese partner companies may not realize the urgency of a need for change in direction. They may even have a different goal structure than their foreign joint venture partners, or may generally consider the feasibility study a "sacrilege" from which they do not like to divert⁹⁹. The feasibility study, coupled with a relatively strong joint venture partner, can therefore become a big obstacle for a company trying to change direction.

The increased flexibility brought about by tight management control is therefore a major factor in the decision for which organizational structure the company should

⁹⁴ 3: 157 - 159

⁹⁵ 39: 53 - 56

⁹⁶ 3: 80 - 81

⁹⁷ 18: 301 - 302; 39: 340 - 342

⁹⁸ In China, this goal is usually achievable with an ownership share of 95% or more.

⁹⁹ 1: 74 - 75 and 250 - 252

opt. In this study, the advantages and disadvantages of joint ventures compared to wholly foreign owned enterprises are not discussed in detail. The relevant point is to see the interdependence of the decision on these operational variables with the rest of the decision-making process. Depending on the data analysis and risk reduction approach, different levels of flexibility are required. The most important way of achieving flexibility is via the project size, and the strength of management control. Thus, an operational success factor becomes an important strategic variable.

Many companies share the notion that tight control increases flexibility¹⁰⁰. Therefore, management control was also often cited as one of the *sine qua non* conditions of negotiations¹⁰¹. With a wholly foreign owned enterprise, “the company keeps its option to restructure completely open”, thus achieving a maximum level of flexibility¹⁰².

4.3.1.2 Acquiring outside knowledge

Acknowledging that the company does not have sufficient expertise to make a certain decision is the first step in the right direction. Where to acquire expertise is the next critical decision to make. Companies 2 and 7, both internationally well known multinationals, acknowledged that they did not know enough of the market and therefore turned to expert advice from outside. Whereas one of them organized their market intelligence operations themselves by hiring individuals, the other relied on established consulting firms¹⁰³. Others followed a similar approach, as few companies relied entirely on internal sources for market data¹⁰⁴.

Those companies that have little emerging market experience and, as yet, no ongoing operations in the field, have to rely nearly exclusively on outside talent. In such cases, attention should be given to the integration of those new employees into the main corporation¹⁰⁵. Especially the important bridging function of a trustable relationship between corporate center and local operations is difficult to establish if none of the local decision-makers has strong headquarters support, built up through personal connections.

¹⁰⁰ 9: 48 - 49; 15: 197 - 199; 40: 140 - 144

¹⁰¹ 20: 38 - 39; 39: 609 - 611; 40: 294 - 296; 41: 174 - 178. What percentage of control of a joint venture is necessary to be really in control is controversial and discussed in other studies.

¹⁰² 42: 23

¹⁰³ 2: 119 - 121; 7: 160 - 161

¹⁰⁴ 9: 59 - 62; 18: 172 - 173; 39: 335 - 338

¹⁰⁵ 11: 94 - 95

Very precise and informative outside knowledge often comes from friendly multinationals, who have entered the market earlier but work in a different industry, thus not being competitors but sometimes even business partners, linked through supply contracts. Senior managers of company 41 realized after such talks with other firms from the same country that they had to change their China strategy radically and take decisive action¹⁰⁶.

4.3.1.3 Adapting the strategy

The China manager of company 41 stressed the danger that the corporate leadership might try to impose a global strategy on the local market. He outspokenly proposed the notion that a Western strategy is seldom suitable for an emerging market like China. He saw another, related problem if corporate leaders have expectations of very high results that should be achieved very quickly¹⁰⁷.

Both notions can be summarized as a requirement for corporate decision-makers to take into account that local conditions may be different from that of the home market and that strategies, as well as their execution, will therefore have to be adapted.

An example would be the divisional strategy, which, in the early stages of market entry, should not be applied rigorously to a new emerging market. In China, many companies operate with regional headquarters or holding constructions but do not do so in other, more established, markets. The divisional strategy has developed over time in Western markets and therefore fits well to Western circumstances. It should not be concluded that it would therefore also suit the Chinese market environment¹⁰⁸. A company might decide to adopt it eventually but it should not automatically do so without careful analysis whether it would fit the company's requirements in the market.

4.3.1.4 Summary of the Development Phase

In the review of the decision process literature, it was shown that, in the Development Phase, companies search for, design, and develop investment alternatives. This dissertation is not intended to be one more detailed behavioral

¹⁰⁶ 41: 320 - 321 and 556 - 559; argument supported also by 42: 183

¹⁰⁷ 41: 962 - 966; argument also supported by 42: 484 - 487.

¹⁰⁸ 41: 1050 - 1051

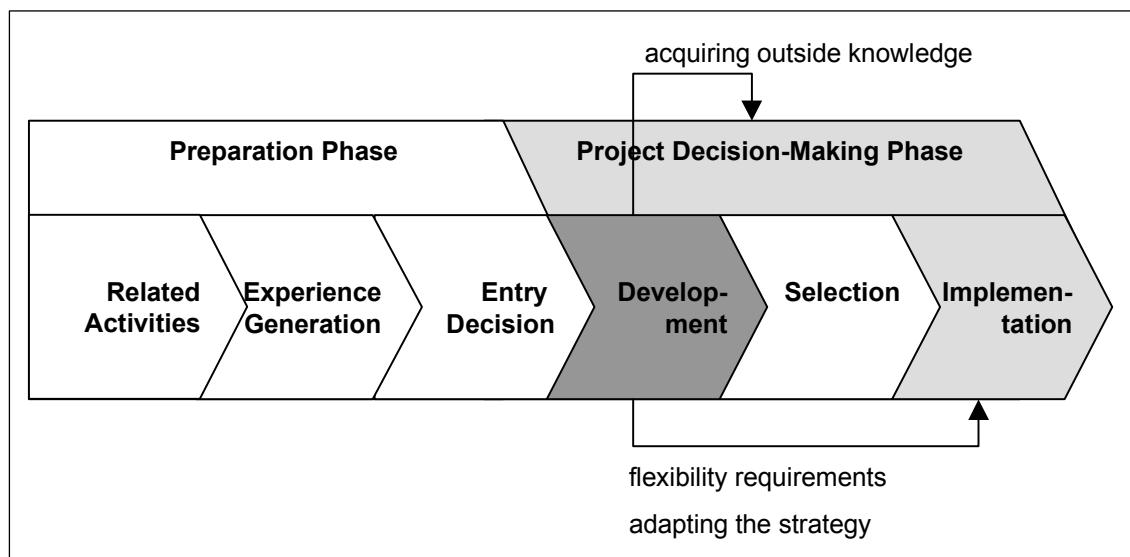
study of this phase, but focuses on uncovering those variables that would be of significance for investment decisions in emerging markets.

One such variable was **flexibility**. It could be shown in the discussion above that companies investing in the emerging market of China try to design their strategy as flexibly as possible. They do so by either keeping investment size small, or by focusing on complete control of their subsidiary. The strategy chosen has its main effect on the implementation of the project, as the second arrow in figure 4.6 indicates.

During this first section of the Project Decision-Making Phase, companies that are not yet well experienced in the target market are likely to **acquire outside knowledge** to help their decision process. They do so by working together with consulting firms or friendly, experienced companies. Through the acquisition of such outside knowledge less experienced companies can thus partly make up for a shorter or less intensive Preparation Phase. This new knowledge has an effect on the whole Project Decision-Making Phase, as a better basis for intuition-based decision-making will help the company in its project development, selection, and implementation efforts.

The third major characteristic uncovered during the Development Phase was many companies' willingness to **adapt their global strategy and organization** to the requirements of the local market. By doing so, the company paves the way for a smooth implementation of the investment project in line with the market requirements, rather than according to the dictate of an organization whose main history is based on experience gained in developed markets.

Figure 4.6: Development Phase



4.3.2 Selection Phase

During the Selection Phase, the company evaluates one or more alternatives and decides for or against the investment project. The phase also comprises an authorization process, which culminates in the decision to implement the project under review.

The Selection Phase is the core of the whole decision-making process because here the actual decisions are being made. The company has to decide on the details of its market penetration strategy. It has to decide for a specific alternative and it has to decide how the project must be structured.

Some important decisions will already have happened before this phase and others will happen after it. The decision of whether to invest through the vehicle of a joint venture or wholly owned subsidiary is one that will have been made during the Development Phase, where most of the negotiations have taken place.

In this example it becomes evident why the phase model is being criticized in the literature. As pointed out earlier in this dissertation, the phase model is used because it is the most useful model to structure the discussion of important variables. Thus, the discussion of how decisions are made happens mainly in the context of the Selection Phase. It should be acknowledged, however, that while most important decisions actually happen during this phase, other decisions happen outside of it. These other decisions will be carried out in a way similar to those discussed here, which is why a detailed differentiation is not necessary.

4.3.2.1 Evaluation method

The most defining characteristic of the Selection Phase is the way the company researches and analyzes data and what it does with that data. The instability of the market and the unreliability of market data were core defining variables for emerging markets as discussed in chapter 1. The ways companies deal with data are therefore central elements of their decision-making processes for emerging markets.

The interviews have shown that there are principally two ways companies deal with the problem of insufficient supply of readily available data. The one group tends to take this as a given fact and tries to do without the same data quality and quantity as they would require for decision making in more mature markets.

The second group of companies is less willing to make such concessions but, quite the contrary, believes that extensive data research may help reduce the risk and uncertainty inherent with entry into an emerging market.

Few companies follow any of these two approaches to the extreme but with most companies, at least during the decision-making process for their first investment project, one of the two predominates.

Intuition based analysis

Companies that follow an intuition based model of decision making rely on hunches or gut feeling rather than hard data. Hard data about local competition is often unavailable. But one needs to know how the competitive environment looks in order to draft the right strategy for the market. Therefore, a hunch-based understanding of local companies is very important, as several companies have pointed out¹⁰⁹.

Many multinationals make the first decision to get going and start an investment project out of gut feeling, rather than as a result of a sophisticated scenario analysis¹¹⁰. That does not mean that gut feeling would be an ongoing characteristic of the decision process. Even though the first decision may have

¹⁰⁹ 2: 135 - 136; 15: 137 - 139; 40: 487

¹¹⁰ 3: 59 - 60

been based largely on intuition and gut feeling, decision making for subsequent projects will most probably follow a much more standardized process¹¹¹.

The reasons why sophisticated multinationals tend to rely on something as frowned-upon as gut feeling is quite obvious, nevertheless¹¹². Often data is just not available in the sufficient quantity and quality as required by sophisticated decision-making models.

Company 3 expresses this thought the following way: "Even if you put 200 people on the road, it is still very difficult to precisely forecast future growth and to know the competition very well"¹¹³. The interviewee continues in stating that this does not mean no data research would be undertaken. Quite the contrary, the company does need to come up with as good an understanding of the current situation as is possible and economically reasonable. The "80/20 decision rule"¹¹⁴ may be used to judge whether the costs of data generation and the benefits of it are in a reasonable relation¹¹⁵.

The interpretation of data from emerging markets is the most critical part of any analysis phase. Here gut feeling becomes important even for those companies that invest heavily in data generation efforts. The decision-maker is confronted with some (sometimes-inconclusive) data and must then make sense of it to make a decision that is neither clearly nor in a straightforward manner supported by hard facts.

Some companies also put intensive data gathering measures into perspective by coming to a conclusion similar to the following one: "15 years ago nobody knew how the market would develop"¹¹⁶. Nobody knew for sure but the decision-makers of this company (4) had the insights to guess at least the direction and potential size¹¹⁷. Based on this gut feeling of future development they invested heavily, a strategy that would eventually pay off handsomely¹¹⁸.

¹¹¹ 3: 64 - 66 ("Now it's just like in any other country with a very standardized process").

¹¹² In most interviews it could be clearly sensed that interviewees were uncomfortable to admit that they or their companies had relied on gut feeling. Some interviewees expressed this quite explicitly like the following quotation shows: "**unfortunately** gut feeling is very important [author's stress on unfortunately]" 12: 191.

¹¹³ 3: 135 - 136

¹¹⁴ 3: 135 - 136

¹¹⁵ 39: 1053 - 1056

¹¹⁶ 4: 211 - 212

¹¹⁷ Company 15 argued in a very similar way that some quantitative analysis was done but that "it's really also feeling that we are here" 15: 260 - 261

¹¹⁸ Company 4 has is co-owner of one of the largest joint ventures in Shanghai.

Gut feeling is not something that tends to be restricted to those managers who are in direct contact with the market and may thus be assumed to have so many different data sources that intuition of what should be the right decision develops automatically. A local manager of company 12 explicitly notes that their European headquarters do not delegate a lot of gut feeling to the region. Instead, the corporate decision-makers exercise gut feeling themselves, which may materialize in a frame within which the local managers must operate. The borders of this frame of operations are based on what the corporate decision-makers feel is appropriate¹¹⁹.

This latter finding has huge implications on the necessity for keeping corporate decision-makers well informed with what happens in the market. Only if their understanding is deep and precise, will their intuition be useful in steering the company into the right direction¹²⁰. This is one of the reasons why the Preparation Phase is so important. During that phase decision-makers should have opportunity to familiarize themselves with the market.

For the same reason feedback loops through which information is being channeled up to corporate decision-makers, as well as practical work experience gained in other markets (cf. chapter 4.2.), are of tremendous value to corporations. This argument is strongly supported by company 40, a manager of which pointed to his firm's 100 year long experience in Asia, which included strong positions in countries with large Chinese communities. Such experience is a very good basis for gut feeling and will therefore - together with some quantitative material - form a well respected foundation for insightful decision-making¹²¹.

If such extensive knowledge in the center is not available, forward-looking CEOs will acknowledge their inability to accurately judge the development of the local market and will, therefore, delegate substantial decision-making authority to the target market. This was mentioned as the dominant approach in company 43, for example¹²².

If one looks at the intensity of data generation efforts, one has to differentiate between two kinds of data. The data accumulated and analyzed for the decision of whether or not to go ahead with the investment project must be distinguished from

¹¹⁹ 12: 201 - 203

¹²⁰ An interviewee of company 39 agrees with this notion but adds that intuition very much depends on the people. Bad local managers would not come up with great intuition based decisions - 39: 932 - 937

¹²¹ 40: 997 - 999

¹²² 43: 347 - 349

the data needed for deciding of what, exactly, should be the characteristics of a particular project. Company 16, for example, came very quickly to the decision that they wanted to start a major investment project but then took much more time to closely evaluate which partner to choose and where to be based¹²³. Company 19 followed a similar approach, where the board released the capital required for market expansion after a relatively brief investigation phase. The release of the money was not yet related to any concrete investment projects. These were later specified by the different SBUs, which researched the market themselves and followed different routines to decide on actual projects¹²⁴.

A board member of a large German multinational, unhappy with his organization's reluctance to enter China in a speedy and decisive way, expressed his opinion in regard to detailed business plans for such an emerging market in the following way: "Either business plans change or heads are being changed"¹²⁵.

A senior manager of company 40 expressed a similar appeal for faster decision-making by his managers. He said, "A good manager differentiates himself from a bad one by being willing to accept a certain level of risk and does not require another two market studies, which will take another eight months of indecisiveness, thus eating up not only large sums of money but also opportunity costs in lost opportunities for market entry"¹²⁶. He later returned to this statement and argued that senior managers in large corporations have a level of remuneration which compensates them for making decisions that carry a certain risk, rather than acting like bureaucrats. He continued to argue that in today's world speed was often more important than fine tuning certain strategies, as long as flexibility was kept in mind to be able to later adjust to changed market conditions¹²⁷.

Even in multinationals where formal decision-making processes predominate, managers realize that in emerging markets quantitative data seldom carries the same weight as in more established ones. The processes require detailed data research, but more weight is given to the qualitative interpretation of this data¹²⁸. This, of course, should be kept in mind when the scale of data analysis efforts is being decided. Smaller organizations tend to be able to alter standard decision-

¹²³ 16: 13 - 15

¹²⁴ 19: 166 - 168

¹²⁵ 39: 400 - 403

¹²⁶ 40: 1017 - 1022

¹²⁷ 40: 1209 - 1213

¹²⁸ 41: 392 - 393

making processes somewhat more easily and can therefore more openly rely on qualitative data, intuition and gut feeling rather than hard data¹²⁹.

Extensive research

While some companies stressed the importance of intuition during their decision-making process and therefore did not pursue elaborate data research efforts, others followed the opposite approach. Company 1, for example, stressed their reliance on very detailed return of investment calculations, project analyses, and feasibility studies¹³⁰. Company 9 also relied heavily on extensive data analysis, having a group of people who compiled for one and a half years as much information as they could get hold of. Additionally, they compared their internal findings with that of competitors and hired a consulting firm to further support the final decision of market entry¹³¹. Only with that considerable amount of information did the company feel “reasonably comfortable that they had a good outline of the market” and would thus go ahead with a major investment project¹³².

Most companies agree that information in China is not readily available and official sources are not always trustable and dependable¹³³. For some companies, as shown in the preceding chapter, the limited available information together with relatively small-scale market research will suffice. These tend to be those companies that have had a relatively long preparation phase. During this phase, the company was able to acquire knowledge and data on which their managers were later able to base their intuition for fast and accurate decisions.

Others, however, try to make up for the lack of publicly available information with substantial own research efforts¹³⁴. These efforts are usually targeted at decreasing the project's risk. In the case of company 18, this proved to be a useful approach. Admittedly, the company's most recent investment project could have been started a year earlier, had the company forgone a detailed market study and analysis of development options. However, the detailed study of the market resulted in substantial changes to the initial strategy, leading the local manager to the conclusion that it was time and money well spent. The organizational structure and product mix planned in the beginning would not have

¹²⁹ 42: 24 - 26; company 42, for example, is a considerably smaller multinational than company 41.

¹³⁰ 1: 303 - 305

¹³¹ 9: 66 - 69

¹³² 9: 70 - 72

¹³³ 41: 131 - 133

¹³⁴ 9: 77 and 94 - 96; 42: 79 - 81

been as well suited to the local conditions as the option, which was implemented after that extensive research period¹³⁵.

The same company that praised the benefits of a detailed analysis, however, was also aware of its shortfalls. The company had investigated its investment project during a phase of general optimism and even euphoria in regard to the Chinese market. It proved to be impossible to differentiate between well founded optimism and the prevailing sentiment that everything was possible and the market could only develop in one direction, upward. Thus, euphoria was reflected not only in the gut feeling of managers but also in the quantitative studies of external consultants¹³⁶.

Apart from excessive euphoria, another problem occurs if those people who gather the data are not the same as those who analyze it and draw conclusions. People from the field usually know very well how reliable their data sources are and will be able to take this into account when making their recommendations.

In some companies, however, data is gathered in the field and evaluated by central units of the corporation. A manager of company 42 observed, for example, that his company's controllers sometimes presented model results with "several positions behind the comma"¹³⁷. This often creates a deceptive feeling of confidence in a model, which is not warranted by the underlying data. In emerging markets, more so than in more stable ones, the rule of thumb of 'garbage in - garbage out' is very relevant. The data research and analysis process must assure the proper interpretation of seemingly hard data.

It should be noted that this description strongly resembled the Internet bubble in the run up to the year 2000. During that time, one market study after the other, and seemingly never-too-optimistic research reports of the most respected investment banks, painted a picture of escalating efficiency gains and Internet related growth. Just like in China, during the Internet bubble companies plugged the numbers of such reports into their decision models, not always realizing that the reports themselves were built on very shaky ground. Ex-post the difference between biased intuition and biased quantitative analysis does not appear to be very large. In both cases, decision-makers need to be well aware of the possibility of such bias and act accordingly.

¹³⁵ 18: 170 - 172

¹³⁶ 18: 522 - 526; Something very similar happened during the boom-and-bust cycle of Internet related stocks.

¹³⁷ 42: 354 - 358

As mentioned earlier, gut feeling is generally not regarded as an activity suitable for large multinationals. Therefore quotations like “we try to avoid gut feeling” are rather frequent¹³⁸. Some companies, as shown above, accept the necessity to sometimes rely on intuition, however, and even focus on the positive aspects of that approach, especially the gain in speed. Others disagree and state that, “if you really feel uncertain about some aspects, you are required to gather data to support your judgment”¹³⁹. This is also what company 19 did by trying to incorporate all available data material in their decision-making process¹⁴⁰. The company did, however, realize that the output of models based on data from the Chinese market was not as reliable as that based on more stable and better known markets.

Those companies that were already present in China with some sort of local office had a clear advantage in data generation efforts when they started their data analysis process. Company 9, for example, did not have such a local office and spent one and a half years on their intensive data research phase. In contrast to that, another multinational which did have a local presence in mainland China found two to four weeks of intensive research sufficient, because of the amount of data they had already collected earlier with the help of their office in Hong Kong¹⁴¹.

Few companies were willing to make a final judgment on whether their data research efforts were sufficient, too large, or too small. Such evaluation is, even theoretically, very difficult as extensive data research has a risk reduction function, for which the corresponding trade off is a reduction in profit potential due to high data generation and opportunity costs¹⁴².

4.3.2.2 Dealing with risk

During the Selection Phase of the decision-making process, the company has to decide how much risk it is willing to carry and how it chooses to reduce the risk it takes on. Where to position the company on a risk-reward curve is a decision with significant impact on the company's performance.

Company 39 tried to manage risks by keeping investment sums low, thus concentrating on joint ventures, rather than trying to establish wholly foreign

¹³⁸ 12: 28

¹³⁹ 12: 328 - 331

¹⁴⁰ 19: 251 - 252

¹⁴¹ 39: 330 - 333

¹⁴² Conclusion based on 89: 386 - 389

owned corporations.¹⁴³ Other companies manage the risk by limiting the amount earmarked for high risk countries like China to a certain percentage of the yearly or total investment volume, or by keeping reserves high enough to be able to absorb write-offs in case the investment turns sour¹⁴⁴.

While reducing risk is a valid strategy, companies should know where to stop, to avoid being too close to the little risk / little potential side of the risk-reward trade-off curve. As company 40 points out: "You can never avoid mistakes. If you want to try not to make any mistakes, China is certainly not the place to be in because you will be making mistakes in this country. What is important, however, is to recognize mistakes and correct them in time"¹⁴⁵. Thus, risk is closely related to flexibility. The more risky a strategy is, the more flexible it should be, as flexibility can help balancing risk. A company that is flexible enough to quickly adapt to new conditions will have a much easier life in a fast moving, difficult to forecast, and, thus, risky environment than one which has to stick to a solution it once implemented¹⁴⁶.

4.3.2.3 Location of decision-making authority

A fundamental question within the Selection Phase is where to base the decision-making authority. In all multinationals, the ultimate authorization for large investment projects is given by the company's board, at the corporate headquarters. Companies do vary, however, in the extent to which actual decision-making authority is delegated to the region. One possible approach uses very centralized decision making, where regional operations are only used in the data gathering phase. In another approach, actual board functions are performed in the region, *i.e.*, through regional headquarters, or the opinion of local management is given so much weight that one can talk of actual local decision-making authority¹⁴⁷.

The focus in this chapter, again, is on the decision-making phase of an investment project itself. The extent of operational decision-making is only a side theme in this study and is discussed in more detail in papers focusing on operations. It can

¹⁴³ 39: 219 - 222

¹⁴⁴ Company 41 is an example for the former, and companies 39 and 42 for the latter strategy - 41: 389 - 291; 39: 92 - 94; 42: 496 - 498

¹⁴⁵ 40: 1224 - 1226

¹⁴⁶ Argument supported by 40: 1230 - 1231

¹⁴⁷ Company 19 is an example of an organization with strong regional headquarters that perform even the most senior decision-making tasks. 19: 214 - 218.

be said, however, that companies by and large grant a high degree of operational decision-making authority to local managers. This is even more so the case when a joint venture is not clearly dominated by one partner¹⁴⁸.

In company 5, for example, the regional president has much authority when strategies are discussed. This reflects the trust between him and the corporate board, a variable that was discussed earlier¹⁴⁹. Delegating decision-making authority to managers in the local market is not risk free, but it may well be the lesser risk, compared with entrusting decision-making authority on potentially insensitive and, in the target market, inexperienced corporate executives¹⁵⁰.

Companies with a strong global strategy tend to concentrate decision-making authority in the headquarters. But even such companies rely on local managers for particular decisions with a strong operational side, e.g., product launch decisions¹⁵¹. This approach can be summarized as 'think global - act local', whereby local particularities should be considered appropriately¹⁵².

As already mentioned above, the degree of local decision-making authority is influenced by the level of market knowledge in the headquarters. Often, a sensible decision is to decide at the headquarters only if the top decision-makers have enough insights into local conditions. If not, even strategic decision-making authority should be partly delegated to the market¹⁵³.

Even if there is some market insight within the top levels of a corporation's management, it may not be sufficient if the decision-making process involves too many committees and people. In an emerging market like China not everything is transparent and some issues can only be understood correctly after considerable investigation. Thus, one senior manager of company 41 was happy that his company did not involve middle management, and thus potential doubters, in the initial project decision-making process.

Instead, the company concentrated decision-making authority on one board member and the local manager¹⁵⁴. The two pushed in the same direction. The local manager drafted the strategy and the board member made sure that it was in line with requirements of the global organization. Company 40 argues similarly by

¹⁴⁸ 6: 22 - 23

¹⁴⁹ 5: 12 - 13

¹⁵⁰ 41: 997 - 999

¹⁵¹ 12: 289 - 291

¹⁵² 18: 506 - 507

¹⁵³ 39: 997 - 998

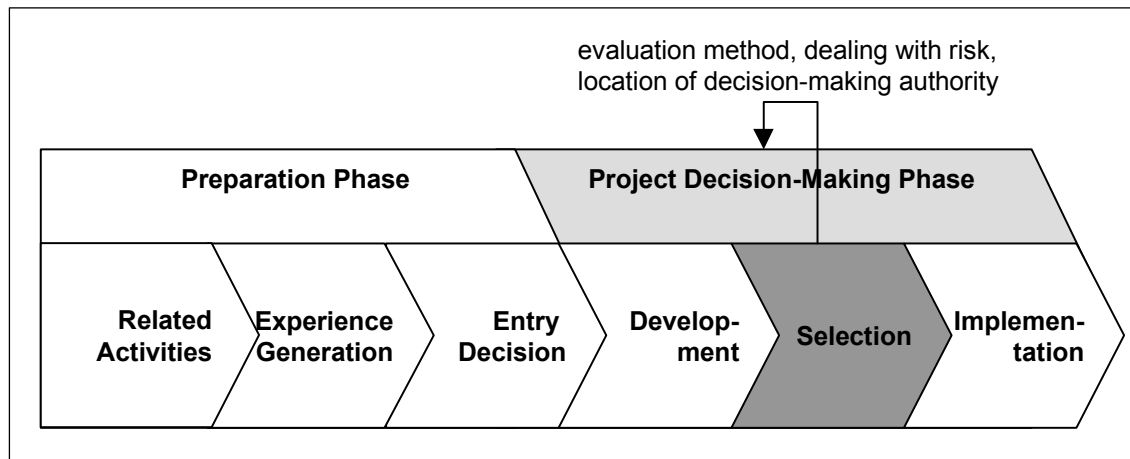
¹⁵⁴ 41: 667 - 672

saying that any large organization has to work hard to see that bureaucracy does not slow down the operations too much. The interviewee's own company therefore tried to limit the number of committees that had to be consulted and tried to keep decision-making processes as short and, thus, as fast as possible¹⁵⁵.

4.3.2.4 Summary of the Selection Phase

The arrow in figure 4.7 indicates that all of the three variables in respect to the Selection Phase, which were discovered during the field research, have an impact on the whole Project Decision-Making Phase.

Figure 4.7: Selection Phase



The most important of these variables was the choice of an **evaluation method**. In the discussion of this chapter, it was shown that there are two basic evaluation methods, namely an intuition-based, and an analysis-focused approach. The intuition-based approach is clearly faster, as less time is spent for data generation purposes. The importance of speed within the decision-making process will be discussed in the summary of chapter 4.3.

The study did not analyze whether companies following a more analytical approach, involving heavy data generation methods, or such relying mainly on intuition, managed to achieve more accurate results. There are strong indications, however, that given the difficulty of gathering reliable data and given the uncertainty of future developments, intuitive decision-making, based on relevant and significant experience acquired during an earlier preparation phase, may be best suited for an emerging market environment.

¹⁵⁵ 40: 1205 - 1209

The choice of an evaluation method affects the whole decision-making process, insofar as it is the main leveler with which the speed of this process can be influenced. It impacts the Development Phase, as an analytical approach will stress the development of valid alternatives stronger than an intuition-based approach. It also impacts the Implementation Phase, as the control of project performance will, at least initially, by and large follow the way the company reached the decision to invest in the project.

The two other variables discussed in this chapter were the methods of **dealing with risk**, and the location of decision-making authority. The research has shown that the first was closely related to the previous discussion about flexibility, as flexibility is a major way to decrease the “riskiness” of an investment project in an unstable environment.

The importance of relevant experience of strategic decision-makers was stressed in the discussion of **decision-making authority**. The closer to the market decision-making authority is delegated, the better understanding decision-makers will have of it.

However, there are often good reasons why corporate centers should not delegate substantial decision-making authority. These include the importance of pursuing a global strategy, as well as issues related to trust, competence, and incentive structures of local managers. Thus, the actual path that a company should follow will depend strongly on individual circumstances. The discussion here has shown why delegation of decision-making authority might be a useful way of improving decision quality, rather than giving explicit recommendations about its degree.

4.3.3 Implementation Phase

During the Implementation Phase, the company carries out its decision and founds a new investment project. This phase comprises, on the one hand, activities related directly to the investment project under consideration. On the other hand, the establishment of new organizational units may also have repercussions on the whole organization and warrant changes in the corporate organization.

As was shown in the literature overview, most studies on decision-making processes do not focus on the Implementation Phase as it comes only after the actual decision has already been made. This dissertation is different from these investment project focused studies, insofar as the focus here is on the whole

process of market entry and penetration and not only on one particular project decision-making process.

By pursuing such a comprehensive research perspective, the importance of the Implementation Phase becomes apparent. It is connected to the rest of the decision-making process through feedback and learning loops. The actual implementation of an investment project generates a large amount of experience, which can be put to very good use in subsequent projects, as well as other projects that are already in the operational phase.

One example of how such learning effects can be reaped is the involvement of managers with experience from the company's initial investment project in decision-making processes for subsequent ones. Even if other organizational units pursue new projects, several characteristics will remain the same and the learning generated through the earlier implementation of investment projects should be of good use.

4.3.3.1 Organization and knowledge transfer

To be effective in the target country, several multinationals realize that apart from adapting their strategy and decision-making process, they also need to adapt their organization. A company should be organized so that it can best fulfill its goals. In emerging markets it needs to allow for fast decision making and efficient learning.

The most frequent organizational change implemented by a number of companies, at least during the early stages of market entry, was to give China a direct link to the group's general manager¹⁵⁶. Thus, decisions could be authorized quickly and no further layer of management would slow down development speed. This direct link was implemented in a variety of ways, which was sometimes via a formal structure, but more often using an informal agreement within the organization¹⁵⁷.

The second most frequent change in organization implemented by survey companies were to organize China – again, mainly during the early phases of market penetration – under one country manager, local headquarters or in a company-wide holding structure. Thus, SBUs conceded power to a country organization which was responsible for the buildup of local operations, the smooth transfer of knowledge throughout the local company, and improvement of the

¹⁵⁶ Examples include 3: 52 - 52; 39: 29 - 41 and 206 - 207; 40: 1276 - 1279 and 1283 - 1288; 41: 674 - 676 and 1053 - 1057

¹⁵⁷ A good example for the latter case: 12: 34-36; 41: 1044 - 1049

multinational's bargaining position towards local enterprises and government institutions through speaking with one voice and bundling investment resources¹⁵⁸.

Also matrix-wise organized multinationals, like company 7, tend to adapt their organizational form for the Chinese market. In this particular case by dividing the country into regions, for each of which a different strategy is designed¹⁵⁹.

Once the company's position in the market has strengthened, the individual divisions start to have significant business on their own, and day-to-day business rather than an aggressive expansion program becomes a priority, the organization may revert to more normal forms of organization¹⁶⁰.

In multinationals organized along strong divisional lines, it is often a special challenge to allow for knowledge transfer even within the parent corporation. Companies traditionally organized according to strict divisional lines sometimes do not realize the potential of transfer of market knowledge. Such a lack of cooperation amounts to a waste of knowledge resources, which should be avoided. Company 15 strongly expressed the importance of such cooperation between its local subsidiaries, extending beyond knowledge exchange to the sharing of their sales force¹⁶¹. Such cooperation is, of course, more practical for focused companies that do business in closely related areas than it is for more heterogeneous multinationals. Nevertheless, some degree of market knowledge remains transferable even in a conglomerate.

The sharing of market knowledge can reach from the specific to the general, leaving enough room for synergies to be utilized. Company 19, for example, sees the responsibilities of its regional headquarters in a way similar to how others see the responsibility of their country holding company. Such organizational units often have as a main function the coordination of personnel management, financing, tax optimization, and building a network with partners and the government¹⁶².

In companies that do not have organizational structures allowing for the easy flow of information, more subtle ways of knowledge transfer predominate. This happens mainly through reports sent to the headquarters, but, equally importantly,

¹⁵⁸ 14: 100 - 103; 18: 497 - 500

¹⁵⁹ 7: 95 - 97

¹⁶⁰ 19: 41 - 45; 39: 557 - 559; 41: 590 - 592

¹⁶¹ 15: 70 - 71

¹⁶² 19: 45 - 48

through direct communication and meetings between regional and local managers¹⁶³.

4.3.3.2 Reaction to market change: timing

Timing within the Implementation Phase is a concept that is neglected in the literature but very important nevertheless. In a rapidly developing emerging economy, the environment may change quickly and the conditions on which decisions were based may have to change accordingly. If this is the case, the firm may need to adjust its own position and decisions in order to keep in step with the environment. This process can be called “reactive timing”.

Many late entrants to China started to flood into the market in the early 1990s. This flow of direct investments slowed down significantly during the late 1990s, when over-capacity in China, and a deterioration of China's competitive position in the face of large-scale devaluations of the currencies in neighboring countries, became problematic.

As a result of these changes in the environment, many firms slowed down their investment plans, in order to avoid over-expansion at the wrong moment. However, there are also many companies, like company 40 for example, which started to invest even more during the crisis by purchasing more assets, notably the shares of subsidiary companies from their joint venture partners. This acceleration strategy can be explained by the urge to keep in step with the market.

During the time of the original investment, joint ventures were often the only possible form for investment. Joint ventures with local partners offer benefits such as local knowledge and market access. In an increasingly more competitive market, these benefits became less important over time and the drawbacks of operating international joint ventures – like conflict on issues related to strategy and slow decision making – became more problematic. Realizing this mismatch, some companies would invest speedily the moment the opportunity arose, particularly given depressed asset prices stemming from the Asia crisis of 1997/98. For such quick decisions, timing is essential and the company must be prepared to react quickly to a changed market environment.

¹⁶³ 18: 217 - 218 and 231 - 233; 19: 201 - 202 for the informal exchange of knowledge and company 43: 338 - 340 as an example for a multinational that has built an extensive China related knowledge base at the headquarters.

During the Implementation Phase, the first bits of actual data generated in the market should be used to immediately check for discrepancies in the current project's development plan. Differences and unexpected movements have to be analyzed immediately to avoid a development in the wrong direction.

In an emerging market environment, plans are known to be unreliable, thus strategies relying on such plans should be flexible, as pointed out above. This flexibility must now be applied to the new project through a willingness to implement radical changes if actual market behavior deviates from what was forecast. Such changes will only work if the decision-making processes are fast and efficient. That is why the importance of direct communication channels, insightful management and control of local operations was pointed out above.

4.3.3.3 In-depth market knowledge

In relation to the Implementation Phase, two feedback loops, which make learning processes possible, could be observed that are of importance to the decision-making process at large. Compared with the Preparation Phase, actual direct investment projects can be considered as 'market knowledge generation on steroids'. By implementing such a project, the company generates a wealth of actual, directly applicable knowledge that it can use for new investment projects (feedback to the Development Phase), as well as to improve the existing one(s) (feedback within the Implementation Phase).

The more direct way to improve decisions is to delegate decision-making authority to the region, rather than feeding information to headquarters. Therefore, many companies rely heavily on local management for their expansion strategy in the target market. In the case of a previously planned, large-scale market penetration strategy, rather than a natural, opportunity-dependent growth path, feedback to the headquarters is essential to make use of the newly generated market knowledge.

Soon after a project becomes operational, the company can analyze the difference between planned and actual results. This company-specific knowledge of what is possible within the market will help improve planning activity for future projects. An actual investment project helps here in two ways: Firstly, through insights of what is achievable and secondly, by having a much larger number of people in the market than earlier. All of these people can be used to help improve the decisions for further investment projects. The newly found market knowledge and experience needs to be channeled back to decision-makers to make use of this effect.

4.3.3.4 Generation of experience for new markets

Implementing an investment project has also positive side effects on the company's efforts in other emerging markets as such projects increase the total stock of emerging market experience within the corporation. An example for this relationship was China experience that company 42 could later apply in India.

A theoretical example illustrates the value of such intra-organizational learning loops. Let us take, for instance, a company with mainly European operations, which considers market entry to Taiwan. Given Taiwan's advanced stage of development, the company considers market entry as low-risk, not least because a lot of data is available for ready analysis. Putting this data into a scenario-planning model, the company calculates a negative net present value for the proposed investment project in Taiwan.

As a stand-alone analysis, the investment project would have to be rejected and the company would have to decide against market entry. Using the arguments proposed in this chapter, the company might, however, reach a very different conclusion.

The arguments above imply that experience gained in Taiwan would be highly relevant to a possible later market entry into mainland China. If the company considered mainland China as being a potentially very attractive market, possibly warranting large scale market entry within a time scale of a couple of years, it would have to calculate the real option values of the benefits of a related market activity described above.

An example of such savings would be reduced costs for head hunters because of a stock of internally qualified managers for the target market. Further savings result from efficiency gains and savings in start-up time due to the general manager's detailed knowledge of the company and headquarters. Still more savings can be realized by efficiency gains through fewer requirements for control and more room for delegation of decision-making authority based on trust.

These gains would have to be weighted with the probability that after building the Taiwanese operations, market entry to China would indeed become a reality, and also the probability that one of the managers of the Taiwan operations would indeed be suitable for becoming GM in mainland China.

If one adds up the real option value of all benefits and side effects, the total NPV may very well exceed the negative NPV of a stand-alone consideration of the project, in which case market entry to Taiwan suddenly becomes an attractive

option. Thus, the company may want to decide in favor of such market entry because of the knowledge and experience generating side effects of increases in emerging market experience.

4.3.3.5 Summary of the Implementation Phase

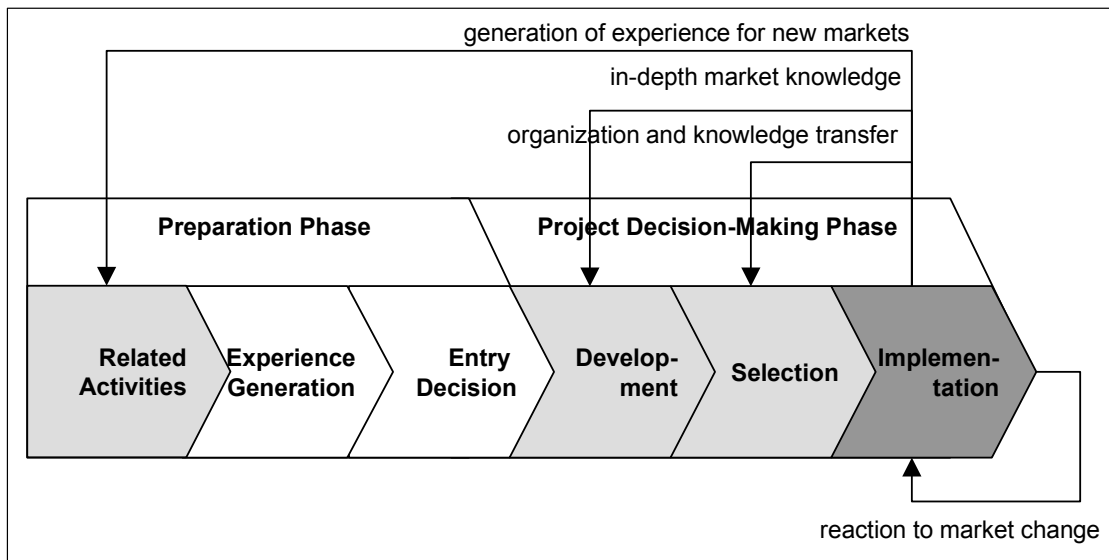
Figure 4.8 shows the four main variables within the Implementation Phase and their influence on the rest of the decision-making process. The feedback from the Implementation Phase to the Related Activities Phase through the **generation of experience for new markets** was discussed in the preceding section.

The variable of **reaction to market change** mainly impacts the Implementation Phase itself, as it is a reaction to new developments within the market. This impact will be the larger and more useful, the more flexible the project was at start-up.

In-depth market knowledge has implications for the whole Project Decision-Making Phase, as such experience will improve decision-making for the current project, as well as those processes directed to subsequent ones.

It was also argued that the Implementation Phase has an impact on the **organizational design** and the **knowledge transfer** processes within the company. This relationship is expressed by the same arrow as that for the in-depth market knowledge, as a modified organizational structure will impact the whole Project Decision-Making Process. A China headquarters, for example, could act as a knowledge center for all group companies, as well as for divisions that have not yet invested in the country. Such central management of relevant information will potentially speed up new market entry projects, as it will speed up data collection efforts of inexperienced divisions and will provide them with access to decision-makers whose intuition has already been proven in the target market.

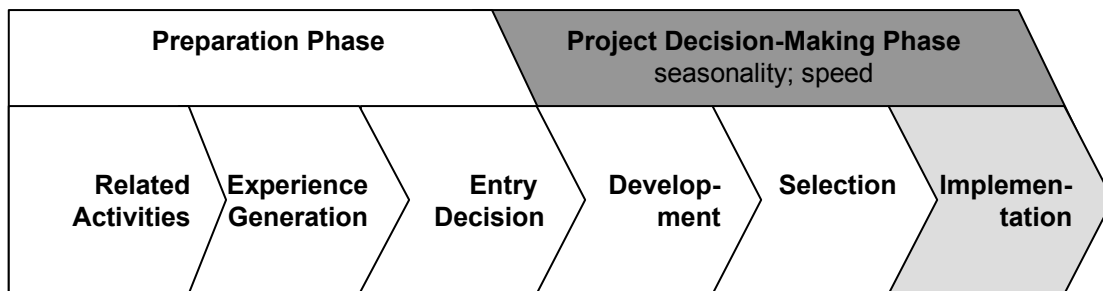
Figure 4.8: Implementation Phase



4.3.4 Summary of the Project Decision-Making Phase

As a summary of the Project Decision-Making Phase, two variables, speed and seasonality, which characterize the whole phase as depicted in figure 4.9, should be discussed.

Figure 4.9: Project Decision-Making Phase



4.3.4.1 Speed

In a fast moving emerging market, decision-making speed is a critical success factor. The data that has been researched during the Development Phase can be expected to be outdated in a very short period of time. Thus, successful corporations will try to streamline their decision-making process to avoid undue delays. At the same time it must be assured that scrutiny is not jeopardized. Authorization processes are supposed to shield the organization from damages caused by hasty decisions. Therefore, a company must choose the right mix in

the trade-off between decision-making speed and intensive authorization procedures.

The typical process uncovered by the field research phase is one where the decision process for the first investment project takes substantial time. Companies seldom try to speed up this process at all costs but, rather, concentrate their efforts on negotiating the best deal or deciding on the right strategy. Speed is usually only a distinctively secondary variable during this early stage of large-scale market penetration efforts. Thus, the speed of the decision-making process for the first project does not differ that much from the preceding preparation phase.

The decision-making process for subsequent investment projects is organized very differently, though, and occurs usually much faster. A number of companies followed this path. They took considerable time for preparing market entry and considerable time again for the first Project Decision-Making Phase. Then they strongly stepped up their development speed and invested in a number of joint ventures with very short time intervals, often negotiating several investment projects simultaneously¹⁶⁴.

On the one hand, these speed effects can be attributed to a climbing up on the learning curve of how to invest in China¹⁶⁵. On the other hand, they can be contributed to a closer familiarity with the market and stronger beliefs in the companies' own courage to move ahead quickly and successfully.

Speed depends a lot on the level of trust between the local operations and the headquarters. The more trusted local data sources and recommendations are, the faster decisions concerning the market can be made¹⁶⁶.

Company 19 argued that once the board made a decision to move in one direction, there was no lack of energy any more. Suddenly executives from all over the company managed to pull the organization in the same direction¹⁶⁷. With strong leadership support, optimists have the upper hand in arguments against pessimists, thus improving speed during authorization procedures.

¹⁶⁴ Examples for this process of increasing development speed include 1: 58 - 59; 13: 44 - 45; 19: 195 - 196; 20: 37; 40: 342 - 345; 41: 636 - 637; 43: 41 - 42.

¹⁶⁵ 19: 429; 40: 342 - 345

¹⁶⁶ 19: 286 - 288

¹⁶⁷ 19: 416 - 418

4.3.4.2 Seasonality

“Seasonality” refers to the repetitiveness of experience, likened to nature’s repetition of seasons of the year (Reinmoeller / Chong 2000). It can happen in all phases of the decision-making process and is related to the concept of speed. Seasonality is often seen in institutionalized project decision-making processes when companies follow a due-diligence approach, using the same criteria as employed elsewhere.

These cyclical and often standardized processes may create the impression that FDI decision-making processes were very similar irrespective of whether emerging markets or more stable markets are analyzed (Aharoni 1966, Larimo 1995). This, however, is not true because of the different circumstances of each case. In emerging countries where data is insufficient, usually rigorous market analysis may not be possible, thus strategic decision-making processes are necessarily different from those in stable markets as was discussed in detail above.

Decision recognition within the Preparation Phase occurs only once, while the various feedback loops from the Implementation Phase back to other parts of the decision-making process (*cf.* figure 4.8) show that the other phases reoccur. Such recurrences happen because firms have to keep diagnosing requirements for new investment projects, develop new investment proposals, select and authorize them and then implement them. These recurring decision cycles increase in speed over time due to economies of learning and experience, thus leading to faster decision processes for subsequent projects.

As mentioned above, while a step-by-step development is possible where one project follows another, some companies – especially those with more than one division – may develop several investment projects at the same time.

As a result of ample experiences before its first investment, and also a relatively late market entry which allowed for a lot of learning from the experiences of other firms, company 41 managed to negotiate a series of joint ventures quickly one after another. The firm's productive leisure period had lasted for more than a decade but once the decision was made to become active, speed became top priority (although emphasizing high speed alone would not lead to favorable results).

Part of the success of company 41 and its speedy conclusion of a series of joint venture negotiations was the time invested in the first joint venture, a transaction which took more than 2 years to complete. During this first process, the company's experience was not yet sufficient and it had to act slowly so as to avoid

serious errors. After gaining substantial experience and knowledge, the company was able to increase the speed of its investment decisions processes tremendously because of the repetitiveness of those processes. These repetitive cycles of decisions for individual projects are represented in figure 4.8 by the feedback line from the Implementation Phase to earlier phases in the decision-making process. It is not implied, however, that each decision-making phase will look exactly the same, comprising all possible parts from opportunity identification, development, and selection, to implementation.

Within companies decision-making processes hardly vary, as organizations tend to follow fixed procedures or routines. Such seasonality in routines allows the company to take advantage of efficiency gains through learning and experience, thus increasing speed with each new project cycle. To realize these learning benefits from seasonality, companies may have to adapt their organizational structure when entering a new emerging economy.

For example, different divisions of a multinational company may cooperate extensively during the early phases of market entry by taking advantage of a specific organizational unit (e.g., company 42). They might concentrate the decision-making authority during the early days (and years) of investing in a new emerging market within one division or even person (e.g., company 41). The most frequently used way of promoting cooperation among different units of the same firm in China is through the use of a holding company, which acts as a knowledge pool for the operating environment in China (e.g., companies 10, 12, 39, 40, 41).

4.4 The proposed model

The discussion in this chapter has shown how the six phases of a multinational company's decision-making process for emerging markets are linked through learning loops with one another. Table 4.3 gives an overview of the variables that could be uncovered through the research and that were discussed in detail above.

Table 4.3: The Model's Variables¹⁶⁸

PHASE / VARIABLE	IMPACT ON
Preparation Phase	
1. Productive leisure	• PDM: increases quality
Related Activities Phase	
2. Organizational know-how and learning processes	• PDM: increases quality
3. Alertness to opportunities	• ST: improves timing
4. Experienced managers	• IM: increases speed and quality
Experience Generation Phase	
5. Trusted network of contacts	• PDM: increases speed and quality
6. Experience generation and learning	• PDM: increases quality
7. Awareness of investment opportunities	• ST: improves timing
Project Start-up Phase	
8. Right timing and defining moment	• IM: improves suitability
9. Board level initiative and commitment	• PDM: increases speed
Project Decision-Making Phase	
10. Speed	• PDM: increases speed
11. Seasonality	• PDM: increases quality
Development Phase	
12. Gaining flexibility	• IM: improves suitability
13. Acquiring outside knowledge	• PDM: increases quality
14. Adapting the strategy	• IM: improves suitability
Selection Phase	
15. Evaluation method	• PDM: increases quality and speed
16. Dealing with risk	• PDM: increases quality
17. Location of decision-making authority	• PDM: increases quality and speed
Implementation Phase	
18. Organization and knowledge transfer	• SE: increases quality
19. Reaction to market change	• IM: increases quality
20. In depth market knowledge	• DE: increases quality
21. Generation of experience for new markets	• RA: increases quality for new markets

¹⁶⁸ PDM: Project Decision-Making Phase; ST: Start-up Phase; IM: Implementation Phase; SE: Selection Phase; DE: Development Phase; RA: Related Activities Phase.

4.4.1 Impact on the Project Decision-Making Phase

Many variables in the proposed model explain how a company can increase quality and speed of decision making during the Project Decision-Making Phase. Increased quality and speed of the decision-making process will, in turn, increase the probability of success for the investment projects themselves.

One way for such an increase in quality and speed to happen is through a trusted network of contacts, which can be built up during the Experience Generation Phase. This can be achieved through export activity, business trips, opening of representative offices and similar means. Later, during the Selection Phase, quality and speed can also be achieved through the choice of the right evaluation methods, as well as the most suitable location for decision-making authority.

An additional increase in quality of the Project Decision-Making Phase is achievable through spending the Preparation Phase in a leisurely way, which means giving the company time to develop and acquire experience without focusing too much on development speed. A prolonged and rich Preparation Phase will ideally prepare the company for large-scale market penetration efforts once the time is ripe.

The Related Activities Phase can also contribute to increasing quality in a later stage Project Decision-Making Phase. It does so by creating organizational know-how and learning processes through activities in similar emerging markets. Experience generation and learning activities have a related, but substantially stronger effect during the Experience Generation Phase, when the company is actively doing business with the target region.

Companies that were not able to generate substantial relevant experience during the Preparation Phase will have to acquire outside knowledge later, during the (decision) Development Phase.

In an emerging market, decision-making speed is critically important. In addition to the two methods mentioned above, board level initiative and commitment are crucial to achieving high decision-making speed. Only a strong backing from the board will enable the company to forge ahead into a new emerging market with full speed.

4.4.2 Impact on the Implementation Phase

Apart from the whole Project Decision-Making Phase, the other main influence of the variables in the proposed model is on the Implementation Phase. It was

shown that five variables have an impact on this phase, which comprises the establishment as well as the operation of the new subsidiary.

The first impact goes as far back as the Related Activities Phase, during which the company starts nurturing management talent. People involved in small activities, like representative and sales offices, have time to acquire experience within the market, as well as within the organization. They will thus be suitable candidates for future management positions within a new subsidiary. By staffing the new positions internally, the investing company may well save time for search and training, as well as improve quality, since the managers will have a great deal of relevant experience.

By timing the decision for the start of significant investment projects rightly, the company improves the chances for success of the new venture, as there will be a fit between the market's requirements and the company's capabilities. This relation is expressed by variable 8.

During the Development Phase, the two variables "gaining flexibility", and "adapting the strategy", both improve the suitability of the new investment project in respect to the target market. A flexible strategy within an organization that has been adapted to local market requirements will provide an optimal foundation for successful operations of the venture.

Finally, the experience gained during the operation of a project directly impacts the Implementation Phase itself, a relationship expressed by variable 19. By quickly reacting to market changes, the quality of the project will be increased. To make this possible, decision making should not end after authorization is given but decision-makers should keep monitoring the market to be able to decide quickly in view of major changes. Substantial changes in strategy, often necessary in fast moving emerging markets, are not easily implemented by operational management and therefore require the attention and intervention of the original decision-maker.

4.4.3 Impact on the Start-up Phase

The timing of the Project Start-up Phase can be improved in two ways. Firstly, through the Related Activities Phase a company can be alerted to new opportunities. By investing in one emerging market, the company also automatically becomes more used to picking up similar trends in other markets. A company that has some business in one Asian market will be attuned to new

development in similar markets, thus increasing the chance to rightly time market entry to a newly emerging market.

Secondly, the Experience Generation Phase strengthens the awareness effect of the Related Activities Phase. Managers who are involved in the target market, as at least part of their regular business activity, will be very aware of general trends, as well as concrete investment opportunities. Such opportunities will be brought to the attention to management both actively and passively, and result in an improved chance to pick the right time for a major investment project or large-scale market penetration efforts.

4.4.4 Impact on Selection and Development Phases

The quality of the Selection Phase, as well as that of the Development Phase for new projects can be improved by the implementation of older ones. This is part of the learning effects of multiple investment projects, discussed under the title of “seasonality” above.

Specifically, through knowledge transfer processes within an organization, the quality of the Selection Phase will be improved as more directly relevant data is available. A company that is actually doing business in a new market does not have to rely any more only on market studies or secondary literature, but can use its very own data to improve its analysis of alternatives during the Selection Phase of subsequent projects. To be able to take advantage of these learning effects will require the company to build appropriate knowledge transfer methods to disseminate such data across divisions and business units.

In-depth market knowledge gained through the operation of investment projects will also help the company during the Development Phase for new projects. It will be easier for the company to increase the number of alternatives under review, as well as to decide on which product market may be the most promising at the time of review.

4.4.5 Impact on the Related Activities Phase

Finally, the operation of an investment project during the Implementation Phase represents the Related Activities Phase for new emerging markets. The Related Activities Phase for market entry to China may have been an investment project in Taiwan. The Chinese joint venture, in turn, will generate valuable experience and learning effects for a possible market entry to Vietnam, which shares a number of

characteristics with China, just as the Chinese market shares a number of characteristics with the Taiwanese one.

This finding refers to the realization of positive externalities of activities in emerging markets while the company as a whole increases its stock of experience. To preserve and strengthen these learning effects, the company will have to build suitable mechanisms and processes to make experience acquired in one market available during efforts to enter new ones.

4.4.6 Summarizing observations

The proposed model for decision-making in emerging markets is one of continual learning and experience generation processes. This theme can be found in most variables. The reason for its predominance lies in the importance of fast decision-making by intuition. Because of the lack of reliable data in emerging markets, quantitative decision-making models must be replaced by more qualitative ones, which rely to a large extent on intuition.

The requirement for fast development speed within emerging markets further stresses the need for intuitive decision-making. Therefore, the focus must be on methods to improve the quality of decision-makers' intuition. Experience was found to be the best leveler to do so, hence the focus on experience and learning throughout the whole study.

A total of 21 distinctive variables could be discovered during the field research process. All of these 21 variables can be influenced to some extent by decision-makers, making them tools to improve the decision-making process, and thus, ultimately, firm performance.

The model's core contribution in the field of management research is therefore to make explicit the most important characteristics of decision-making processes for emerging markets. It is hoped that executives will manage to improve their decision-making processes by better understanding how a certain action or measure in one area affects the company's market entry process in another area, or at another point in time.

Compared with past research within the decision-making field, the influence of the previously neglected FDI preparation phase on the actual project decision-making process is of particular interest. The main importance of this phase is the experience generation aspect. Through activities in other emerging markets, companies build up the ability to learn and adapt to fast changing operating

environments. Direct operations in the target market itself, even if on a small scale and without strategic direction, add valuable operating and country-specific experience. If the company realizes these important side effects of normal business operations, it will be able to appreciate their value for the decision-making process for large-scale investment projects.

While the preparation phase may evolve at a leisurely pace, speed becomes an important variable once the company has made the decision to enter the target market with a major investment project. Due to the significant resource utilization in terms of management time and direct investment costs, such endeavor must be carried out as professionally as possible. The company will increase its chances to succeed if it scores highly on the variables discussed in this study.

Understanding the model's variables in detail, the company will be able to time market entry rightly, so as to have the firm's capabilities aligned well with the market's requirements. The multinational will also have built up enough experience to make informed decisions on the characteristics of the investment project itself, on the market penetration strategy in general, and even on the most suitable organizational strategy. If such experience is not internally available, it will know where to acquire it and what benefits it can expect from doing so.

4.4.7 Comparison of the Preparation and Project Decision-Making Phases

There are significant differences of a company's decision-making process between the Preparation and the Project Decision-Making Phases. Table 4.4 gives an overview of these differences.

Table 4.4: Differences between Preparation and Project Decision-Making Phases

	Preparation Phase	Project Decision-Making Phase
Main focus	Learning and generating experience	Fast and effective market penetration
Decision-making style	Trial & error	Experience based intuition
Importance of speed	Low	High
Importance of accuracy	Low	Increasing
Data analysis	Little	Right trade-off between speed and accuracy
Investment purpose	Opportunistic and strategic	Strategic
Size of investment	Small	Quickly growing
Importance of flexibility	High	High
Organization	Current structure	Adapted to local requirements
Top management involvement	Low	High
Location of main activity	Business unit	Corporate center

The following discussion analyzes how decision-making processes differ depending on the phase. The implications for management of these differences, as well as the variables in general, will be discussed in chapter 4.5.

4.4.7.1 Main focus

As the name implies, the main focus of the Preparation Phase is to build experience and prepare the company for larger-scale market entry. This is done at first in related markets but later on with a strong focus on the target market itself.

Learning and experience generation are important in both phases but with different targets. In the first phase, learning is of a general nature. As chapter 4.2 explained in detail, learning in this phase was used to increase decision-makers' general market insights, help the organization build internal knowledge centers and generally prepare the company for rapid market penetration.

During the Project Decision-Making Phase, the importance of learning actually increases because the company is now exposed to the fast-changing emerging market environment with an increasingly significant investment amount. Thus, learning within the market and rapid reaction to new insights and local experience become highly important.

Given these differences in focus, the most important knowledge in the Preparation Phase is of a procedural nature, whereas during the Project Decision-Making Phase it is market knowledge. Therefore, first the company “learns how to learn” within the market, building suitable procedures and processes. Later on it can relay on these processes and focus on adding direct market knowledge, which will help it to expand fast and efficiently.

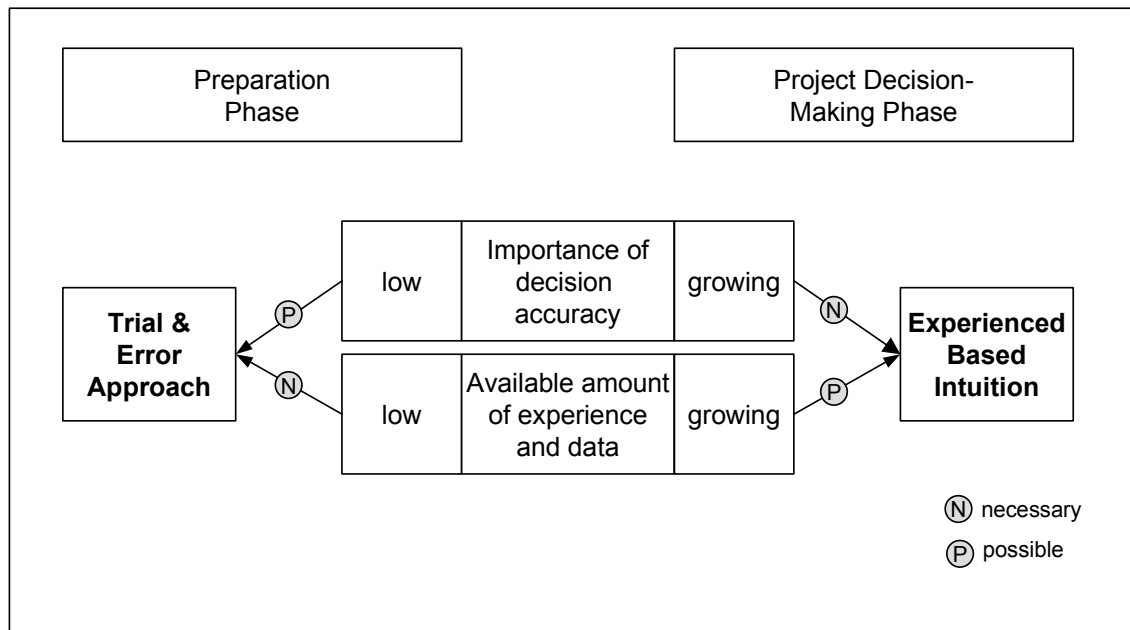
4.4.7.2 Decision-making style

From the interviews and literature, three distinctive decision-making styles can be differentiated.

Firstly, there is the analytical style, which can be considered the standard decision-making style in large organizations in stable markets. This decision-making process requires a large amount of reliable data. It also entails a relatively lengthy process and is therefore not suitable for emerging markets.

The other two decision-making styles are what can be called a trial & error approach, and intuition based experience, respectively. Companies do not like to describe their decision-making processes with either of these two terms, as only the analytical approach is considered respectful enough for a large and sophisticated multinational company. However, the proposed model shows how both approaches, if properly prepared and executed, are important requirements for any company’s successful operations in an emerging market.

Figure 4.10: Two types of decision-making styles



One speaks of a trial & error approach to decision-making if the company makes small decisions quickly, without much analysis, and is ready to change them just as quickly. Some projects may work, others do not work, but as project sizes are small, those that do not work can be discontinued quickly without substantial losses.

Examples for such trial & error projects are business trips to the region, the opening of a small sales or representative office, the granting of a production license, or the establishment of a small contractual joint venture here or there. None of these activities would involve substantial investment sums and can be written off easily if they do not prove successful. They each carry a profit potential in themselves, as well as in terms of learning effects for the company.

Taking advantage of learning effects and the experience generated in the market through effective control routines will differentiate the trial & error method to decision-making from something which one could call “muddling through”. The latter would describe a company that tries various strategies in a random order without correcting existing projects in light of new learning and experience.

During the Preparation Phase, the trial & error approach to decision-making is necessary because the organization does not yet have enough relevant experience or data which could be analyzed or which would be a strong basis for decision-makers’ intuition. Thus, even though development speed is low, the analytical decision-making model is not appropriate. Relying on decision-makers’ intuition will not improve decision quality substantially as there is little experience

available within the company on which such intuition could be based. The strategy is made possible because the accuracy of the decisions is not yet very important. This is the case because the project size is small and therefore the flexibility to modify the decision is high.

The difference between a trial & error approach and a decision-making process characterized through experience-based intuition is the reliability of the decision outcome. If decision-makers' intuition can be based on experience, as well as on data, their decisions will be more reliable and stable than decisions which are the result of a relatively random trial & error decision-making process.

During the Project Decision-Making Phase, deciding according to experience-based intuition is possible because of a growing amount of available experience and data. It is necessary to follow such a more-reliable decision-making style because of the growing importance of accuracy in the final decision outcome. This requirement of higher decision accuracy is brought about because of an increase in project size, and therefore a reduction in flexibility to freely change the decision outcome.

Because of the predominance of very fast reaction to new developments within the market, and because of the still-low level of hard data, a purely analytical decision-making style is also inappropriate for the Project Decision-Making Phase.

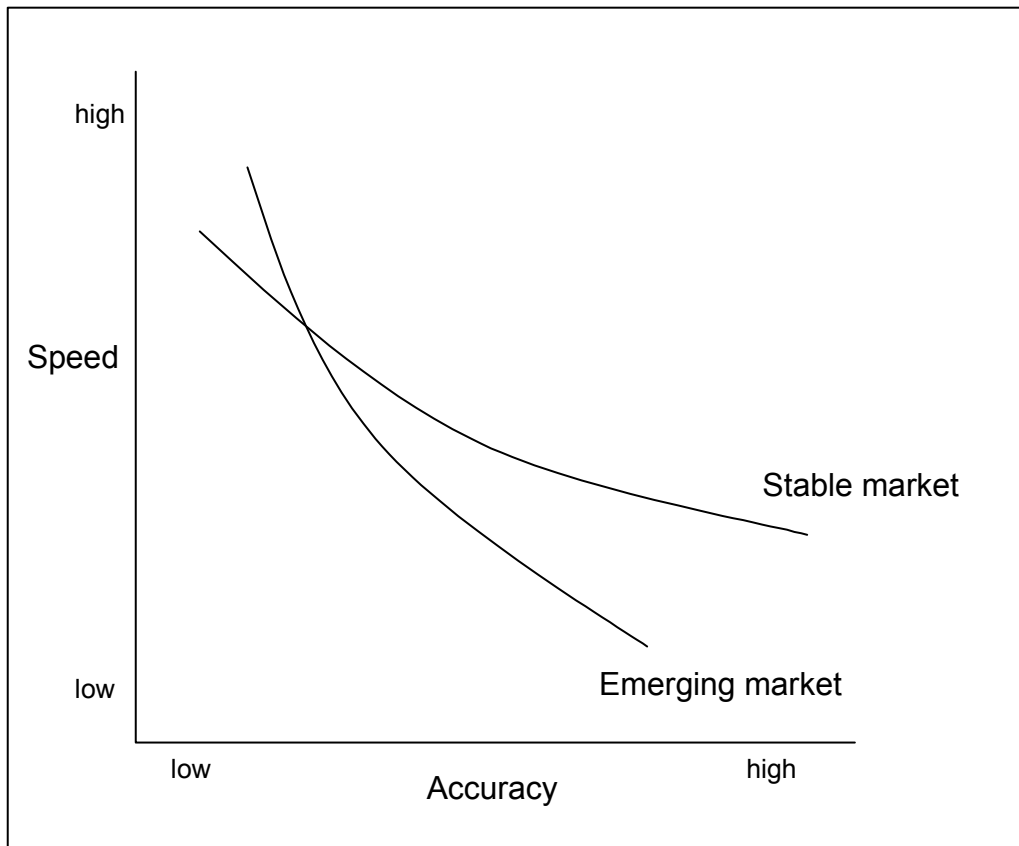
In practice, decision-making styles will vary, depending on the actual characteristics of the company and the market in which it is doing business. Thus, aspects of all three decision-making styles will be observable in the various stages of a company's penetration of a new emerging market. The model proposes, however, that in the early Preparation Phase, this process will more resemble that of a trial & error approach and in the Project Decision-Making Phase it will resemble that of an experience-based intuition approach.

4.4.7.3 Importance of speed and accuracy

As the discussion in chapter 4.2 has shown, the importance of speed is much higher during the Project Decision-Making Phase than during the Preparation Phase, which was earlier described as a phase of productive leisure. This phase is much more resource-intensive than the Preparation Phase, with substantial commitments in terms of management time and finances. The tough competitive environment and the quick development of the market add to the necessity to act quickly.

Speed comes at a cost, however, and this cost is decision accuracy. Generally, the more time a company can invest into data analysis, study of the market and analysis, the more accurate the decision will become, the more reliable the results, and the less risky the whole enterprise. This trade-off between speed and accuracy is described by figure 4.11.

Figure 4.11: Speed-accuracy trade-off in stable and emerging markets



The stable market curve is a model for the speed-accuracy trade-off in stable markets, whereas the emerging market curve models the same trade-off in fast developing, unstable markets with little readily available information. The emerging market curve is therefore steeper sloped than the stable market curve, as a given reduction of development speed will increase accuracy in stable markets more than in emerging markets. The reason for this difference is the more efficient supply of reliable information in stable markets.

Since the total amount of information is more limited in emerging markets, the curve is shorter than that for stable markets, signaling that it is impossible to increase accuracy above a certain threshold simply by decreasing speed and increasing the time and resources committed to analysis.

Figure 4.12: Effects of intuition on the speed-accuracy trade-off

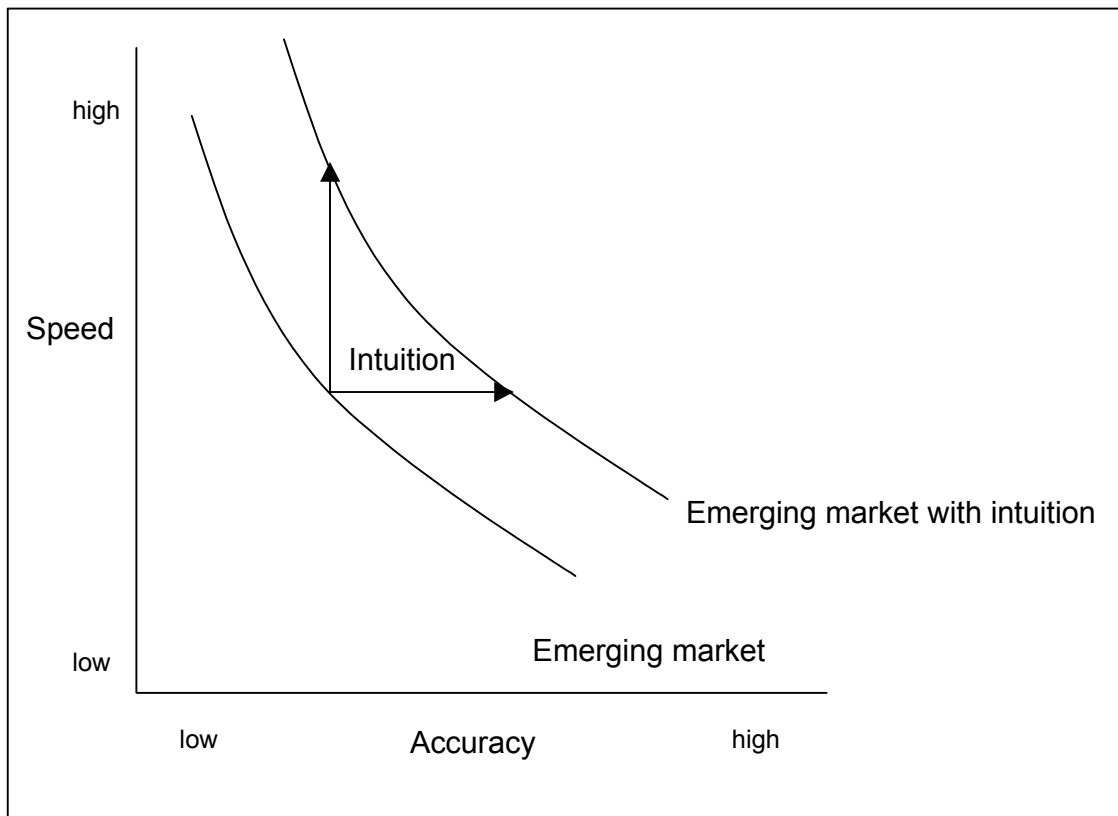


Figure 4.12 shows the effects of intuition on the speed-accuracy trade off. Experience-based intuition allows the decision-maker to decide faster with a given accuracy of the decision outcome, as well as coming up with a more accurate decision for a given decision-making speed. Thus, no matter what combination of speed and accuracy a company targets, experience-based intuition will always allow it to be more efficient in its decision-making process.

Depending on the individual situation of the company and the market in which it is operating, the right combination of speed and accuracy must be chosen. Generally, it will be possible to increase speed during a time when not much is yet at stake, whereas accuracy will become more important with an increased project size.

Over time, the emerging market curve will flatten out, approaching that of the stable market curve, thus making decisions based on accuracy not only possible but also more efficient. During the emerging market state, however, fast, intuition-based decision-making processes should be considered as optimal.

During the very early phase of market penetration, intuition is relatively weak, very little data is available and the emerging market curve therefore fairly steeply-sloped. In such environments, a trial and error approach, characterized by fast

decisions that allow for a high degree of flexibility and require little data analysis, will be optimal as discussed in the previous section.

4.4.7.4 Organizational characteristics

During the Preparation Phase, the organizational structure remains unchanged, with the main activity taking place in the business unit. Top management involvement is usually low during this phase as the activities are spread throughout the organization and the sums at stake are small.

The organizational structure may have to change during the Project Decision-Making Phase. First of all, top management involvement has to be increased. Only then will a fast and focused expansion be possible, as the discussion in chapter 4.3 has shown. This focus of the corporate management on the activities in the target market is often accompanied by organizational changes like the foundation of a holding company in the target market or the establishment of direct reporting lines to the corporate CEO or an interested board member.

4.4.8 Beyond the Project Decision-Making Phase

Over time, the possibilities for expansion within the new emerging market decrease and the market itself stabilizes. “Emerging” is not a perpetual state. Markets can become emerging from a nascent state (through reforms, revolutions, etc.) and they can develop into stable markets. A good example is Japan, which used to be an emerging market in the 1950s and 1960s but has since developed into a stable, slowly growing, and data rich industrialized country.

The model proposed in this dissertation only applies to emerging markets. Thus, when a market matures, a transformation process is likely, which will change the company’s decision-making processes. Over the years, the company will thus enter a maturity phase. The decision-making processes most appropriate for this phase will closely resemble those appropriate for any stable and well-known market. They are thus not part of this analysis. In the context of emerging markets, it is important to note the existence of this transformation to allow the company to prepare for a gradual shift in decision-making style and re-integration of the formerly emerging market into the multinational’s global strategy and organization.

4.5 Implications for management

In this chapter, recommendations for management are deduced from the model presented in this study. These recommendations should help companies with structuring their decision-making processes in emerging market environments. These recommendations are as yet untested and should therefore be read and implemented with care.

Management science will never approach the levels of reliability possible in natural sciences. Behavioral research suffers especially from an often-implied lack of scientific proof due to the focus on qualitative research results, rather than quantitative analysis. In the context of decision-making processes for particular markets, qualitative tests face extremely large theoretical and, even more important, practical problems.

These problems should not, however, stop scientists from highlighting the normative qualities of findings that are strongly supported through empirical evidence. This support could be found for the model proposed in this chapter, due to the comprehensive field research phase. Nevertheless, in interpreting the results and the following recommendations, special attention should be drawn to the limitations on generalizability discussed in the final section of this chapter.

4.5.1 Turning variables into recommendations

Table 4.3 above gave an overview of the variables that make up the present model of decision-making processes for emerging markets. As such, these variables have a descriptive character. To be useful, they must therefore be transformed into recommendations that can be more easily applied to a specific company's particular situation.

The descriptive variables from the present model can be transformed into four normative cornerstones of investing in emerging markets. These cornerstones are shown in figure 4.13., and include:

- the requirement for extensive learning and experience building processes;
- the readiness to act in a timely manner in response to upcoming opportunities;
- the availability of board level initiative as well as their commitment at special times; and
- the readiness to adapt processes and sometimes even the company's organizational structure.

Figure 4.13: The four cornerstones of investing in emerging markets

Learning and experience acquisition	Readiness to act in a timely manner
Board level initiative and commitment	Adaptation of processes and structure

4.5.2 Learning and experience acquisition

In emerging markets, generating experience is a very important activity for new market entrants. In established markets, a high level of experience is usually taken as given and no special attention needs to be paid to generating additional experience. But even in such markets, experience is highly regarded and usually the most important criterion for choosing successors in management positions.

In emerging markets, experience is even more important than in established ones. The main reasons for this are the decision-making style and development speed. The less quantitative data is available for analysis, the more important becomes management intuition during the decision-making process. As was argued above, for intuition to work properly, managers need to base their intuition on relevant experience. The scarcity of such experience makes it – and managers who have it – more valuable. It also requires top-level decision-makers who might not be familiar with local circumstances to delegate substantial decision-making authority to those people within their organization who are experienced.

The model has shown that there are several ways organizations can gather experience. Most important in this respect is the Preparation Phase, which precedes full-scale market entry. Companies that value experience appropriately will actively try to learn from any contacts with the target market, be those exports, licensing deals or the opening of representative offices. More specifically, companies that face the decision about whether or not to open a sales office in a potentially attractive emerging market will include the option value of the experience generation effects in their calculations. A study of this chapter will give managers plenty of clues as to how much value such option may have. Thus,

realizing the learning effects of such moves should make companies more willing to invest small sums of money very early during the opening process of a new emerging market.

In geographical emerging markets, the results of realizing the importance of experience will make companies opt for direct exports, rather than indirect ones, and make them more likely to open sales offices rather than doing business via external agents. The Internet equivalent of such direct contact with the newly emerging market of China was the random setting-up of Internet initiatives in large organizations, which were only later molded into a concise Internet strategy.

Figure 4.14 shows all the variables from the model presented in this chapter, which are in connection with the theme of generating experience and learning effects. Practitioners should take the discussion in connection with this model as a starting point to make sure that their own organization gathers enough experience for successful market entry to emerging markets.

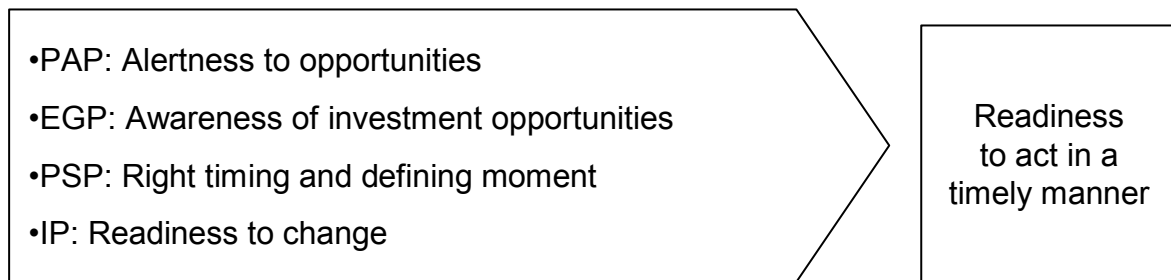
Figure 4.14: Learning and experience acquisition



4.5.3 Readiness to act in a timely manner

When the market moves ahead quickly, as it does in any emerging market, reacting in a timely manner becomes an increasingly important merit. Companies interested in investing in such markets have therefore to make sure that they have systems in place to allow for such timely reaction to market changes and upcoming opportunities. Figure 4.15 summarizes the model's four variables that stress the importance of such timely reaction.

Figure 4.15: Readiness to act in a timely manner



As the figure shows, readiness to act in a timely manner is important in nearly all phases of the process of entering a newly emerging market. It reaches from a general alertness to any opportunity in connection with the target market, via awareness to actual investment opportunities, to the important decision of when to start full-scale market entry and penetration efforts. Even after the decision for full-scale market entry is made, the company needs to keep observing the market constantly. A fast changing emerging market requires the investing company to constantly readjust its project portfolio.

Dedicated responsibility for observing a market is the best way to achieve readiness. This responsibility should be linked to timely and direct access to decision-makers, so that proposals for action do not get rejected early on, in a decision-making process. It is often difficult to get approval for investment projects in non-target markets, as the discussion of the related category of “board level commitment” will show. That is why the installment of dedicated market observers, *e.g.*, in the form of sales representatives, will not be sufficient to assure the organization's timely reaction to interesting opportunities in the early phases of an emerging market's development.

In addition to such “outposts”, a dedicated communication line to high level management should be in place. One option to make this process work smoothly would be to make one board member responsible for newly emerging markets. This manager should have had practical experience in emerging markets to assure a high level of accuracy of his largely intuition-based decisions of whether or not to further pursue a project coming to his attention. Sales representatives and other employees dealing with emerging markets would then report any new developments to this dedicated board member, who could pick the most promising projects and markets for small scale investments to further explore the opportunities.

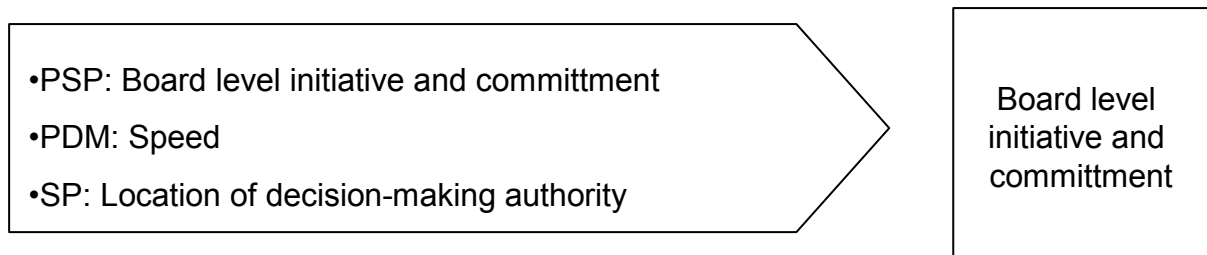
In line with what was argued in this chapter in connection with a decision-making style based initially on trial & error, this “emerging market guru” should have authority over a discretionary fund to make sure that small initial projects get funded quickly, without lengthy authorization procedures.

If a board member is attuned to new developments in emerging markets, the chances increase considerably that the organization will be able to rightly time full scale market entry. A periodic review of all potential markets, together with experience gathering measures described above, would help in fine tuning market entry. It should be noted in this context that the focus should not lie on early market entry, but on right timing instead. An unprepared early entrant will waste a lot of resources while a well-prepared company that waits too long will find most profitable investment opportunities occupied by competitors. Thus, early efforts to gather experience, together with a periodic review of potentially emerging markets and a corporate board comfortable with taking risky and far-reaching strategic decisions quickly, will be the best method to prepare an organization to be ready to act in a timely manner.

4.5.4 Board level initiative and commitment

A third important implication for management is to be ready to invest considerable resources from the corporate leadership into early efforts to penetrate an emerging market. In connection with the variables shown in figure 4.16, the discussion has shown that such board level initiative and commitment are critically important. Initiative and commitment at high levels help to assure that companies overcome system inherent incentives to invest short-term rather than long term, and also to pursue types of investment projects in markets that are likely to be considered favorably by senior decision-makers.

Figure 4.16: Board level initiative and commitment



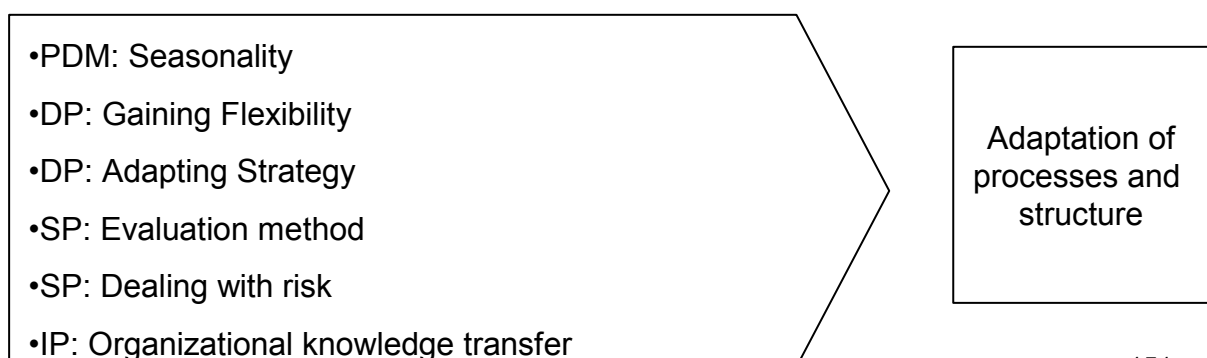
As figure 4.16 shows, board level initiative and commitment should be seen connected with decision-making speed and the location of decision-making authority. Development speed is the direct result of strong commitment from the board. To achieve fast speed in decision-making for an emerging market, decision-making authority should be delegated to managers in the region. These regional managers have the best grasp of what is going on in the field and their intuition will therefore be well based on experience. Corporate management's most important function remains to make sure that any strategic decisions prepared by experienced field managers are in line with the overall goals of the organization. By shortcutting lengthy internal decision-making processes through delegation of decision-making authority closer to the region, speed can be achieved which was shown as being a major success factor in operating in emerging markets.

Once companies realize the importance of senior management's involvement in the early stages of entry to a newly emerging market, they can make sure that the company's chairman and CEO will indeed make the necessary time available, once the defining moment has been reached. For this to happen, a certain level of affinity of the company's core decision-makers with emerging markets is certainly necessary. This can be achieved through prevention, *i.e.*, the hiring of managers which have a track record of taking risky decisions in connection with new markets; or through constant briefing of top managers on developments in new markets and clearly communicating the importance of strong and focused corporate initiative, should the time be ready for such action.

4.5.5 Adaptation of processes and structure

Figure 5.17 shows how the model's final six variables are connected with each other. Each underlines the importance for a company to sometimes adapt processes, as well as the organizational structure itself, in connection with decision-making processes for emerging markets.

Figure 5.17: Adaptation of processes and structure



To many multinational companies, requiring the adaptation of corporate processes to local conditions in an initially very small emerging market may sound like an exaggerated demand. The analysis of decision-making processes has shown, however, that such adaptation happens sometimes even without the conscious knowledge of decision-makers. Being able to consciously consider such adaptations will certainly help improve the chances for success in the target market.

It was shown that flexibility is very important in fast changing markets, which are characterized with a high degree of uncertainty. Thus, when making decisions for such markets, companies should ensure that the decision outcomes are as open to later modification, and therefore as flexible, as possible. Such flexibility may entail organizational adaptations as corporate decision-makers may need to remain involved in a new project to some extent, even after authorization for implementation was given. New developments in the market may require a fundamentally revised strategy.

To make such close supervision and fast reaction possible, many multinationals have found it useful to organize their activities in a new emerging market differently than they do in established markets. In China this has resulted in the foundation of many China holding companies. These holding companies also play an important role in the context of seasonality of investment decision-making for an emerging market. As project decisions are often made quickly, one after another following an initial “go-ahead”, it makes sense to bundle such procedural knowledge centrally. Multinationals strictly organized along divisions and business units may need to form a new organizational unit to take full advantage of the seasonality aspect of project decision-making discussed in the context of that variable.

The equivalent of such organizational adaptation in the context of the Internet would be spin-offs with only loose connections to the multinational itself, which were often set up to enable a dedicated team to work on Internet projects without the burden of a large corporation.

During the decision-making processes themselves, adaptations of processes are most apparent. Here, they come in form of the choice for evaluation methods and the way a company is dealing with risk. Usually, specific guidelines exist for both. As these guidelines will have been established after many years of successful operation in largely established markets, they may not be suitable for an emerging market environment. Managers should therefore be aware of the possible need to adjust such internal processes. This may come in the form of de-stigmatizing

decision-making based on intuition, insofar as project evaluation processes for emerging markets put less weight on data and more weight on opinions and qualitative judgments of locally experienced managers.

4.6 Discussion

This final part of chapter 4 discusses to what extent it is possible to generalize the research findings, whether the variables are exhaustive and mutually exclusive, and which other limitations should be considered when trying to apply the model's findings.

4.6.1 Exhaustiveness and mutually exclusiveness of the model's variables

The variables in a perfect model should be mutually exclusive and collectively exhaustive. The proposed model for decision-making in an emerging market environment hopes to get close to this goal but it would be unrealistic to suggest it could be reached. The grounded theory method of field research requires the researcher to continue working in the field until new interviews do not generate new insights. The current research has followed this rule strictly, which is why the 21 variables that make up the model come very close to being collectively exhaustive in explaining the decision-making processes of multinational companies in emerging markets like China. It cannot be ruled out and should even be expected, however, that other researchers, focusing on a different but related sample of companies or markets, will find additional variables. Nevertheless, it can be expected that the conclusions will remain the same and no significant additional variables will be uncovered through such related follow-up research.

In the analytical research process, the focus was on choosing variables which would be mutually exclusive, thus explaining the decision-making process without undue repetitions and overlaps. It is hoped that this goal could be reached to a satisfying degree. It was unavoidable, however, that core topics like “organizational learning” and “experience generation” are part of several variables, albeit in different contexts.

4.6.2 Generalizing and limitations of the findings

The model proposed in this chapter is based on a sample of predominantly Western multinational companies and their direct investment decisions for the emerging market of China. Therefore, an important question to raise concerns the extent to which one may be able to generalize the findings:

- from Western multinationals to any large organizations, or even smaller companies;
- from direct investment decisions to any type of strategic decision process; and
- from China to any emerging market.

4.6.2.1 Type and size of organization and market

The research findings are based on an empirical field study of one particular type of company (large MNCs) in one particular emerging market (China). Thus, any attempts to generalize must be handled with great care. In the following two chapters, such attempts to generalize the findings will be undertaken because the study did not uncover any reasons why such generalization would not work.

Applying the results to other markets or other company types should therefore be possible, as the examples in chapters 5 and 6 prove. Individual companies should do so carefully, however. They should check the definitions of each variable and try to establish whether their own situation is comparable to what was described in this research. If the situation should not be comparable, they will have to deduce for themselves what effects the different preconditions have on the model's forecasts and recommendations.

The introductory chapter, as well as the current one, drew the reader's attention to China-specific characteristics whenever they were relevant to the developing model. Thus, when the model's findings are applied to other emerging markets, other market-specific characteristics should be evaluated and put in the place of the China-specific characteristics of this study. How this can be done is shown in chapter 6, where the market context was changed from that of China to that of the Internet.

The same chapter also shows how the results can be applied to different organizational types, namely that of small start-up operations in contrast to large multinationals. As the examples of these two chapters show, a generalization of

the findings of this model is possible if done cautiously and with regard to the model's underlying assumptions.

4.6.2.2 Type of decision process

The core characteristics of the model are the continual learning processes which could be uncovered. These learning processes were shown in the example of foreign direct investment decisions. Therefore, a number of variables that have a prominent place within the model are specific to decision processes for foreign direct investments in particular and market entry in general. As was explained in chapter 1, decisions for FDIs are part of the larger group of strategic decision-making processes. FDI decisions, therefore, share a number of characteristics with other strategic decisions.

However, with the gain in general applicability, the model loses sharpness. It could only gain sharpness if the sample of FDI decision processes for emerging markets were enlarged to include other strategic decision processes. For geographical emerging markets, this thesis' definition of direct investment decisions included most strategic decision processes, as location decisions, expansion decisions, even acquisition decisions, were all part of the original definition of direct investment decisions.

The question of the type of decision-process is therefore most relevant in connection with emerging markets other than geographical ones. Even in such cases, the model's sharpness will not suffer much damage. The main argument of the importance of learning through experience still applies. So does the differentiation between a Preparation and a Project Decision-Making Phase. Most of the names and content of the model's phases and variables were held general enough to make the findings readily applicable to other strategic decision processes for emerging markets.

The main restricting factors therefore remain the focus on strategic decisions, as opposed to operational ones, and the even more important focus on emerging markets, as opposed to stable ones.

4.6.2.3 Conclusion on generalization and limitations

This purely theoretical discussion and analysis concludes that the model is indeed applicable to smaller companies of a non-Western origin, to a technical as well as

geographical emerging market, and generally to strategic decision-making processes, as opposed to foreign direct investment processes alone.

The ultimate proof whether these deductions are actually true can only be given through empirical tests. One such test, in the form of a comparative case study, is part of this thesis as chapter 6. In that chapter, this model's findings will be applied to the case of two Internet start-up companies, which operate in an emerging market and which faced a number of strategic decisions during their first two years of operations.

In this case study, the model's reach is tested by extending the organizational type from large multinationals to small start-up companies. The type of market shifts focus from the geographical emerging market of China to the technical emerging market of the Internet, and the type of decision process from FDI decisions to strategic investment decisions.

5 Application on entrepreneurial firms from Hong Kong

In this chapter, the proposed model for decision-making processes in emerging markets is applied to the case of entrepreneurial firms from Hong Kong, considering investment in China. With this application two goals are pursued.

Firstly, it should be shown that the model holds not only for multinational companies, but also for smaller, more entrepreneurial organizations.

Secondly, the application to Hong Kong based firms will add additional insights to the model. It is, thus, an important step towards an even more general application, which follows in chapter 6, where the emerging market environment changes from that of a geographical one to a technical one, namely the Internet. Figure 5.1 shows how the application in chapters 5 and 6 help to expand the generalizability of the model proposed in chapter 4.

Figure 5.1: Application of the model in chapters 5 and 6

Companies			Emerging Markets		
Startups (young and small)	Entrepreneurial companies (medium to large)	MNCs (large organizations)	China (emerging geographical market)	Internet (emerging technical market)	Others (e.g. emerging product markets)
		Model: Chapter 4			
	Chapter 5		Chapter 5		
Chapter 6				Chapter 6	

An introduction to the business environment in Hong Kong was already given in chapter 1. The research scope and scale of the Hong Kong part of this research project was described in chapter 3. What follows is, firstly, an analysis of how decision-making processes differ between multinational companies, like those surveyed in chapter 4, and the more entrepreneurial firms from Hong Kong described in this chapter. In a second part, the main focus will be to show how multinational companies can learn from entrepreneurial ones when venturing into an emerging market like China. A third part of this chapter applies the model exemplarily to one of the sample companies from Hong Kong.

5.1 Comparative analysis between Hong Kong based companies and MNCs

At first glance the process of deciding about new investment opportunities does not differ much between large companies in the West and those from Hong Kong. The broad picture closely resembles that already described in chapter 2: The company gathers information about one particular project, evaluates this information and then decides whether to carry out the project or not. However, one should not be blinded by this broad similarity as important differences can be uncovered and will be discussed in the following analysis.

5.1.1 Timing and scale

Where timing and initial scale of the investments in China is concerned, the two groups of companies do not differ widely. There are both Western and Hong Kong companies that began to invest in China right after the reform period had started in late 1978. These investments were generally small in scale for all companies that undertook such early ventures. Foreign investments from most countries, so also from Hong Kong, accelerated greatly after Deng Xiaoping's visit to the special economic zones in China's southern coastal region in 1992. From this time onwards, most large Hong Kong investors seemed to lose all fears about the safety of their investments in China and earmarked substantial sums for investment there. European investors also accelerated their scale of investments in China at that time, but would not reach the levels of commitment of their Hong Kong counterparts.

While the differences in timing and scale are not huge for the two groups, it became very clear that Hong Kong companies believed China to be much less risky after 1992 than did their European counterparts. While companies from both regions seemed not to be very convinced about the sustainability of the reform process during its early years, Hong Kong companies believed in the country's future much sooner after the Tiananmen Square events of 1989 than did European firms¹⁶⁹.

¹⁶⁹ In 1989 the Chinese army was used to suppress student demonstrations on Tiananmen Square. Fearing a further escalation of the conflict and demonstrating their opposition to these events, which caused the death of a substantial number of students, most multinational companies subsequently strongly reduced their exposure to China.

5.1.2 Headquarters' determination

Headquarters' attitudes towards China play a significant part for both Hong Kong based and Western companies. Without a generally positive attitude towards the market at the top management level, no company will do any substantial investment in China. Not least because of family ties, many dominant players in Hong Kong companies have had substantial interest in China from early onwards. This personal interest was not necessarily connected with activities by the companies themselves, however, as some chairmen would invest only private money in the early phases of the opening process.

While many large Hong Kong based companies were not much quicker in starting to believe in the sustainability of the Chinese reform process, they did so much more strongly than their European counterparts. This stronger headquarters' determination, after initial reservations had been overcome, resulted in the subsequently larger commitment of resources and a smaller risk premium asked for by Hong Kong companies.

5.1.3 Choice of product and location

Many of the multinational companies in the survey have divisions offering products and product categories that are often substantially different. While each division is usually responsible for worldwide operations, the initiation for first investments in a new and complicated market like China often has to come directly from the top, or from a common group unit. The decision about the specific products, the location and the type of organizational unit to be formed¹⁷⁰ is usually made in collaboration between the responsible business unit and some corporate bodies or managers. Even though some companies evaluated early on individual projects that were presented to them from external sources, most initial decisions were based on some sort of strategic decision to enter the Chinese market.

Early investment projects from Hong Kong based companies seemed to be more opportunistic, *i.e.*, the firms could choose from certain investment projects presented to them, instead of searching actively for the most promising opportunity.

The choice of location and investment type is, at least to some extent, governed by pragmatic decision rules rather than detailed analysis. For example, in the

¹⁷⁰ Possible types are equity joint venture with a varying degree of ownership on the one hand, and wholly foreign owned enterprise on the other.

early phases of market entry, Hong Kong based companies would look almost exclusively at their neighboring province, Guangdong, for investment projects. MNCs would constrain themselves less with pragmatic decision rules concerning the location, but would often have relatively inflexible guidelines concerning management authority and capital majority in the early joint ventures.

5.1.4 Importance of feasibility study

Both European and Hong Kong based companies stated that they would adapt the feasibility study, which has to be registered with the Chinese authorities, only relatively moderately for their internal decision-making processes. The interviewees indicated, however, that Western feasibility studies tend to be more elaborate and detailed than those from Hong Kong.

Several reasons can be cited as explanations for this finding. As mentioned above, the risk attributed to the Chinese market is higher with Western companies. This causes them to be more stringent in their evaluation process. But management style and ownership structure make gut-feeling decisions a more likely option for Hong Kong based companies, compared to European ones. The Hong Kong companies are also subjected to less pressure to explain their decisions in great depth.

5.1.5 Decision horizon

Generally speaking, Hong Kong investors tend to have briefer decision horizons than Western multinationals when investing in China. In the interviews, Western companies usually pointed to the long-term goals they wanted to achieve in China, the last “large emerging market with one quarter of the world’s population,” as one interviewee put it. This is often done at the expense of current performance. While Hong Kong investors also acknowledge the difficulties of the Chinese market, they are seldom willing to forego current returns for potential later benefits.

This finding is partly counterintuitive, as publicly quoted Western firms have often to face stronger investor scrutiny and pressure to deliver outstanding earnings every quarter. However, merging market investments are often so small relative to the firm's size that they would not have a significant impact on the whole group's earnings.

If communicated convincingly, investments in emerging markets can even be “sold to analysts” as the important investment into future earnings which they actually

should be. This line of argument becomes easier at a time when the emerging market under consideration is “fashionable”. This was the case in the mid-1990s for China and in the late 1990s for the Internet, when emerging market investments were being honored by the stock market. However, overexcitement during these times lead to over-investment, which resulted in over-expansion and, in the case of both China and the Internet, a negative attitude of the capital markets towards such investments in the years immediately following the bursting of the bubble.

A Hong Kong company's reluctance to take huge risks can be attributed to the fact that the founder's family's wealth usually depends to a large share on the well-being of the company. This makes them more risk-averse than the owners of other entrepreneurial firms, which have to place huge bets in order to have any chance for success.

The reasons for the difference in behavior can also be attributed to the different industries in which the Hong Kong and European companies are competing. The argument can be made for most companies to establish some presence in the market early on, with the goal to gather information and establish trusted relationships with potential clients.

Most investors from Hong Kong seem to manage, however, to spot early on profitable activities for their first investments in the country. As China, naturally – because of the geographical and cultural proximity – is high on their agenda from an early point in time, their knowledge about promising projects is greater than it is for most European companies.

Faced with promising projects, Hong Kong based firms seem also to be more willing to engage in non-core activities than are more focused multinational companies from Europe. As a result, most Hong Kong based investors, especially in the field of property development and construction, try new projects early on and often also manage to achieve positive results even from their first investments in China. Their usual initial concentration on an environment which is in many aspects similar to their own – the province of Guangdong – helps in this respect.

5.1.6 Location of decision-making authority

In multinational companies, decision-making authority tends to be relatively widely distributed. This is different in Hong Kong based ones, where a clear concentration on the most senior level of management can be observed. This

difference has two effects. In multinationals, the wider distribution of decision-making authority guarantees a well-researched decision that has undergone scrutiny by various managers with differing backgrounds. While Hong Kong based firms lack this wider checking system, their system speeds up the process substantially, with approvals occurring usually in less than one month after the decision process was started.

As both organizational structures have their advantages and disadvantages, no easy conclusion about the superiority of either method can be made. One can argue, however, that a careful checking system will gain in effectiveness with an overall increase in China related know-how in the organization. With little such know-how, it may be reasonable to delegate a large share of decision-making authority to those individuals in the organization who have substantial relevant knowledge, usually by being based in the region.

5.1.7 Knowledge nodes and feedback loops

Knowledge nodes are people either within or outside the organization, who are particularly knowledgeable about the target market. MNCs tend to use the help of external agencies like consulting companies to a larger extent than do investors from Hong Kong. The latter have instead a network of more informal contacts with knowledgeable people inside China upon which they can draw for their investment decisions.

Whereas Hong Kong based companies naturally have their decision centers very close to the target region, only a few MNCs have so far delegated a large share of decision-making authority to the region. Those companies that have, did so after having gathered experience with the Chinese market over an extended period of time, which indicates that this long-standing experience made them believe that such delegation of decision-making authority would be very beneficial to them.

Just as in knowledge transfer, feedback loops are also relatively informal arrangements. Due to their wider spread of decision nodes inside China, Hong Kong based companies can generally benefit more from feedback loops within their decision making process. Some MNCs tend also to suffer from a lack of trust in some parts of their local organizations, a point which will be further explored below.

5.1.8 Decision-making speed

Nearly all interviews uncovered evidence that Hong Kong based companies are much quicker in their project decision-making process than Western MNCs. At least two reasons can be cited as explanations for this finding.

Compared to Europe, the business environment in Hong Kong requires speedier decision making procedures. Hong Kong based companies are therefore used to a fast-paced environment. They argue that, in general, decisions in China should be made quickly but that the necessity for such rapid decisions is even more important in Hong Kong itself.

A second reason is to be found in the ownership structure. Many of Hong Kong's family owned and/or controlled Hong Kong firms do not feel the need for very elaborate mechanisms of checks and re-checks. As already mentioned above, decision-making authority tends to be centered at the very top, which also speeds up the process for important and large-scale projects.

5.1.9 Trust

A recurring theme during the field research was trust inside the organization. Trust between the ultimate decision-making authorities and the country managers is of particular importance here. This issue is closely linked with the topic of information management and the speed of decision-making. If the distance between center and operations is large and trust low, the effectiveness of the operations will necessarily suffer because information from the field, supplied by managers who do not enjoy a high degree of trust, is checked and balanced with information obtained through other sources. This problem is of particular importance for those European investors who do not give high priority to the target region. If the Chinese market does not enjoy a high priority inside the organization, the people sent to manage these operations tend to be second tier and therefore often do not enjoy all the backing from the headquarters, which they would need to be able to operate effectively.

A lack of trust in locals is, however, not restricted to European investors. Also Hong Kong based companies tend to put much more trust in their own countrymen than in employees hired in China. The proximity of Hong Kong, and strong ties of many of its inhabitants to the mainland, are of great advantage. The supply of qualified Hong Kong managers that can work in China and therefore guarantee a trusted relationship with the headquarters is much larger than the supply of such willing and able people is for European investors. For them, however, a

company's past exposure to the region will come as an advantage. Large multinational companies can usually leverage their exposure to other emerging markets when they enter a new one, because through their earlier activities they built up a pool of international managers that have backing from headquarters and can be dispatched to meet new challenges.

To improve their efficiency, all companies where the top management thinks twice before believing the data and recommendations of local managers should try to find ways to improve their internal relationships. Checks and controls certainly need to remain in place and can never be supplanted by trust alone. Too many companies, however, seem to restrict the activities of local managers too much in favor of central control, whether this central control is exerted by the group headquarters or by SBU headquarters. At least implicitly, people with the same cultural background often enjoy much higher trust than “inside-outsiders”, *i.e.*, managers who may have worked for a very long time in the organization, but are barred from truly trusted relationships, sometimes because of their nationality. While some multinational companies tackle this issue openly, others do not seem to acknowledge the economic inefficiencies caused by such behavior.

5.1.10 Summarizing analysis

A comparison between European and Hong Kong investors in mainland China reveals a number of characteristics that are generally found primarily in one group of companies, and others that are primarily found in a second group. Some of these characteristics are “regressive” insofar as there is no move by the other group of companies to adopt them in any way. Quite the contrary, the importance of these characteristics may be gradually reduced in the sample companies over time.

Family control is one example of such a regressive characteristic of many Hong Kong companies. Capital requirements for expansion, issues related to the succession of the founding generation, and a more stringent debt market, force more and more companies to turn to the equity market, which gradually decreases the founding family's control of the company. Related to this issue is a trend towards more professional management, an issue discussed in more detail below.

The second group of characteristics can be dubbed “progressive”, as they tend to be increasingly found in both groups of companies. It is these progressive types of characteristics on which companies should concentrate if they want to find levelers to increase their success rate in China. The following discussion provides

an overview of the two most important progressive characteristics that could be uncovered during the research process.

5.1.10.1 Decision-making authority close to the market

Decision-making authority close to the geographical target market considered here is primarily a characteristic of Hong Kong based companies, due to their headquarters' location very close to mainland China. It is also a progressive, and therefore important and beneficial, characteristic because of trends among Western companies to also delegate decision-making authority to locations closer to the target region.

The empirically observable tendency to move decision-making authority closer to the market proves that this is considered by many experienced companies to be an important success factor. It can be explained by an increase of trust between central and local management, through positive experience over time and through a better understanding of the requirements for, and feasibility of, such a move. The insights for the necessity of such a move are usually based on better understanding by group headquarters of the target market and greater trust in the people working there.

Moving decision-making authority closer to the market brings about other improvements in variables discussed in the this and the preceding chapters. The operations become more flexible to react to local market demands, decisions are better grounded in understandings of the local market, and decision-making speed can be accelerated.

5.1.10.2 Sophistication of evaluation methods

Professional and sophisticated decision-making procedures (e.g., number of details in feasibility studies, advanced evaluation techniques, etc.) are predominantly a characteristic of large multinational companies. One research hypothesis was that the low quality of data might not warrant very sophisticated evaluation methods. However, no move in the direction of less-sophisticated methods could be observed, as multinational companies tend to use the same basic procedures world-wide and take account for the lower quality of input data, by (a) increased research efforts or (b) allowance for larger error margins.

With an increase of available information and an increase in project size, sophisticated evaluation techniques will be used even more in the future. Many

Hong Kong based companies mentioned that their evaluation techniques had become more 'Western style' over the past few years.

One smaller Hong Kong company said in particular that it had learned from Western joint venture partners the use of such techniques and has started to apply them in a more widespread way. This tendency is further supported by the increasingly¹⁷¹ stringent requirements of an international capital market to which many of the foreign investors have turned, either directly in the form of project financing, or indirectly when they assume company debts.

The effects of such an increased sophistication of evaluation techniques is a clearer decision-making process with less opaque decision criteria. With an increased use of computers and a more ready supply of useful data, there should not be significant costs in the form of reduced possibilities of intuition-based decisions by knowledgeable entrepreneurs. Superior knowledge of the region and information gained through experience and a large network of contacts, the usual foundation of intuition-based decisions, can still be applied, but will increasingly be supported by a more exact method of calculating the probable results.

5.2 Insights to the model from the Hong Kong findings

The application of the framework discussed in chapter 4 above should help individual companies gain a better understanding of the issues involved in doing business in an emerging market like China.

Entrepreneurial firms are companies that do business in, usually, fairly narrowly-defined areas, concentrating on the knowledge and experience of an entrepreneur at the top of the organization. They live in an environment that is characterized by rapid change and high degrees of uncertainty and risk. Their operating environment thus resembles to a large degree that of an emerging market.

Even a large multinational has little control over the rather unpredictable changes of the environment in an emerging market. Thus, managers of multinationals must be able to react as quickly to changes and developments within the market as small entrepreneurial firms – which constantly face that sort of environment – even though they may be doing business in a market considered stable for the large corporation. Sudden actions of these large companies increase the uncertainty for the smaller, and therefore necessarily nimbler, firms.

¹⁷¹ Especially after the Asia crisis started in summer 1997.

With reference to the model proposed in the preceding chapter, young start-up companies will proceed through the Preparation Phase to the Project Decision-Making Phase, where they will remain until their market stabilizes. At that time, successful entrepreneurial firms will have grown into a large corporation that can then apply its corporate processes and structures to its stable operating environment.

During the start-up and growth phases, however, the model for decision-making processes in emerging markets will hold. To support this hypothesis and show how the model for decision-making in emerging markets can be easily adapted to become a model for entrepreneurial decision-making, field research results from the Hong Kong part of the current research project will be used.

5.2.1 Being able to see and seize opportunities

A standard definition of entrepreneurial firms includes the ability to “see and seize opportunities”. Hong Kong firms practice this on a daily basis. Through their closeness to mainland China, they have access to a wide range of information from the target market. In addition, most Hong Kong companies interested in investing there have built up a network of contacts through which a steady flow of investment opportunities is fed back to the headquarters.

Western firms can replicate parts of this system themselves, by making sure that they quickly establish their own presence in potentially attractive emerging markets. Alternatively, they can partner with local companies, at least initially, who will supply them with information and investment opportunities.

The model's variable “alertness to opportunities” could be clearly observed as being an essential part of Hong Kong companies' advantage in investing in China. They also had advantages through their “trusted network of contacts”, which led to a high “awareness of investment opportunities”. Both are variables that were pointed out to be of importance when investing in emerging markets like China.

5.2.2 Intuition-based decision-making process in practice

By studying the companies from Hong Kong, intuition-based decision-making processes could be observed in practice. Large Hong Kong companies are still often closely held by the founder or his family, a structure which helps speed up decision-making processes by avoiding lengthy authorization processes. The companies tend to be relatively focused – on the infrastructure and property

sectors, in the case of such companies that invest heavily in China – which helps the top managers to keep a clear grasp of their business. As most senior managers have been with the company for many years, experience is widely available at the top. This is also often the case in Western multinational companies, of course, where CEOs tend to have a wealth of relevant industry experience.

However, in view of investments in China, an important difference is that some parts of China (especially the neighboring province of Guangdong) have many characteristics in common with Hong Kong itself. Several founders of successful Hong Kong companies originally come from Guangdong, which further increases familiarity. Through these similarities and familiarities, decision-makers in Hong Kong tend to have a large stock of relevant experience for doing business in China. Thus, intuition-based decision-making has worked very well for Hong Kong companies investing in China, especially in the province of Guangdong.

During the 1990s, a few large Hong Kong based companies tried to expand further abroad to other Asian countries. In doing so, however, they often had to realize that even though they were “Asian” companies, they did not have the right skills and experience any more to succeed in these foreign markets. The results were heavy losses for many of these aggressive investors.

Realizing that they could not use the same decision-making process which worked so well for them at home, as well as in Guangdong, Hong Kong companies have started to adopt the ways of Western multinationals when investing further a field. They have realized the importance of gathering experience from local people in Shanghai, Beijing and other cities. At first reluctantly, but then with conviction, they have also started to trust the recommendations of local managers and dedicated significant management time to their market penetration efforts in China.

Thus, in line with what the model would predict, Hong Kong based companies have followed an intuition-based decision-making process more or less right from the start of their market entry to China. They did so, however, only in areas that were culturally and geographically close to them. In areas further away, they realized the benefits of a slower preparation phase, which would give them enough time to gain the experience that they lacked at first but needed for an intuition-based decision-making process to work.

5.3 Application to a case study

As a concluding part of this chapter, a Hong Kong based infrastructure company and its way of doing business successfully in China shall be discussed. It is an especially relevant case as the company works on some projects closely together with Western partner firms.

5.3.1 General overview

The group which shall be discussed in this chapter is headquartered in Hong Kong and will be called Infra, as infrastructure investments in mainland China is one of the group's core business activities. It is a largely family-controlled enterprise and is quoted on the Hong Kong stock exchange. The group is one of the largest infrastructure investors in mainland China, having invested around USD 3bn up to the end of 1998. This sum compares with a total of around USD 16bn in group assets and therefore makes the China business critical to overall success of the company.

In its infrastructure arm, which concentrates on the mainland Chinese market, Infra focuses on the following business segments: roads, bridges, cargo handling, power and water treatment. It is open, however, for new developments and has therefore entered the business of information infrastructure recently.

It was difficult to judge how successful the individual companies under study were in their activities in mainland China. Even if companies would make profitability data available to the researcher, it would still be very difficult to make a meaningful judgment about the successfulness of the companies' strategies. Success in an emerging market like China can only seldom be measured in profit terms alone. On the other hand, knowing which companies are successful is important for the analysis, as this would help to find out whether their decision making processes are effective or not.

Given these caveats, one can argue that Infra is operating successfully in China. This conclusion is supported by a number of indicators. Firstly, profit contributions from the mainland Chinese market are consistently large, though not excessive. Secondly, the risk premium on corporate debt, which mirrors investors' confidence in the group's activities in China, is relatively low. Thirdly, the group – up until the instabilities caused in the wake of the Asia crisis of 1997/98 – has consistently outperformed Hong Kong's Hang Seng stock market index. Finally, the group has

received international rewards in recent years for its foreign direct investments in China.

In its investments in mainland China, Infra is still concentrated relatively heavily in the province of Guangdong, but it is actively trying to increase its exposure to other regions for reasons of risk diversification.

5.3.2 Analysis of Infra's strategy in mainland China

Table 5.1 gives an overview of the proposed model's variables and Infra's respective characteristics.

Table 5.1: Infra's strategy compared to the model

Model for decision-making in emerging markets	Infra's actual characteristics
Productive leisure start-up phase	Infra was part of a larger Hong Kong concern which started to investigate opportunities in mainland China soon after the opening process began. The first projects were opportunistic but once the company realized the potential of China, they formed a separate entity with the specific purpose to invest in the country.
Initial products: small and flexible	Like many other Hong Kong companies, Infra's holding company started with small, opportunistic projects.
Subsequent projects increasing in size with better intuition	Infra's decision-making processes remained highly intuitional even though sophisticated capital budgeting methods were formally introduced once the stock market required such internationally recognized procedures.
Fast decision-making	Within Infra, it takes rarely more than a month from decision initiation to formal authorization.
Continual learning through experience	The network of local contacts are actively used to play back local experience to the corporate center.

Infra's key to success in mainland China is a combination of an effective decision-making process and a strategy that is tailored to the target market. It recognizes the special environment in China, especially the importance of the Chinese government. The central government's policies can significantly affect an investor's bottom line. If one tailors one's project according to the goals of the

government, success is much more likely than if one constantly has to try to find a way around government laws and regulations.

One may argue that in locations far away from Beijing, the central government's policies are not of overwhelming importance any more. While this may be true in some instances, even in these provinces it will pay to do centrally-approved projects since local resistance can be more easily overturned by appealing to higher echelons in the government bureaucracy. The group accepts this special feature of doing business in China as a precondition for operating successfully in this environment and therefore concentrates primarily on industries and projects that have the outspoken backing of the central government's current – and likely future – five year plan.

For these reasons, the company entered for example into the businesses of 'City Core Redevelopment' and 'Government Subsidized Housing'. Other infrastructure investors initially shied away from these – on first view – relatively unprofitable businesses. However, the company believed that the government would appreciate foreign help for these priority projects to such a degree that they would be willing to do their best to assure profitability for the investing company.

Infra's focus on Chinese government's "priority projects" from a very early stage is an example of how companies should modify their strategies in the face of very different business environments. But China is special in comparison to Hong Kong or Western countries, not only by being different but also by showing the characteristics of emerging markets discussed above. One of them is the unavailability and unreliability of accurate information.

The information problem is especially important in relation to new business opportunities. For this reason, Infra has consistently tried to establish a network of information nodes in the country. These nodes consist of people, both inside and outside the organization, who are responsible for gathering strategic information and, more importantly, for interpreting them correctly. As one interviewee in a different company remarked, the difficulty is not so much the gathering of private information, but often the correct interpretation of publicly available data. Infra does so by making sure that it has a number of China experts available who have a deep understanding for the workings of this country. The group's closeness to China, its long history of contacts with China and the clearly shown focus of top management's attention on the Chinese market are key factors in this respect.

Due to these characteristics of geographical proximity, close top management involvement, and frequent travels to the region, feedback loops are very dense

and frequent. For the above-mentioned factors, the decision-makers' understanding of the business environment in China is very high. Feedback from the region therefore falls on fruitful ground.

One problem Chinese family business generally face is the reluctance of junior managers to present negative facts or developments to the company's owner-managers. The Chinese arm of the group may avert problems of this sort by having a strong CEO, who is not a member of the family. Decision-making for the majority of projects focuses on this node in the organization. Final approval from the family-controlled board is mostly not much more than a formality, even though the chairman is very much involved in the company's activities in China.

Infra's strategy, which is possibly the most important factor for its success in China, is the signing of Cooperation Agreements between the company and city governments. These agreements are a framework of future cooperation between the Chinese side and the foreign investor. They summarize the needs of the city or county and match them with pledges from Infra specifying the areas it is willing to help develop.

With these non-binding agreements, Infra pursues two goals. Firstly, it showcases its commitment to the region, therefore hoping to acquire projects directly without having to undergo lengthy tender processes. Secondly, the cooperation agreements and the following wide spread of activities in one particular region are a kind of special insurance policy. By being involved in a relatively large number of independent projects, and more importantly, promising to do even more, Infra insures the city government's willingness to make life easy for the company. It usually does so by making bureaucratic procedures more speedy and by taking care not to upset this large-scale investor through unjustified levies, or by working hard to favorably terminate conflicts that may arise in individual projects.

These cooperation agreements, an invention by the company under study and later copied to some extent by competitors, can therefore be interpreted as a mechanism to tailor one's strategy to the target market and its special requirements. As these contracts offer a way to minimize risk, they are also useful to speed up decision making.

In China, as in many emerging markets, the reduction of risk is often a key problem for speedy decision on investment projects. As Infra has build up strategies for risk reduction, and as it has a pool of valuable China experience, it does not need to investigate each project in much depth. This is aided by the concentration of market knowledge and decision-making authority in the hands of

very few key managers. While such a concentration is potentially dangerous for the company in respect to loss of such key personnel, it does help to make decision making efficient and effective.

Additionally, by having a simple decision-making structure, and a quick way to hold urgent board meetings informally, the time span between first investigations into a project and the actual decision to go ahead can be kept to a minimum.

5.4 Implications

Two conclusions can be drawn from the Hong Kong part of the study

Firstly, the Hong Kong examples show how internal environments could look to foster entrepreneurial decision-making. While stressing the importance of such entrepreneurial decision-making, the study also drew attention to the limits of decision-making processes based on intuition alone. According to the model presented in chapter 4, these limitations were closely related with experience.

While there are a number of reasons why Hong Kong based companies are fast in decision-making, a few important ones are also transferable to other companies and environments¹⁷². The most important of these is the concentration of decision-making power on people well experienced in the local environment. In Hong Kong based companies this is often the CEO, and sometimes the owner-manager. In Western multinationals, this person might be the head of local operations, who should ideally be based in the target market.

The ready availability of information is also an important factor. It can only be replicated by multinational companies through building reliable learning and experience gathering systems early on in their market penetration efforts, as suggested in the model from chapter 4.

The limitation of fast, intuitional decision-making was also shown by the example of Hong Kong companies. Once they tried to expand further abroad in Asia and also to far away provinces in China, they had to realize that their situation had become very comparable with that of multinational companies. Thus, they needed to invest into building experience in the way shown in chapter 4. They also started

¹⁷² Most sample companies stated that, on average, one month would pass between decision initiation and authorization. Hong Kong specific reasons for this fast process include the concentration of decision-making power on one owner-manager in many cases, as well as the free-wheeling and highly competitive business environment in Hong Kong, which forced companies based there to be fast and effective in making important business decisions.

to introduce formal investment calculation methods once the amount and reliability of data had reached a satisfying level.

The second implication for management concerns the importance and method of how accurate market knowledge and experience can be gathered in the market. Successful Hong Kong based companies soon realized the importance of establishing beachheads in the country itself, even though the headquarters was right opposite the border. The successful companies acknowledged the difference in operating environment and were prepared to play by the new rules. This included the willingness to learn these rules by slowly building up experience step-by-step, expanding from small opportunistic projects to investments of many billions of dollars, once the company felt reassured that it knew the market as well as if it were a local firm.

6 Application on the emerging Internet market

Chapter 5 applied the model of decision-making processes for emerging markets to entrepreneurial companies from Hong Kong. It could be shown that the model is well suited to explain not only decision-making processes in large, multinational firms but also in smaller, entrepreneurial entities. In this chapter, this model will be used to discuss decision-making processes in even more entrepreneurial firms, namely Internet start-up companies. An in-depth longitudinal case study of one such firm, projectmarket, will be complemented by a comparative analysis of another such firm, eLance. This application of the model to the emerging Internet market will show how it can be used to improve decision-making processes in entrepreneurial companies.

Another important aspect of these two comparative case studies is a further extension of the model's reach. The business environment of China is now being left behind, as is the environment of geographical emerging markets in general. Instead, the entrepreneurial company of this chapter is working in the emerging Internet market. The similarities between the Internet and geographical emerging markets were already discussed in chapter 1.

A third and final defining aspect of these two case studies is the type of decision under review. In contrast to foreign direct investment decisions, which were the focus on the main sample for this study, the analysis shifts now to strategic decision-making processes in general. In doing so, the arguments of the discussion about generalizability from the final section of chapter 4 are followed. It was argued there that, even though the original research sample was relatively narrowly focused, the model should have a much wider impact.

This chapter shows how far the impact may reach and highlights the model's value to practitioners. The main part of this chapter is a comparative analysis of the two companies, projectmarket and eLance, according to a framework provided by the model of decision-making processes in emerging markets.

As an introduction to this findings section, a description of the two case companies, projectmarket and eLance, follows in the next sections. projectmarket will be discussed in more detail, as the researcher had the opportunity to follow projectmarket's development for about one year very closely in form of participative observation. This detailed analysis is then contrasted with a discussion of eLance, which will concentrate on the most important parallels and differences compared to projectmarket.

6.1 Description of projectmarket

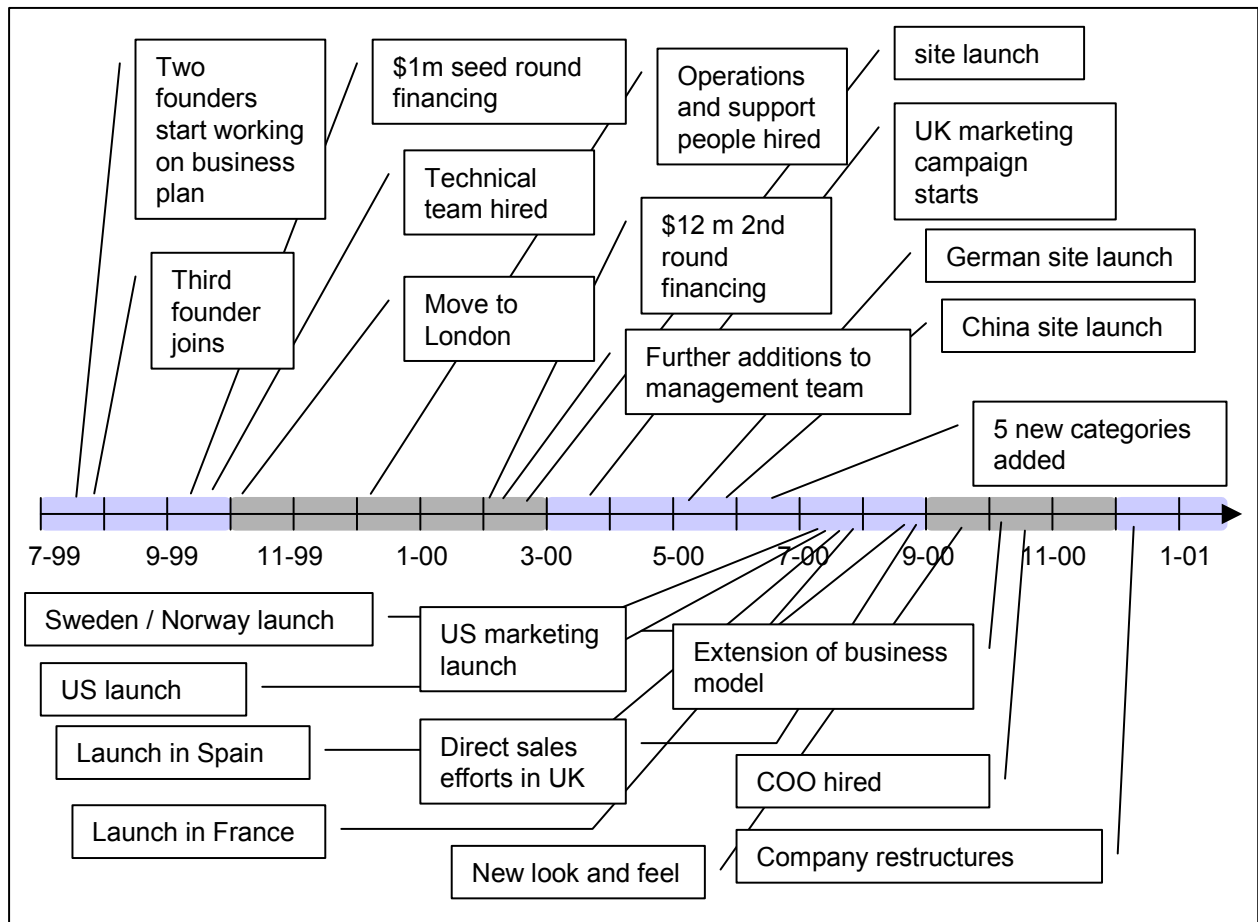
projectmarket is a global marketplace for business services. Companies in need of a business service, like legal advice, the design of a website or logo, etc., called “clients”, post a project on the site, giving details of its scale and nature. Business service providers, “experts”, can bid for these projects after having passed a test which checks for basic knowledge in their chosen field of expertise. Clients then choose an expert to work for them, taking into account the service provider's quality (by checking their feedback ratings and profile) and the price they quoted. Various tools and procedures assure efficient communication, and payment.

projectmarket's closest competitor with a similar business model is the US marketplace for business services, eLance, which will be discussed below. Other competitors include listing sites for freelance workers like guru.com and subdivisions of larger job sites like monster.com's freelance market place.

6.2 History of projectmarket

projectmarket's history until early 2001 can be divided into five phases as figure 6.1 shows. The first phase may be called “from idea to business”, followed by “building the company”, then “rapid international expansion”, next “improving the business” and as a final phase of this analysis, “in search of profitability”.

This study analyzes projectmarket's strategic decision-making processes during the first one and a half years of the company's existence. During most of that time, the researcher was in continuous contact with the company, working on a small project as described in the methods chapter. To provide a reliable background for the following analysis, an overview of projectmarket's history follows.

Figure 6.1: *projectmarket's history until January 2001*

6.2.1 From idea to business

Over summer 1999, a fresh MBA graduate from Harvard Business School searched for a business idea to found a dot.com company. He saw most promise in combining two existing and highly successful business models: That for auctions (like ebay.com) and that for recruiting sites (like monster.com). Thus, projectmarket, the online market place for business services, was born.

The initial founder teamed up with a fellow Belgian to work on the business model. The two were soon joined by another countryman, then still an MBA student at Harvard Business School.

Even before securing their first investment funds, the three founders hired a team of Web developers who used to work for a large Belgian telecommunications company. The business idea and the profile of the founders convinced many prospective investors, which allowed them to choose the most suitable among them, Milan-based Netpartners, who contributed \$1m to the start-up.

6.2.2 Building the company

After the first round of financing was secured, the founders could pay back their credit card debts and start looking for an office. To underline global aspirations from a European home market, the team decided to base their company in London. Over the next few months, the founders concentrated on hiring and further fund raising, thus filling key positions quickly and finally securing second round financing of \$12m in February 2000.

Meanwhile, the technical team was busy building the Web site. A beta version was launched in September and a full version in February. From early on emphasis was given to establishing the company as the market leader through technical superiority and a strong focus on quality through superior customer service. projectmarket offered a range of important features like feedback ratings and a moderation system, and was a first mover in providing an integrated, global payment solution, as well as an expert approval system.

6.2.3 Rapid international expansion

With enough money in the bank for the foreseeable future, the company could launch their UK marketing campaign in March 2000. Very soon the management team realized that their business was truly global and the decision was reached to speed up the internationalization program. The goal was to quickly establish projectmarket as the premier marketplace for business services through being first mover in as many European markets as possible.

Within less than half a year, the company thus opened offices in several European countries, launched in the United States, and established a presence in China. This was possible through a combination of highly adaptable and sophisticated technical solutions, which allowed them to quickly translate the site into several languages. The process allowed for local variations, while keeping central control of the technical infrastructure, thus avoiding too much complexity.

At the same time, the company also worked on adding various features to the site, ranging from more project categories to content for expert communities.

6.2.4 Improving the business

In early September, a redesigned site was launched with a more professional look and feel. Soon afterwards, most attention was directed towards increasing actual

sales numbers. The marketing and sales team was expanded significantly and could therefore experiment with a variety of direct marketing and sales initiatives.

The team realized that there was customer demand for a more hands-on approach to managing business service projects and also the opportunity for higher margin services. The company extended its business model by offering project management services and fixed price services as an alternative to the marketplace itself, which required a substantial amount of evaluation and management work by projectmarket's clients.

Having grown within a year from a hand full of people, to an organization with offices in six countries and more than 80 employees on the payroll, the company realized that more traditional management processes needed to be introduced. To do so and to enable the founder and CEO to focus more on strategic issues and investor relations, a COO was hired with a proven track record in managing a multinational corporation.

6.2.5 In search of profitability

In late autumn / early winter, projectmarket's leaders finally had to realize that the stock market crash of IT, and especially Internet companies, had changed the landscape significantly since their latest round of financing. Investors had decreased their tolerance for unprofitable growth and were scrutinizing business models in more detail.

It became clear that the company had significantly underestimated the difficulty of acquiring new clients. The online marketplace for business services was a very new concept in a highly fragmented market, which called for intense and expensive marketing and direct sales efforts to a target public that was still relatively uneasy with the Internet as an effective business tool. Thus, client acquisition costs remained high, as did customer service costs, because many projects required intervention by projectmarket staff.

The new additions to the service offering, which promised much higher margins than the basic marketplace, had not been available long enough to generate significant revenues. The company's founders therefore decided, together with their investors, to restructure and reposition the company in a way which would allow it to reach profitability faster while at the same time requiring less resources.

This decision required the stepwise closure of the offices outside the UK, and the move of the head office from London to a cheaper location in the vicinity. In

addition, customer service and community service staff were reduced, and marketing efforts were focused on the most promising avenues. This much lower cost structure reflected the smaller size of the market and thus promised to help the company reach profitability quickly.

6.3 projectmarket's main strategic decisions

During the field research, seven main strategic decisions could be identified, four of which happened at one particular point in time and three that shaped the company in an ongoing process.

The four distinctive decisions were, firstly, the initial decision on investors, location, and the vision for the company; secondly, the decision for an internationalization strategy; thirdly, the re-branding decision; and, finally, the restructuring decision.

Another three decisions were works in progress which shaped the company over a prolonged period. These were the evolving business model; the evolving marketing and commercial strategy; and the various hiring decisions, most importantly that of the chief operating officer.

The following detailed discussion of these individual decisions will set the course for the comparative analysis of the decision-making processes of projectmarket and eLance.

Table 6.1: Overview of 7 strategic decision processes at projectmarket

	Initial	Inter- nationa- lization	Rebran- ding	Restruc- turing	Bus- iness Model	Com- mercial	Hiring
Length of pro- cess	very short	very short	relatively lengthy	one week to one month	ongoing	ongoing	various lengths
Data analysis	limited	very limited	very limited	very limited	limited	limited	quite ex- tensive
Mana- gers involved	very few	very few	several	top team	top team	very few	several
Board author- ization	no	no	as a formality	active partici- pation	as a formality	no	as a formality
Chan- ges of strategy	no	signifi- cant	no	no	frequent; non dis- ruptive	signifi- cant	yes

6.3.1 Differences and similarities

The overview of table 6.1 shows that most decisions within projectmarket had the following characteristics in common. They were done very quickly, based on little analysis and actively involved only a limited number of managers. Board authorization, if at all required, was usually a formality. Changes of the strategy happened relatively frequently.

Over time, with an increasing number of managers, communication became more intensive and strategy meetings more frequent. The amount of data available for analysis increased and so did the tools available for analysis when the technical team created an intranet site to improve internal processes.

This description of decision-making processes at projectmarket resemble relatively closely the trial and error decision making type discussed in the main part of this dissertation. The company was relatively inexperienced and had to make quick decisions. These quick decisions could – mostly – be changed similarly quickly. Only those decisions that involved large amounts of resources – like the internationalization decision – were difficult to change. They were still made in a similar way to the more flexible decisions like those for business model and marketing. While experience was naturally built up over time, one year did not appear to be enough to create a similar level of experience as multinationals could rely on when making decisions in the emerging market of China.

The main exception to the core type of trial and error decision-making process characterized above were the hiring decisions, which were relatively analytical and lengthy.

6.3.2 Initial decision on investors, location and vision

Right at the start of the company, a decision on its purpose had to be made which was certainly of significant importance. This very first decision was inspirational and happened during a flight between Vienna and Brussels, as the initial founder explained. It was the consequence of an analysis phase in which he had considered various business ideas and finally settled on the combination of an auction and job site, thus bringing the projectmarket idea to life.

The idea was soon transformed into a basic business plan, which required some, but still limited, research, planning and forecasting. As the general climate for business-to-business start-up companies was very favorable at that moment in

time, especially when the new start-up was backed by a strong team of founders, forecasts for sales and profits did not have to be very elaborate.

The founders spent time studying the competitive environment but relied mainly on intuition and their limited previous experience in e-business when making the decision of what they wanted to achieve with their new company.

The decisions on where to locate the company and which investors to choose were made relatively quickly. The founders based their location decision on a qualitative comparison of advantages and disadvantages of mainly two European cities, London and Munich. The United States was not considered as a viable option since none of the founders had a strong network there and because they wanted to avoid head-on competition with eLance, a local competitor that had started slightly earlier from a base in the US.

Generally, the decision-making process for these initial decisions was characterized firstly by a concentration on the three founders, with the dominance of the CEO. Secondly, the rapid speed of decision-making resulted in some decisions being made more or less *ad hoc* (the vision), or within a day or two (investors and location). Thirdly, data analysis was done but did not carry significant weight. Finally, the authorization process consisted of the question whether or not the founders would find investors for their idea. As the founders could decide between a number of potential investors during both initial rounds of financing, this authorization process did not have a significant impact on the development of the strategy.

6.3.3 The internationalization decision

One of projectmarket's most strategic decisions was that of its internationalization strategy. This strategy involved the opening of five international offices within as many months and to begin doing so only weeks after the launch of the UK site.

The decision development and selection phase lasted only a very short time and did not involve any substantial data gathering, analyzing, or alternative evaluation activity. Instead, the two main decision-makers relied on their instincts to press ahead with a fast and broad internationalization effort. Between them, they agreed to set the goal of opening one office per month, thus covering the most important European countries, as well as the United States.

The implementation of the decision happened nearly as smoothly as the decision itself. The company experienced a steep learning curve in starting up international

offices and had all company organizations running by mid August 2000. However, less than four months later, three of the five offices were closed again during a company wide restructuring program, a step that was mirrored in January 2001 by projectmarket's main competitor, US based eLance, which also cut back its international operations by closing its UK office¹⁷³.

6.3.4 Re-branding decision

The re-branding decision was the most lengthy decision and involved many people within the company. It was highly communication-intensive, and decision-making power was relatively dispersed within the organization.

Similar to the other decisions, data gathering and analysis was not done in any clearly structured way *e.g.*, through focus groups or targeted studies. Instead, user feedback entered the decision-making process informally. Gut feeling and experience of the key people involved in the decision was very important. Formal authorization processes existed through a board presentation but investor interest was not particularly high for this decision and the management was trusted in their recommendations.

6.3.5 Restructuring decision

The restructuring decision had to be confined to the top management team as it involved laying off a significant number of company employees. The core of the decision-making process happened during one off-site meeting and the whole process did not last more than about a week even though discussions with investors, who took an active role in this decision, postponed a final decision by about one month.

The management did not try to gather data specifically for the restructuring decision or the new strategy but drew upon their experience, which had built up over the past couple of months. The decision was largely dictated by external influences, which is why the management did not have a free hand in regard to possible development options.

¹⁷³ In March 2001, the company closed its remaining two international offices and concentrated its activities in its headquarters which were moved during the same year from London to lower cost Reading, England.

6.3.6 Marketing and commercial strategy

Marketing expenditures were responsible for up to 40% of the company's total monthly budgets, making the marketing and commercial strategy one of the two most important ongoing strategic decisions. It was especially dominant during the third and fourth phases of the company's development.

The decision-making process for the marketing and commercial strategy must be considered ongoing as the strategy itself constantly evolved and changed. The decision-making power was relatively concentrated on one or two people and the lines of communication with the rest of the company were not particularly open. The main decision-making authority for marketing rested on the marketing manager, especially during the early stages of the company's development.

The marketing strategy evolved roughly through three phases with three different managers having decision-making authority. The initial marketing strategy was drawn up by the first marketing manager, who was one of the first senior hires. His strategy was largely based on advertising spending, which back then appeared to be the dominant model. It did not take many weeks, however, until dissatisfaction with the marketing strategy was expressed within the company and after early results were not satisfactory, the decision was taken to replace the strategy, as well as the manager.

The next marketing strategy was clearly focused on direct marketing and direct sales efforts and most brand-building and advertising-heavy plans were shelved. This switch was influenced by initial observations within the parent company, as well as – and probably more importantly so – by the experience from other firms with heavy advertising budgets but low returns on brand building investments.

The direct marketing and sales strategy followed a trial & error approach as a number of different models were experimented with, from direct e-mail marketing, newsletter sponsoring, and participation in trade fairs, to a major direct sales efforts with sales people making office visits. As this experimentation phase largely coincided with the company's international expansion phase, these experiments were often carried out in parallel in a number of markets. Meanwhile the UK remained pioneering in most marketing activities and some of the more costly methods were not transferred to other countries if they did not quickly produce promising results in the UK.

Data gathering and analysis increased over time but was not considered to be a highly important issue. While the direct marketing phase was in full swing, the company introduced an intranet system that allowed for much more efficient data

analysis than was previously possible. This helped the marketing manager in his decision-making and he later expressed regret that a similar or even better system was not available in earlier development stages. This could have cut reaction time significantly, thus avoiding the pursuit of strategies that did not yield the desired results.

In contrast, other voices within the company doubted the value of detailed data at an early stage of development and pointed to small sample sizes and the overriding importance of other tasks for the technical team.

Data gathering in form of market studies or focus groups were not done as these methods were known to be costly, as well as very time consuming. Instead, user feedback through e-mails was acknowledged and entered into the decision-making process.

The results of these direct marketing efforts were mixed. The company managed to attract an increasing number of users and project sales increased as well, but none of the methods led to a true breakthrough. Thus, the company had to change its marketing and commercial strategy once more in a major way and decided to focus on sales to large corporate clients rather than more widespread marketing activity. The marketing budget was significantly reduced during the restructuring process and the authority for the marketing and commercial activity was transferred to the new COO.

6.3.7 The evolving business model

Closely related to the marketing and commercial strategy, but still distinctively different, was the evolving business model. This decision-making process must also be considered as work-in-progress but included more managers than the marketing decisions. Communication about the business model and its implications was concentrated in the top management team but the views of other parties were also considered.

The business model evolved through a continual learning and feedback process. The company started with a rough concept of where it wanted to head but it was very open to adjust to new market insights. The development of the business model was at first relatively slow as a focus was put on attracting visitors to the existing solution and to expand internationally. Over summer, however, the company's management realized that it had to earn significant money faster than originally planned so the focus changed to business plan innovation. Thus, during

summer a number of trial and error experiments were carried out with the aim of improving the company's performance.

In doing so, the company introduced several initiatives aimed at overcoming shortfalls in the existing business model and which were therefore clearly part of a trial and error strategy. The decision-making processes of these various relatively small alterations of strategy, which only in their totality became significant, were very fast. They were either led by the CEO or by a senior manager and were followed by intensive but brief discussions in the top management team. Formal authorization procedures were not considered necessary.

Because of the immense pressure to develop quickly, implementation of the new strategies was often hurried. There was little or no time for closer scrutiny and a fine tuning of the strategies. Pricing for new product offerings,¹⁷⁴ for example, was done with very little idea about the true market value and the size of actual demand. When the initiatives failed to take off immediately, they were not dropped entirely but the focus shifted quickly to new ones. Because of the inefficiencies during the implementation of the initiatives, however, it was not always clear whether the strategy itself was wrong or whether the lack of market response was more due to implementation issues.

6.3.8 Hiring decisions

As in most technology companies, employee remuneration makes up the largest part of the expenses. Therefore, employee performance is critical to the success of the company. This is even truer for start-ups, which initially have little else than a couple of employees, driven by a strong vision. Especially the CEO noted the strategic importance of the hiring decisions, the most critical of which was the decision to hire a chief operating officer.

The hiring decisions were an important exception from other decision-making processes insofar as data analysis, in the form of checking reviews and the active involvement of several managers in the decision process, was much more intensive than for other decisions. This reflects two things.

Firstly, importance was attributed towards hiring the right person for the task ahead, as well as the management's familiarity with the decision at hand. Additionally, the hiring decisions were lengthy due to the fact that talent was in

¹⁷⁴ Example for such service-products is logo design for a standard (relatively low) price of, say \$199; or the design of a personal homepage.

short supply during projectmarket's expansion phase, forcing the company to commit significant resources and time to the hiring process.

Compared with other strategic decisions, the hiring decision appeared to have been done in a much more structured way and was based on a certain amount of experience in evaluating new employees. The problem was, however, that this relatively reliable process was based on a shakier foundation of actual strategy decisions. For example, the company invested significant amounts of time and money into hiring the "right" COO. It may have achieved this goal temporarily but when the company had to restructure significantly, the COO's role changed dramatically. Subsequently, he had to be laid off again relatively soon after being hired. The same was true for hiring experienced country managers who had to be laid off as well, once the expected results of fast international expansion did not materialize.

6.4 Description of eLance

Where projectmarket's tag line is "The managed marketplace for business services", eLance proclaims to be "The world's largest professional services marketplace"¹⁷⁵. Just as these two descriptions suggest, both companies are indeed very close competitors with a very similar service offering. Thus, the description of eLance will be kept short and the main focus will be on explaining the differences from projectmarket. This introduction to eLance will be followed by the main part of this chapter, namely, the comparative analysis between projectmarket and eLance in relation to the proposed model of decision-making for emerging markets.

eLance was founded in late 1998 by Beerud Sheth and Srinu Anumolu, who both came from an unrelated field, the financial services industry. The first beta site was launched only two months before projectmarket's, in September 1999. Just like projectmarket, eLance also received about \$1m in seed financing and both companies closed their second round of financing in February 2000 with investments of \$12m.

During 2000 eLance concentrated on constantly improving the site, adding various additional features until they re-launched the site in September 2000. Only from

¹⁷⁵ Displayed prominently on the home pages of the two companies, www.projectmarket.com and www.elance.com, respectively (as of May 2001).

this month onwards did the company start to charge a transaction fee for its services.

While just as many other start-up companies, did not manage to raise additional capital at attractive terms during autumn 2000, which sped up and intensified the company's restructuring decision in winter, eLance successfully closed a third round of financing in September 2000, raising 50 million dollars. By early 2001, eLance also introduced cost cutting measures and laid off some employees. However, their restructuring was less severe than projectmarket's.

From its inception until now, eLance has managed to hold on to its early lead in terms of activity on the site. It also managed to catch up with projectmarket in terms of turnover after introducing its own transaction fees. The ability to raise a third round of financing helped guarantee the company's development long into the future.

Both companies have suffered from a slower than expected growth in the market of business service outsourcing over the Internet and did not even come close to their expected activity and turnover targets. At the time of this writing (mid-2001), eLance is clearly the larger of the two competitors and also faces a more stable future due to the additional capital infusion raised in late 2000. projectmarket, however remains an active participant in the marketplace and has managed to lower its cost structure significantly, thus preserving its chance to compete effectively from its base in Europe against its larger US rival.

6.5 Comparative analysis between projectmarket and eLance

Table 2 gives an overview of the proposed model's implication for the Internet start-up companies projectmarket and eLance. These implications are contrasted with the actual characteristics of projectmarket's and eLance's development. The table shows that eLance followed the model of decision-making processes in emerging markets much more closely than did projectmarket.

Table 6.2: *Implications of the model and actual development at projectmarket and eLance*

Model's implications	Actual development of projectmarket	Actual development of eLance
Model: Start-up phase should be characterized by 'productive leisure'.		
Characteristics of the start-up phase	<p>VERY FAST</p> <ul style="list-style-type: none"> • Very short phase • Fast speed virtually from day one 	<p>IN LINE WITH MODEL</p> <ul style="list-style-type: none"> • More than half a year of start-up with only 3 employees • Long period with "beta" site
Model: If experience is not available internally, it needs to be acquired to create a strong base for intuition based decision-making		
Relevant experience within the company	<p>LITTLE EXPERIENCE</p> <ul style="list-style-type: none"> • Company tried to hire as experienced managers as possible but degree of available experience in Europe was limited • Investors followed a hands-off approach, providing limited support and advice 	<p>IN LINE WITH MODEL</p> <ul style="list-style-type: none"> • Move from New York to Silicon Valley provided ample resource of talent • General Manager has had Internet related experience since 1992 • Founder had already started one successful Internet based company • Investors and advisors had significant relevant experience and were actively involved in running the business
Model: Decision-making in growth phase should be fast, development speed high.		
Speed of decision-making and growth	<p>IN LINE WITH MODEL</p> <ul style="list-style-type: none"> • Delegation of decision-making authority to line managers speeds up decision-making • Authorization process only formality • Number of international offices and employees grows rapidly 	<p>IN LINE WITH MODEL</p> <ul style="list-style-type: none"> • Decision-making speed "fairly fast" • Board authorization is being given by e-mails or phone calls • Number of employees grows rapidly

Model: Continual learning should be made possible through flexible projects, especially early in the growth phase.		
Size of initial projects	<p>LARGE</p> <ul style="list-style-type: none"> • Internationalization strategy was a major commitment of resources 	<p>IN LINE WITH MODEL</p> <ul style="list-style-type: none"> • For internationalization, two different strategies were tested: physical office and business development deal
Focus on flexibility	<p>RELATIVELY INFLEXIBLE</p> <ul style="list-style-type: none"> • Internationalization strategy increases complexity, reducing flexibility • Site is launched nearly as a finished product, alternations prove fairly difficult to implement 	<p>IN LINE WITH MODEL</p> <ul style="list-style-type: none"> • Concentration on efforts to improve product • Avoidance of complexity by deciding against additional languages • Rapid adaptation and significant innovations after launch
Rapid adaptation	<p>SLOW CORRECTIONS</p> <ul style="list-style-type: none"> • Internationalization strategy is carried through until money runs out even though results are not promising • Data analysis tools are implemented late, slowing down adaptation in the marketing strategy • Marketing strategy is changed rapidly in center but international offices reduce speed of group-wide refocusing and increase costs of errors • Line managers have worked largely in isolation 	<p>IN LINE WITH MODEL</p> <ul style="list-style-type: none"> • Internationalization strategy is changed without the loss of significant investments • Revenue model is changed significantly • Learning from experience / example of competition coupled with own innovation • Any issues, even those that are already publicly announced, are modifiable¹⁷⁶ • Relatively strong control by investors

6.5.1 Start-up phase and intuition

The first phase in the model of decision-making processes for emerging markets is the Preparation Phase, where the entrepreneurial company acquires experience

¹⁷⁶ The company announced, for example, the addition of more languages and the expansion to other European markets but backtracked from this commitment as soon as it did not seem promising any more.

rapidly and learns through a trial and error decision-making process. Like many other Internet start-up companies, projectmarket and its initial managers had only very little relevant experience, both in the emerging market environment of the Internet, and the chosen business itself. This contrasts with most other entrepreneurial firms, which are usually started by an entrepreneur who is very experienced in the 'technical' aspects of his or her field while having 'only' to face the uncertainties of the market environment. For projectmarket's management, everything was new – the market, the business, and running a fast-growing company.

According to the proposed model, the company should have concentrated on gathering as much experience as possible through experimenting with trial and error processes that would involve relatively little money initially. However, projectmarket instead forged ahead with a rapid development speed right from the start as figure 6.2 shows. Its decision-making style was clearly intuition-based, but in contrast to the proposed model for decision-making in emerging markets, too little attention was paid to developing experience and learning from experience to improve the quality of intuitive decision-making.

This development contrasts with eLance's start-up phase. eLance had only three employees for more than half a year, which was plenty of time to study the market and get prepared for fast growth. eLance had also started its "beta" site earlier than projectmarket and kept that status much longer, thus communicating to its users that they were still experimenting with their core product. And so they did, as the site became more useful by the month through a constant improvement process.

In the proposed model, Western managers in China build up their intuition decision capabilities through several years in relatively slow-paced preparation phases. projectmarket's start-up phase, in contrast, was nearly nonexistent. The company started off with major investment projects through an aggressive internationalization strategy, shortly after the launch in the home market and the conclusion of the company's second round of financing.

This overriding desire for speed, which resulted from a "land-grab" mentality, could be observed in many Internet start-up companies up until around the middle of the year 2000. The desire to grow and move forward quickly and be present everywhere was made possible through the generous supply of capital.

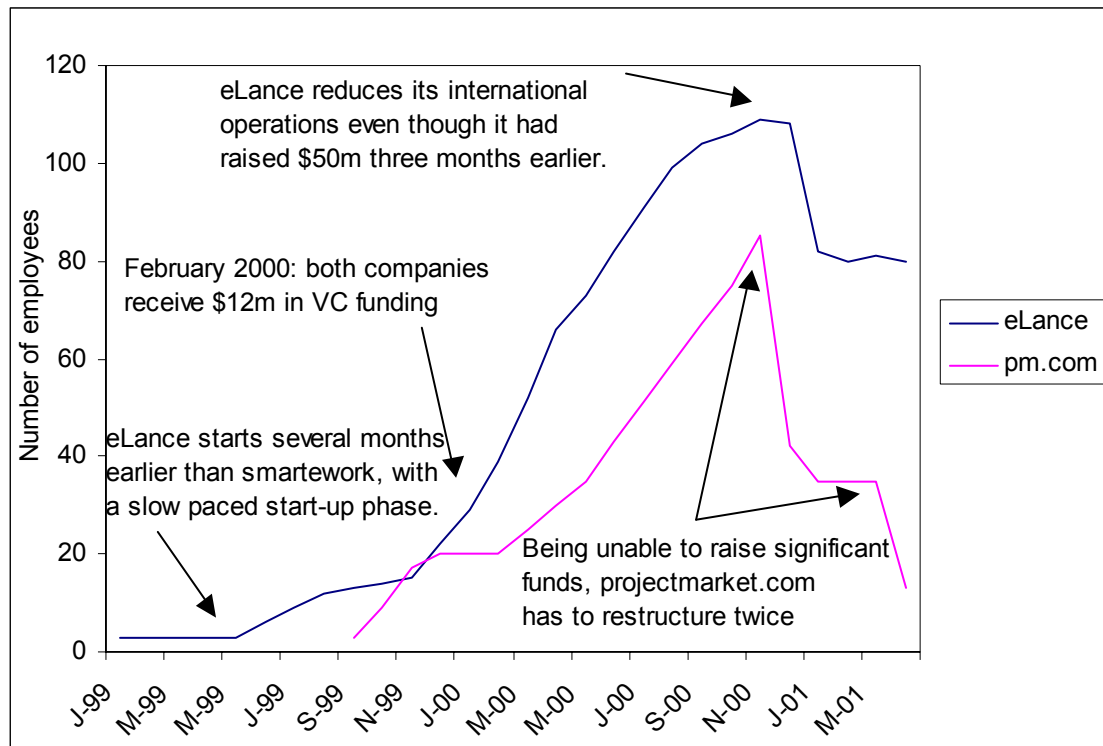
At the same time, there was little internal data available to analyze, few employees to do meaningful competitor or market research, and a belief that the company

was working in a completely novel environment where experience and previous knowledge was not available and hence, irrelevant. As a result, sub-optimal decisions were made, which had to be quickly revised and altered. This was possible because the implementations of the decisions were done in a very flexible and fast way. However, it also meant that inefficiencies occurred, as the focus was on producing quick outcomes.

The proposed model postulates that during the learning and preparation phase, a company's development speed should resemble more a phase of "productive leisure" rather than top speed. While it is true that a faster development speed, also in early stages, will be required for faster-moving markets like the Internet, it is undeniable that the fastest speed possible will not be the optimal speed. Instead, the company should try to find an optimal speed, which will allow it to move ahead of its competition but not overstrain resources and endanger learning effects.

Figure 6.2 shows the growth in the number of employees over time for both companies. Besides marketing expenditures, employees are the biggest cost factor for technology companies like projectmarket and eLance. The number of employees is therefore a good proxy for the monthly investments of the two companies.

Figure 6.2: Development speed in terms of number of employees for projectmarket and eLance from start-up to April 2001



Source: projectmarket; eLance

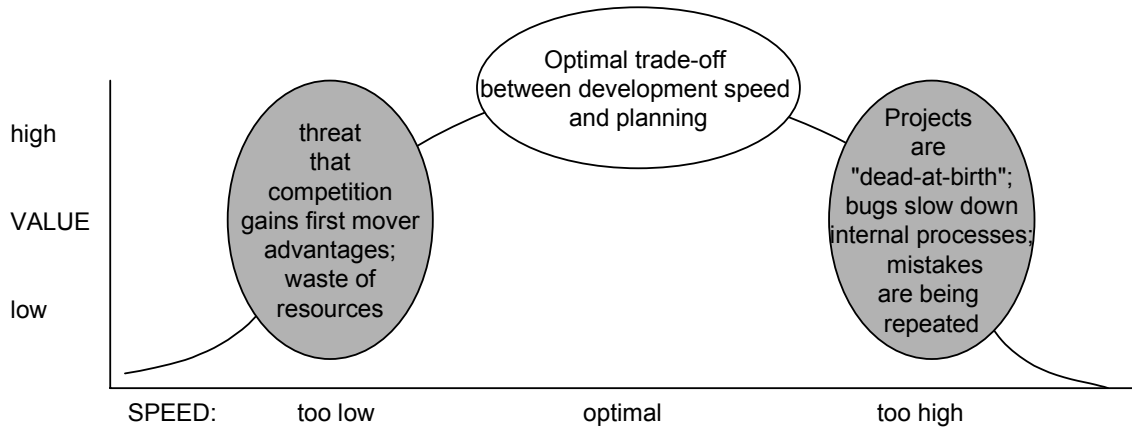
If development speed is too low, there is a threat that the competition forges ahead, establishing itself as the market leader. This threat is especially dangerous for companies offering a marketplace service, where a dominant position is critical to success¹⁷⁷. Slow progress may also waste resources if the company already has a large number of employees or international offices.

If speed is too high, however, projects can become “dead-at-birth” meaning that there is not enough time to plan them properly, thus not giving them a fair chance for success. Even theoretically viable projects may thus become ineffective because of bad planning and sloppy implementation. In addition, bugs slow down internal processes and mistakes are repeated. At a very quick pace, learning is difficult because learning processes often consume time and resources that may not be available if all focus is put on speed.

¹⁷⁷ This can be observed in the C2C auction market, where ebay.com has been market leader since start-up. Even large companies like amazon.com and Yahoo! were not able to significantly erode ebay.com’s position due to the economics of such marketplaces, where an increase in the number of participants increases the value for everyone involved.

Figure 6.3 shows this argument graphically by plotting development speed against the value this speed creates for the company.

Figure 6.3: Development speed vs. actual value for the company



The model for decision-making processes in emerging markets proposes that a company needs to have a relatively slow-paced start-up phase to acquire experience without having yet invested significant sums of money. This learning phase will prepare the company for future growth, which, indeed, should be fast to keep abreast of a rapidly developing market.

Even during the growth phase, however, the model proposes that the company needs to focus on enabling it to learn continually, by implementing projects as flexibly as possible to allow for rapid changes. The implementation should be more flexible, the less experience the company has and the more unknown is the market's future development.

6.5.2 Fast development speed and continual learning during the growth phase

Even more important than the differing lengths of the start-up phases was the type of growth that the two companies experienced. At first sight, the two companies seemed to develop very similarly from about autumn 1999 to autumn 2000. Both companies had very fast employee growth numbers, and similarly fast capital burn rates. As both companies had nearly identical monetary resources, the comparison becomes even more meaningful.

A closer investigation of this growth shows, however, that projectmarket expanded by launching in several international markets, whereas eLance concentrated its efforts on the technical improvement of its site, concentrating its marketing activities on the US home market.

In terms of the proposed model, projectmarket implemented a strategy that made the company more and more inflexible. Even though eLance had started earlier than its competitor, projectmarket had a more complete service offering at its official UK launch in April 2000. The site offered an international payment system, as well as a dispute settlement system since the first day, features that eLance would add only later. Instead of concentrating on further improvements in these areas, however, the company diverted its resources away from the “product” itself, *i.e.*, its Web site, and invested in international expansion.

Besides having less money for product improvements, this strategy also reduced the company’s flexibility significantly. Within half a year after the official UK launch, projectmarket’s site was available in five European languages plus two versions of English. While the technical solution that made this possible was innovative and consisted of easy to use translation tools, the process did add significant complexity, with which the technical team had to cope.

The internationalization strategy, thus, decreased flexibility in two ways. Firstly, it reduced the resources available to implement changes to the product rapidly. Secondly, it increased the complexity of the company, which again made quick reaction to changes in the marketplace difficult to pursue. eLance, in the meantime, invested heavily in the technical improvement of its site, launching new features regularly.

When multinationals enter a new emerging market, they usually make only very limited sums available at the beginning and step up their investment commitment only slowly over time. Only when they feel comfortable with the market, are investment amounts and thus development speed increased considerably. This process allows for the experience generating productive leisure phase described in chapter 4 (the “Preparation Phase”), which was found to be of great importance for effective decision-making later on during market penetration efforts.

In contrast to these multinationals, during the Web's boom times many Internet start-ups had a large amount of capital available very early on in their company's history. projectmarket was no exception to this rule, having raised the significant amount of \$12 million dollars less than half a year after the company's foundation. The available money, together with a widely held assumption that rapid development speed is a condition *sine qua non* for success on the Internet, created a lot of pressure for fast development.

Having seen many other dot.coms spend huge amounts of money on advertising strategies with little tangible success, projectmarket was well aware of the danger

of overspending in this area and followed a relatively prudent marketing strategy. This insight into the dangers of an overzealous advertising strategy did not prevent the company from expanding rapidly in other areas, though. It hired a large number of people quickly for a multitude of tasks that were created on the fly, as well as for its international expansion strategy. Thus, similar to other dot.coms, projectmarket invested a significant amount of money early in its development.

The company was very cost sensitive in its marketing efforts and tried to apply a relatively inexpensive trial and error strategy in line with the model's recommendations. However, at that time the company had already enlarged considerably, with a growing number of employees in different divisions within the headquarters on the one hand, and in the international offices on the other hand. Thus, even though the marketing efforts themselves appeared cheap, they were core to the company's development. A failed trial thus cost the company dearly in terms of employee time, as well as through the copying of unproven marketing strategies, in a number of international offices.

While projectmarket's restructuring was driven by the lack of new capital, a generous supply of money did not stop eLance from some restructuring of its operations as well. It reduced the number of its employees by 20% only a few months after having raised fresh money. Just as projectmarket does, eLance faces a market that develops slower than initially assumed and seems to be smaller in size than euphoric studies made the managers and employees of both companies believe. Restructuring was therefore necessary for both companies. eLance could do so according to its own terms, mainly by cutting trial projects, like the UK office. projectmarket, on the other hand, had to reduce staff significantly. On the one hand that gave them a clear cost advantage but the lack of resources also curtailed their flexibility and development speed.

6.5.3 External differences between the two companies

The analysis above, which followed the model for decision-making in emerging markets, does not give an exclusive explanation for the differing development of the two companies. The model comprises some of the most important, but by far not all, success relevant factors.

The two most important external factors, which strongly influenced the fate of the two companies, were the home market and the reputation of the initial investors. projectmarket decided early on to build the company in Europe, rather than the US. The way this decision was made was not very much different from the way

eLance made its own decision to launch in the US. For the founders of both companies it was a very natural decision to launch in the environment they knew best. Besides lacking personal networks in the US, projectmarket preferred to be first mover in Europe, rather than a second (albeit close) or third entrant to the US market. This decision gave eLance a tremendous advantage because its home market, the US, in contrast to projectmarket's base, the United Kingdom, was much larger in terms of users and much more advanced in terms of the users' familiarity with new Internet related services.

By choosing to launch in Europe, projectmarket implicitly assumed that it was possible to keep these two markets to some extent apart from each other, thus isolating itself somewhat from its US competition. This assumption proved flawed, however, as the market is so global that it makes very little difference whether a UK company posts projects on a local site or on that of a US competitor.

As the proposed model does not touch the question of decision outcomes but only discusses how companies should decide, *i.e.*, gives recommendations for the decision-making process, this important variable is external.

Another such external variable is the reputation of eLance's lead investor in the second round of financing. The company received substantial funds from the very well respected VC firm Kleiner Perkins. John Doerr, the VC firm's illustrious partner, joined eLance's board as a director. Some of the positive effects of this move are internal to this model, as the discussion above about the experience that this investor contributed has shown.

However, in closing a third round of financing, the importance of Kleiner Perkins and John Doerr was likely to be much larger than that, as new investors would use this respected firm as a proxy for judging eLance's chances of succeeding in its marketplace. This assumption of eLance's potential to succeed became, through the contribution of significant funds, something similar to a self fulfilling prophecy. Because of these large sums, eLance is unlikely to run out of money any time soon, giving it enough time to develop its business model and market until it reaches profitability.

6.6 Explaining projectmarket's deviation from the model

It could be shown clearly that projectmarket's development differed significantly from the model proposed in chapter 4. eLance's development, in contrast, was much more aligned to the model's prediction. At the same time, eLance performed

significantly better than projectmarket. The question to ask now is, whether this means that the model should be rejected – or at least modified – or whether the model “proved” that projectmarket developed in a sub-optimal way.

None of the two answers would be correct. The eLance case gives significant support to the model but one strong piece of counterevidence would be reason enough to reject it. projectmarket, however, is not such proof to the contrary. Instead, the case shows the limits of the applicability of the proposed model of decision-making processes for emerging markets.

projectmarket has navigated under extreme conditions, which made its actions optimal at the time they were taken. At the same time, it must be acknowledged that the model loses some explanatory powers in extreme situations.

One such extreme situation was projectmarket's first year of doing business. Back then, it was faced with what it believed was a very large emerging business services outsourcing market. It was also faced with very aggressive and very threatening competition, especially in the form of eLance. The third ingredient was a relatively unrestricted (at the time) supply of capital.

Given these three factors, projectmarket saw its only chance to expand as fast as possible and to place very high unidirectional bets. The reason for such strategy was simple. It believed that, given the existence of this huge market, the company which managed to occupy it the faster would win the game.

This reasoning came from studying the example of ebay, another marketplace company. ebay managed to defend its dominant market position (in the US) even in the face of very substantial competition from Amazon and Yahoo. projectmarket believed that it also had to capture as much of a share of the market as possible. This interpretation explains firstly the lack of a preparation phase, as well as the speed and form of the internationalization efforts.

It was argued above that a slower rollout of the internationalization strategy would have saved projectmarket significant resources, since it would have saved those funds that went to waste after the subsequent closure of the international offices. This analysis, however, is only true from a hindsight point of view, given that the market turned out to be smaller and slower-developing than first assumed. If the market had actually been as big as hoped, projectmarket's strategy would have been optimal. Under the condition that the local European markets were attractive and large, projectmarket's strategy would have helped it gain substantial market share, thus having had a chance to catch up with eLance's strong position in the US.

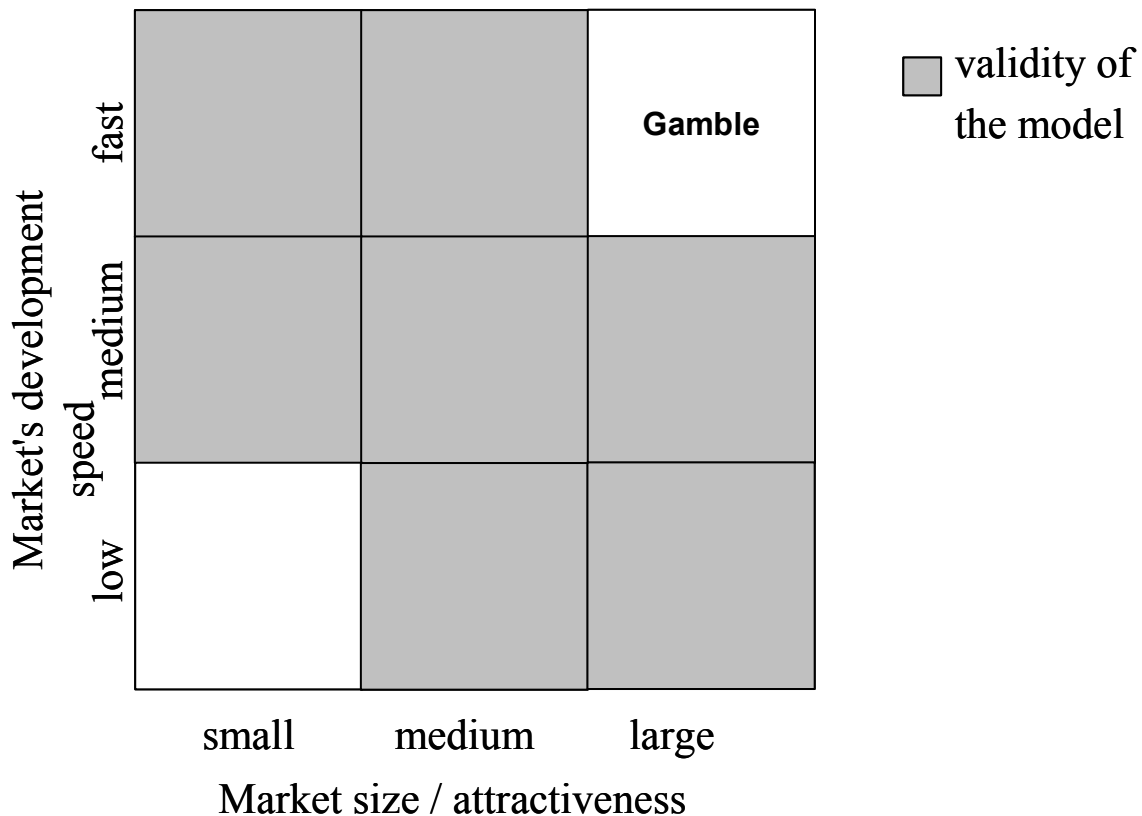
The conclusion, therefore, is that projectmarket embarked on a high-risk strategy. It bet its money on the assumption that it was about to capture a huge and very attractive emerging market. If the market had actually been that big, the investors' money would have been very well spent because projectmarket's first-mover strategy in Europe would have ensured that it would become market leader on the continent. It actually succeeded in achieving this market leader position. The market, however, turned out to be smaller than hoped and more US-dominated than assumed. Therefore, projectmarket's market leader position in Europe was not as rewarding as expected. In brief, the gamble did not work out.

A high-risk strategy implies that the chances of failure would be large. In projectmarket's case, this was indeed the case from the eyes of the investors. The company managed to build a sustainable business but in a much smaller market than initially forecast. Thus, investor money was wasted. This of course is the very essence of high-risk businesses. Sometimes the gambles work and sometimes they don't. Thus, the reason for projectmarket's disappointing development from an investor's position lies mainly in the smallness of the market in which it was doing business.

6.6.1 A gamble market

Figure 6.4 shows the conclusions of the projectmarket case on the reach of the proposed model for decision-making processes in emerging markets. The model was simply not applicable to projectmarket's particular case. As was discussed above, projectmarket operated in a market which was assumed to be very large and which would develop at very high speed. The model, in contrast, was largely based on experience from China, which is also a large market but which does not develop as fast as some parts of the Internet market. Thus, it is argued that projectmarket's market environment, which can be labeled "gamble"-market, does not apply to the proposed model.

Figure 6.4: Validity of the model for decision-making processes in emerging markets



The shaded area in figure 6.4 refers to the market environments for which the model can still be assumed to hold. These are all combinations of market size and development speed apart from two extremes. The extreme of a small market and low development speed is a natural exclusion, as it does not fit the definitions of an emerging market.

The other extreme could only be uncovered through the projectmarket case and can be described as a “gamble market”, rather than a normal investment market.

The proposed model was based on a study of multinational companies doing business in the emerging Chinese economy. This actual market of most survey companies was characterized by a high attractiveness and medium-fast speed. Here, the model fully applies. The other shaded areas are similar to that and it can be assumed that the model also applies in such markets.

The very high speed and very attractive market of the top right-hand quadrant is different, however. Here, a strategy similar to that pursued by projectmarket is more promising. It would be a decision-making process which largely has to do without a preparation phase. Decision-making would have to be based on large,

intuition-based unidirectional bets. These bets would have to be supported by significant amounts of money right from the beginning.

The reasoning is that, because of the very attractive market, a large number of companies (or investors) would be interested and would be willing to “place bets”. As investors have diversified portfolios and as the market offers huge pay-backs to the successful “player”, investors would be willing to accept high failure rates. This is so as very few successful investment out of a relatively large portfolio will pay for all the failed bets. The “gamble” quadrant thus corresponds to the market where high-risk venture capital firms feel at home.

It is a market significantly different from those where multinational companies operate, which can also make bets but which generally do not want to tolerate failure rates as high as venture capitalists do. Thus, multinationals need decision-making processes which ensure only limited gambles and focus on preserving capital. These are the areas where the model proposed in this paper applies the best.

projectmarket believed that it was doing business in the “gamble” market. It therefore pursued the fast-growth strategy as shown in figure 6.2 above. It also had to venture into a fast-speed internationalization strategy. It continued on this path until it had to realize that the basic assumptions about both, the market's attractiveness as well as the market's size, were wrong.

It realized around autumn 2000 that it was pursuing a “gamble” strategy in a market that was only medium-attractive. Thus, it realized that a different strategy must be pursued. The company therefore restructured its activities significantly and has since started to re-build its businesses from a much lower basis.

Its investors have lost significant money but this should not have come to their surprise as it was part of the system. One cannot win all of one's high-risk bets. In contrast to other Internet companies, which were shut down once investors had to face some disappointment, projectmarket's investors did not give up. Instead they provided the company with enough funds to start again under a new structure, with new goals which were better fitted to the market in which it was actually operating.

One important issue remains. It is to show why eLance's case does actually fall under the reach of the model, even though it operated in seemingly the same market as projectmarket did. To answer this question satisfactorily, a model similar to those used in game theory will be used to explain why eLance and projectmarket developed the way they did.

6.6.2 Decision-making for a “gamble”-market

It is unlikely that eLance interpreted its market differently than projectmarket. The huge amount of funds eLance could raise as late as autumn 2000 indicated that its investors were still believing that its market is highly attractive. Still, it did not pursue the “gamble” strategy outlined above, simply because in contrast to projectmarket it was not forced to do so. Two factors gave eLance the luxury of pursuing a less risky strategy. These were the timing of market entry and the fact of having the largest market as home turf.

eLance entered the market a few months before projectmarket which gave it a head start and allowed it to start slowly with a preparation phase for which projectmarket simply didn't have time. Given projectmarket's assumption of a “gamble” market, it would be too late if it “wasted” a couple of more months in preparing a full scale market entry.

By being based in what turned out to be, by far, the largest market, eLance had a natural advantage. This allowed them to focus on developing their technical solution, rather than dealing with the difficulty of opening offices in many different countries and coping with many different languages.

Thus, even though it also believed itself to be in a “gamble” market, eLance had the luxury of adopting a decision-making process and strategy in line with that of a “normal” emerging market, thus closely following the model proposed in this paper.

6.6.3 A theoretical example

A game-theory type of model will exemplify what was argued above. Figure 6.5 shows a graphical representation of this simple model of the business services outsourcing market. It assumes that the race to dominate the business services outsourcing market can be represented by a game which may stretch over two rounds (from time=0 to t=2). Each participant has two options.

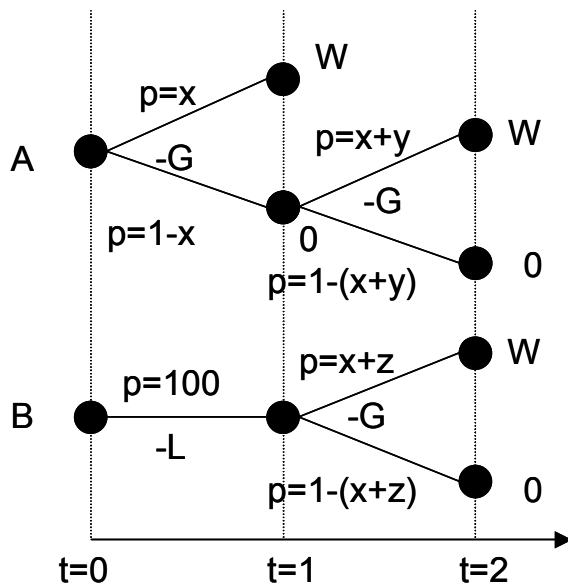
Option A is to pursue a high-risk, ultra-fast growth strategy. This involves investing a rather substantial sum of money right at the start of the venture (G), and quickly expanding along a certain strategy. After round 1, the company will realize whether the strategy has worked and the company managed to win the market (the probability for this to happen is x), or whether the high-risk strategy has failed (probability $p=1-x$).

If the strategy has failed, all is not lost because the company has a second chance. Through its business activity in the target market, it will have gained a lot

of knowledge. Using this experience, the company's intuition-based decision-making process will be more reliable in round two. Therefore, the probability of winning the game increases by y . Given a discount rate, i , the expected return for option A can be calculated as:

$$ER(A) = -G + \frac{xW}{1+i} - \frac{G(1-x)}{1+i} + \frac{(1-x)(x+y)W}{(1+i)^2}$$

Figure 6.5: Game theory example



Alternatively, the company can pursue option B. If the company decides to follow this option, it invests only a very limited amount of money during period 1 (L), following it with substantial investment only in period 2 (G). The purpose of the investment in period 1 is to learn about the market, while acquiring experience and knowledge. While this experience gathering phase costs money without a corresponding chance to win the funds back right away, it enables the company to make a much more reliable decision in period 2 than would have been possible if it had opted for alternative A.

The company's success probability for its investment in period 2 ($x+z$) is therefore significantly larger than if had chosen option A (only x). Given the discount rate i , the expected return for option B can be calculated the following way:

$$ER(B) = -L - \frac{G}{1+i} + \frac{(x+z)W}{(1+i)^2}$$

The maximum number of rounds is two, but the game may end after one round, if one participant chooses option A (*i.e.*, the company decides to gamble with a large investment early on) and if it is lucky to have decided on the right strategy, thus winning the game. The model assumes that probabilities are given and include all possible actions of competitors. For example, the probability $(x+z)$ in option B includes the probability that the game may have ended after round one.

The decision of whether or not to gamble, therefore, depends on:

- the costs for the investment (G),
- the costs for a slow, learning-focused market entry (L),
- the rewards for becoming market leader (W),
- the probabilities of gambling correctly (x),
- for pursuing the right strategy after a first failed attempt $(x+y)$,
- the probability for deciding on the right strategy after a learning phase $(x+z)$, and
- the discount rate i .

The most important relationships are the difference between x and $(x+z)$ and the difference between G and L . Thus, the lower the probability for winning the gamble and the higher the investment costs are respectively, the more attractive becomes option B, which is a simplified version of the this dissertation's model for investing in emerging markets.

Option A, in contrast, is the exception from the core model, *i.e.*, the gamble market of highest speed and attractiveness. An example with fictional numbers will make the application of this model to the case of projectmarket and eLance easier.

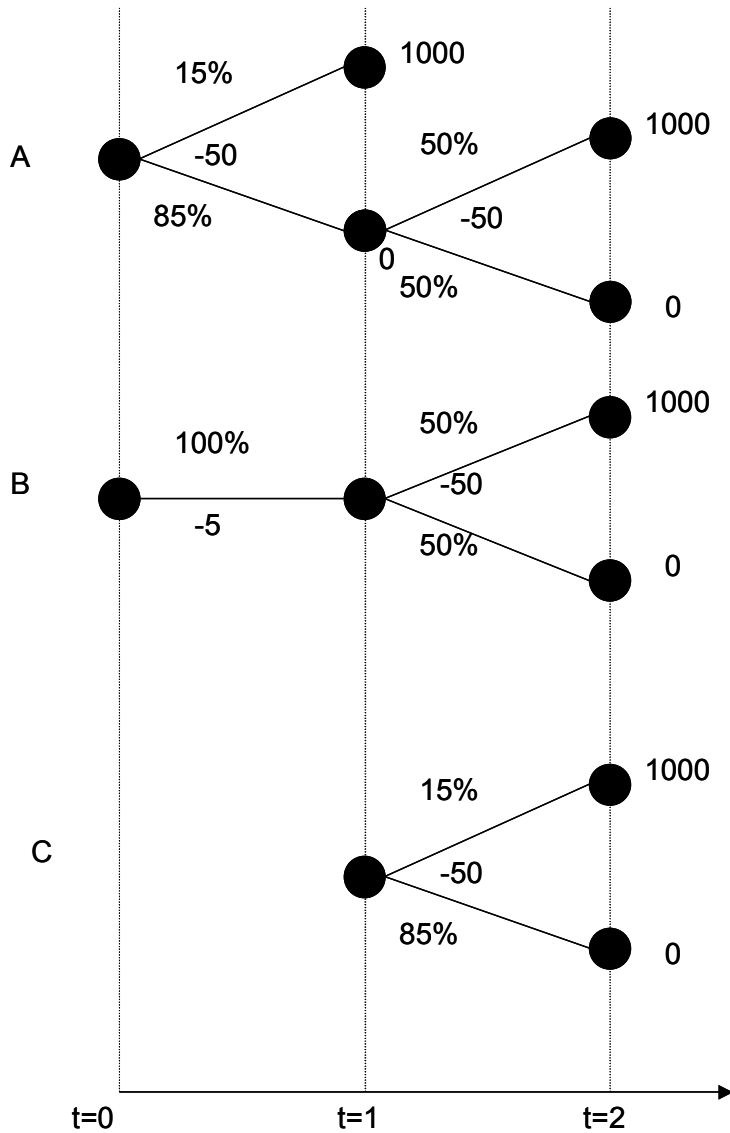
In figure 6.6 (below), numbers have replaced the variables from figure 6.5. Specifically, the probability of gambling successfully was set to 15%, the cost of doing so to 50, the success probability after a failed attempt to 50% (where $y=0.35$). The costs for investment in learning were set to 10% of the actual investment costs (*i.e.*, 5), and the added advantage of this investment is assumed to be the same as it is in option A.

The discount rate for such high-risk investments was set to 20%. Thus, with a market size (or win) of 1000, expected return for option A is 335 and for option B it is 301. Table 6.3 gives an overview of all payouts of this gamble

Table 6.3: Payouts from the "gamble" example

Outcome	Expected return	Internal rate of return	Standard deviation
A	335	392%	371
B	301	644%	347
C	75	150%	298

Figure 6.6: Game theory example of emerging markets



Besides the two alternatives from the original example, figure 6.6 shows a third option, labeled option C. It represents the case of a latecomer to the gamble. If a company misses round 1, it is faced with a gamble which lasts only for one period. In this case, investment in learning doesn't make sense any more because the game would be over before the company would have the chance to earn a return.

Thus, for a latecomer in this model, the only choice is to gamble or not to participate. The expected return for option C must be significantly below the return of the gamble in option A, as a wrong bet will be lost money and cannot be converted into learning experience by placing another bet with a higher probability to win. With the numbers given in the example, the expected return at time $t=1$ for option C is 75.

Facing these conditions and play-offs, how will a market participant react? A player who starts at the beginning of the game faces a situation which favors option A from an expected return perspective. If the company were fully risk-neutral, and if capital were no constraint, option A would therefore be the right choice. If capital is limited, however, and risk is taken into consideration, the player might choose option B, which has a somewhat lower risk than A but a much higher internal rate of return (644% compared with option A's 392%). Thus, both options are plausible.

A latecomer faces a situation which is only slightly less risky than options A and B above (a standard deviation of 298 compared to 371 and 347, respectively) but which does pay a positive net present value as well as an attractive rate of return. If the company considering investment in option C is a well-diversified venture capital firm, the decision should be clearly in favor of investment to realize the positive value, as well as the significant rate of return.

6.6.4 projectmarket and eLance as players in the game

As was shown above, eLance entered the business service outsourcing market a few months before projectmarket. When it did so, the competitive environment was still small and unstructured. It was therefore clearly at an early stage of market entry, represented by $t=0$ in the model from above.

eLance, thus faced the decision of whether to invest full speed (*i.e.*, to gamble) or start with a preparation phase first. The observation showed that the company decided (rationally, as was discussed above) to start with a preparation phase which lasted for several months. Thus, it chose option B from above. The outcome of the choice was fully in line with the model of investment in emerging markets, as option B allowed eLance to enjoy the benefits of a preparation phase.

The outcome of the choice was also in line with the extended version of the model, which includes the gamble-case. As a first mover, eLance could make a choice between the two options, with both of them being equally valid and the actual

choice depending solely on the degree of risk-averseness of the company and its investors.

Even though projectmarket for some time did not know of the existence of eLance, it knew about this competitor when it was about to enter the market with its first Web site. By that time, eLance had already been in existence several months longer than projectmarket and had already gathered experience with its beta site.

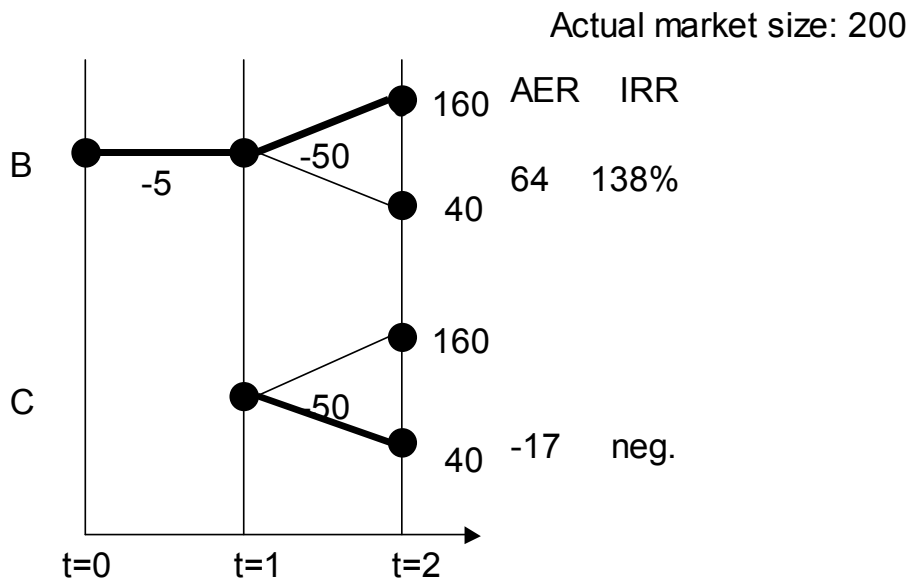
Thus, it can be argued that projectmarket was an “early latecomer” and the situation therefore can be expressed by option C of the model from above. projectmarket's investors rightly – given the available information at that time – decided to invest into this business and the company's management decided – rightly as well, given their then understanding of the market – to start a fast growth strategy.

projectmarket simply did not have the luxury of a preparation phase and had to start full-speed. This strategy was described above and has a number of clear “gamble” characteristics, especially the amount of capital used from relatively early on, the speed of decision-making and the fast roll-out without major concerns about the underlying strategy.

6.6.5 Outcomes of the gamble

Figure 6.7 is a representation in terms of the model of the outcome of the match between projectmarket and eLance in the real world. The figures are fictional but their magnitude in comparison to each other, and in comparison to the earlier assumptions, is by and large in line with the actual development.

Figure 6.7: Outcomes of the gamble



Three observations can be made. Firstly, none of the companies managed to win the whole market, thus, the all-or-nothing split of the model is a more like a 4:1 split in reality. The second observation is that eLance has actually been more successful in terms of usage numbers, turnover, and investment capital. This is indicated in figure 6.7 by showing that eLance “won” its gamble while projectmarket “lost” its own. projectmarket of course did not lose everything as was argued above but it has a significantly smaller share of the market than eLance¹⁷⁸.

Thirdly, the most decisive finding concerns the market size. In reality, it is much smaller than what both projectmarket and eLance had expected. In the example of the model it is 200 instead of 1000. The result of this difference in the market size is that the return earned by eLance is significantly smaller than the expected return for this fortunate outcome. The actual return is only 105 (return of 160 minus costs of 55), compared to a return of 945 if the market size had been 1000 and if eLance had managed to capture the whole market.

This analysis of the effects of the smaller market size explains the development of eLance and projectmarket during the first half of 2001. The discussion above showed that both companies restructured their operations. In the case of eLance this came as some surprise, since the company was very cash rich at that time (most of its fresh capital of investment of 50 million dollars was still in the bank).

¹⁷⁸ The author has no data to estimate the extent of the difference. The 4:1 split will therefore not correspond to reality, it mainly expresses the argument that eLance managed to capture a significantly larger share of the market than projectmarket.

The model explains clearly why this money was being invested only very timidly: The investors realized that the returns did not justify huge further investments. They kept spending money to assure market leadership, but they also kept costs under tight control to assure that they made at least some profit. Large investments would wipe out the little profit they could expect, given that the market was not as large as hoped.

projectmarket's development is explained just as well. Even though it lost the direct match against eLance, it still managed to seize a significant stake in the overall market. Thus, shutting down the operations does not make sense because there is a positive payoff (40 in the model). This payoff, however has required large original investments (50 in the example), which leads to an overall realized loss to projectmarket's investors of 10. Thus, investing in projectmarket has not paid off for them. By slashing the cost base massively, the company could be adjusted to the much smaller market and smaller stake, however. That way, not all money would be lost and the company has a future in front of it, albeit in a smaller market and with a smaller share of it than originally planned.

For the investors, having gambled wrongly is no problem unless their market forecasting skills were generally skewed. If they judge their portfolio companies' markets rightly, they will earn a positive return on their portfolio on average. In addition, by keeping the company alive on a sustainable cost level, they avoid a total loss on their investment.

In summary, the cases of eLance and projectmarket have shown that the model holds for decision-making processes of very fast-moving Internet start-up companies, unless they are forced to follow a "gamble" strategy. In that case decision-making processes would have to be even faster and more high-risk than proposed in the original model. For this special case, the model therefore has to be adapted. This adaptation is the gamble-model described in this chapter and exemplified by the case study of projectmarket.

6.7 Conclusion and implication from the projectmarket and eLance cases

The case studies of projectmarket and eLance have shown that the model can indeed be applied to emerging markets other than that of China. Such application has to be done carefully, though, to take account of the individual circumstances of the markets under consideration. The limitations to the model's generalizability were revealed in the special case of a very attractive and very fast-moving market.

In this case, a gamble model, as outlined in chapter 6.6.1, should replace the general model of decision-making processes in an emerging market.

The model's most crucial contribution to improving decision-making processes in projectmarket and other start-up companies is the attention it draws to the importance of intra-organizational learning processes within an emerging market environment.

During the critical growth phase of a company, far-reaching decisions must be made quickly. To do so, experience is required, as extensive data analysis is yet impossible because of the paucity of relevant data and the fast-changing operating environment. Experience, together with efficient control systems that make sure that new development trends are recognized as quickly as possible, will enable the company to optimize its decision-making process and thus its performance. Therefore, experience and effective control mechanisms are the two most critical variables in a start-up's decision-making process.

If the company is very young, operating in a completely new market with inexperienced management, the model implies that a relatively slow-paced learning phase should come before the growth phase. In this phase top priority should be given to maximizing organizational learning and the gathering of experience.

As errors are bound to happen during this early phase, the company needs to remain as flexible as possible to be able to quickly react to new information. A trial and error approach to decision-making is therefore suitable in this early phase of the company's development. This requires tolerance for error brought about by small project sizes and good functioning control systems that allow for fast reaction as soon as problems are detected.

Benefits of learning throughout this phase should not be considered as mere byproducts but as core to the company's future development. The quicker and more efficiently the company can gather experience, the earlier it can move into the growth phase, where decisions become more reliable as intuition is based on experience.

Experience is enormously important for intuition-based decision-making to work. If experience is in short supply, and if not enough time is available to generate it internally, the company should try to hire experienced managers who bring with them relevant knowledge. This finding is also one of the four key conclusions drawn by Yoffie and Cusumano in their analysis of Netscape (Cusumano / Yoffie 1998; Yoffie / Cusumano 1999).

projectmarket's hiring strategy reflected this need for experience but because it was among the first European B2B companies, very specific experience (e.g., in Internet marketing of business services for small and medium-sized enterprises) was initially not readily available. eLance, operating in the more advanced US market, had significant advantage in this respect.

A way to compensate for the relative lack of problem-specific experience is to enable effective communication between members of the management team. A climate of open communication and control through interaction will help avoid serious mistakes by inexperienced decision-makers. projectmarket's initial focus on speed led to a system of over-reliance on the decisions of managers with relatively little industry specific experience¹⁷⁹. Additionally, supervision and authorization processes were less stringent compared to those of multinational corporations. The company moved fast as a result, but sometimes too fast and a few times in the wrong direction. projectmarket managed to overcome these challenges by introducing more formal management meetings and reporting structures. Speed was maintained by giving the CEO strong decision-making authority in case of prolonged disputes. An expanded management team also helped the company to achieve "cognitive conflict" (Amason 1996: 143), which has been found to improve decision-making quality of management teams (Amason 1996; Eisenhardt *et al.* 1997; Schweiger *et al.* 1986).

Another condition for an "intuition" based strategy to be successful is to allow for a steep learning curve by starting up with a small investment project. The strategy can either be changed whenever necessary, or may have a main purpose to provide the company with an opportunity to gather data and insights for subsequent, larger, investment projects (which will be based on better data analysis and strategic planning). Thus, as argued above, a trial-and-error strategy would soon become efficient through continual organizational learning.

projectmarket's decisions earlier in its development suffered from the problem that the desire for speed overrode the establishment of a continual learning approach. Once it was realized that optimal speed should be targeted, rather than maximal speed, the company introduced systems like an intranet to improve data analysis, thus improving the learning effects from decision implementations.

The decision to drastically reduce the speed of its internationalization strategy can also be interpreted as the realization of the importance of timing in market entry

¹⁷⁹ This should be understood as in contrast to the larger level of experience available to companies entering China, where many managers had already worked for several years in the target market.

decisions. A slower pace of international expansion will enable the company to better learn from its experience and avoid replicating and repeating certain approaches, which may have proved unsuitable in trial markets.

As was shown, in contrast to eLance, projectmarket deviated from the model significantly. This was the case because the analysis only holds unless the market is considered to be so attractive, and first-mover advantage so important, that only “gamble” strategies will work. In this special case, venture capital investors need to pour huge sums of money into the company's development and hope that their bets in terms of people, strategy, and market will pay-off. They should at the same time, however, brace themselves, as such a high-risk strategy is bound to result in significant losses that can only be mediated through the portfolio effect of well diversified investments.

7 Conclusion and implications

In this dissertation, a model for decision-making processes in emerging markets was presented. The model's was based on findings from a qualitative research study into the decision-making processes of multinational companies investing in the emerging market of China. The results of this investigation formed the core part of chapter 4. Detailed conclusions and implications were presented in the same chapter.

In chapter 4 it was shown that there are two main elements of decision-making processes for foreign direct investment decisions in China. These are an extensive preparation phase and an organizational system that enables decision-makers to rely on intuition when making decisions in connection with the emerging market.

Making decisions based on intuition was shown to be different from a trial and error approach to decision-making as long as the former is based on experience. Experience comes from the earlier preparation phase, as well as organizational systems and processes that foster learning and the buildup of market related knowledge. Experience therefore was found to be a core characteristic of functional decision-making processes in emerging markets.

Chapters 5 and 6 expanded on the findings from chapter 4 by applying the results to more entrepreneurial companies, from Hong Kong on the one hand, and Internet start-ups on the other. Apart from showing that the basic characteristics of the model hold in these cases as well, the model could be enriched by findings from these two follow-up studies.

The case of Hong Kong showed that companies go through a change process once they and their markets mature. Decision-making processes of Hong Kong companies have become increasingly sophisticated and quantitative in recent years. This was a direct effect of the companies gaining in size and their home market maturing. On the other hand, they managed to keep certain elements of intuition-based decision-making, made necessary by the fast development speed in their home market.

The model predicated that intuition-based decision-making would work best if the company is very experienced in the target market. The Hong Kong example supported this prediction through many of its companies' emphasis on the neighboring - and in many aspects similar - province of Guangdong. In this province, the intuition of Hong Kong managers worked best, which was one of the

reasons why their investment projects were relatively successful soon after initial market entry.

In the environment of the emerging Internet market, speed becomes even more important than it is in geographical emerging markets. Thus, the model rightly predicted that decisions would be largely based on intuition rather than on sophisticated models, for which – especially in the early days – not enough reliable data was available. It could be shown that many problems of Internet start-up companies might be attributable to a mismatch between decision-making speed and experience within the company.

The model of intuitional decision-making relies on a significant degree of experience within the company. If such experience is not available, decision-making will more resemble a trial-and-error approach, rather than the more reliable intuition-based decision-making described in the section about China.

To overcome this mismatch, Internet companies have two choices.

If they want to keep up development speed, they need to hire highly experienced talent. At the same time, they need to accept a relatively large failure percentage of their early decisions, due to the relative lack of experience within the company. Both factors – hiring as well as sub-optimal decisions – require a lot of money. Such money was available to Internet companies for a few years, during which time market leaders could establish themselves through fierce competition and an aggressive growth strategy.

The second choice would be to reduce development speed, which is the only valid alternative if not enough money is available for the fast growth strategy. The main problem with this strategy is that it is bound to fail if competitors in the industry are willing and able to expand much more rapidly than oneself and if the market offers significant economies of scale to the market leader. In this case, the fastest expanding company will crowd out slower ones.

The problem for initial investors is that they might not be those who would ultimately benefit from their company's success. The reason lies in the “winner's curse”. Their company may have won the battle for market share but may very well have overused resources so as to never become profitable without a restructuring of debts or a re-capitalization. Even bankruptcy of apparently successful companies might happen, which would be a catastrophe for their investors but not necessarily for the company itself. In that scenario, the company may very well find a new life with new investors (or old ones who wrote off most of their initial investment) and a restructured financial base.

Thus, in the case of Internet start-ups, the model helps explain the often-doomed rush for expansion at all costs on the one hand, and on the other hand, focusing a company's decision-makers on the importance of generating experience and knowledge from early on in their companies' lives.

Considering the results of all three finding chapters, one sees that the model can justifiably be called “decision-making processes for emerging markets”, as the core theme remains the same. Defining emerging markets as fast-developing, offering a huge potential, and being characterized by little available and / or reliable information, this dissertation has crystallized five core findings, which will hold true for all such markets.

1. Decisions in emerging markets can and should be based on management intuition.
2. Management intuition must be based on as much relevant experience as possible.
3. Before the decision-making process itself, a preparation phase is an important means to generate experience to make sure that a good decisions are made, as well as to assure a proper investment strategy.
4. During the decision process, systems must be in place which allow for optimal collection and dissipation of information and knowledge to make sure that the company, as well as its decision-makers, internalize a maximum of experience.
5. Development speed and market entry must be in line with the capabilities of the firm.

7.1 Implications for management practice

Detailed implications for management were discussed at the end of each finding chapter. Here, a few general implications of relevance to any company investing in emerging markets, small as well as large, shall be reviewed. The core management implications can be summarized under the following five headlines.

1. Be ready to adjust your decision-making processes.

Emerging markets tick differently than established ones. They move faster and less information and data is available. Thus, a global strategy may not always work and you should prepare yourself, as well as your company, to do things differently in emerging markets.

2. Rely on intuition of experienced managers.

You need to decide fast, to allow your company to move fast. The fastest way of deciding is to rely on intuition. Ideally, intuition distills many years of experience and seemingly unrelated data into very fast and reliable decisions. For this process to work well, you need to have experienced managers and you need to be prepared to delegate decision-making authority to them.

3. Be prepared.

Whether you call it preparation phase or brainstorming phase doesn't matter. What matters is that you have some time where you experiment with business models, strategies, and with marketing before you expand at full speed. During such a preparation phase, you need to make sure that you collect as much information and knowledge about the market as possible, from within and outside your company.

4. Act fast once your organization is in line with the market.

Right timing is important in emerging markets. Right timing is no absolute number, however. It all depends on your company's level of readiness. The market may grow quickly, competitors may expand rapidly but it might still not be time for your company to enter. Only once you are prepared enough, should you take the decision to move in.

5. Commit significant resources and top management time.

Truly emerging markets require your whole attention during the first expansion phase. Internal barriers in the form of people and processes clad in iron will initially hold your company back. Only strong support from the very top of the organization will create the energy necessary to propel your corporation forward.

The findings chapters, especially the core chapter 4, contain a large number of examples of how companies deal with investing in emerging markets. Together with the main implications detailed above, it is hoped that corporate managers

reading this piece of research will find ways of applying the results to their own corporations. Thus they will be able to benefit from the experience of other companies and improve the effectiveness of their decision-making processes for emerging markets.

7.2 Suggestions for future research

Building on this dissertation, two lines of future research are highly promising. Firstly, researchers could continue the qualitative research approach used in this dissertation to focus on the non-core areas of this study, *e.g.*, the emerging Internet market and entrepreneurial companies. Secondly, it would be highly interesting to test this study's findings through statistical analysis or more large scale qualitative studies.

7.2.1 Expansion through qualitative research

In this study, the findings from the China study were applied to two start-up companies. In doing so, a number of parallels were uncovered and it was shown that the China study was actually useful for understanding decision-making processes in rapidly expanding technological emerging markets like the Internet.

Interesting insights can be expected as a result of detailed studies of Internet start-up companies. For such research projects, a similar research approach could be chosen as the one used in this study. Researchers could embark on their study in a more structured way, however, as the core findings can be assumed to remain the same. Follow-up projects would therefore have a sound foundation on which they can build a crisp and clear picture of the particular market they are focusing on. This new market could be a technological market, like the Internet, or even a newly emerging product market.

Using the concepts and variables of this study as the starting point, detailed analysis of decision-making processes in this same new market could proceed. It would be expected that most of the variables would still hold; that some of them could be insignificant or not applicable to the new market; and that others would be added to the model in response to the particularities of the new market under investigation.

Such detailed analysis of a particular market would provide decision-makers with more insights than did this, more general, analysis. Earlier in this chapter, some rules and guidelines were offered to management wishing to invest in any

emerging market. In chapter 4, however, these implications for management could be written in a more detailed way. Such a detailed analysis would be the expected result of the follow-up studies proposed here.

7.2.2 Testing the model

So far, the model proposed here is untested and its reliability in practice therefore unproven. The goal of this research was to find a model of decision-making processes in emerging markets which would be strongly grounded in field data. Thus, the qualitative method of grounded research was chosen and proved to be very helpful in reaching the study's goals. This method ensured that the findings are as reliable as possible, given the constraints of the study.

The most important of these constraints is the relatively small sample size compared to quantitative studies. A restriction of sample size was necessary for practical purposes to allow for an in-depth analysis of the individual cases. Only through such in-depth analysis was it possible to uncover the model's characteristics. Thus, the research method was a good fit with the study's goals.

Now that the model has been uncovered and proposed, it would be interesting to test either the whole model or individual hypotheses in a quantitative way. Such testing would ensure that the assumption holds that a strong groundedness in field data would assure reliability. Tests would build on the core findings presented in the first part of this chapter and the 21 variables presented in chapter 4. Hypotheses could be developed from the model's characteristics, which should then be tested with a sample of as many individual cases as possible. As the focus would be on testing existing hypotheses, and not finding new relationships and variables, a questionnaire-based research project would be appropriate for this task.

For illustrative purposes, it should be shown how such tests could be designed. One of the core findings from this research project as discussed above was, "Decisions in emerging markets can and should be based on management intuition." This finding could be transformed into the hypothesis, "Decision-making in emerging markets relies more on intuition than does decision-making for stable markets." There should be a clear yes / no answer to this statement.

As a next step, the variables "decision-making", "emerging market", "stable market" and especially "intuition" would need to be clearly defined.

Subsequently, research questions would need to be formulated which would allow testing of the hypothesis. These research questions would depend on the definitions for the core concepts. They should be answerable either through:

- quantifiable qualitative data (e.g., asking a CEO: "On a scale of 1 to 10, how much intuition do you use when deciding for investment projects in China and how much intuition do you use when deciding for investment projects in the US?"); or through
- already quantified data (e.g., budget in terms of money and time invested into decision preparation in both decision environments).

As with all quantitative studies, great care would have to be taken to properly define the variables, to ask the right questions of the right people and to make sure that the analysis process does correctly reflect reality. If done in a high-quality way, this approach would promise very useful results.

Through including actual experience of a large number of companies, the model's hypothesis might get a stronger support than this paper could offer. The stronger such third party support would be, the more useful the model will be for decision-makers. At the same time, weaknesses in the model could be uncovered and corrected, again leading to a stronger and more useful model of decision-making processes for emerging markets.

Limited qualitative tests of the model were already undertaken within the scope of this dissertation. The Hong Kong and Internet part of the study were both applications of the model and small-scale qualitative tests. The model proved useful in these significantly different environments, which indicated its explanatory power. Similar qualitative studies, either designed as pure tests, or a mixture of test and application, could be undertaken also by other researchers.

As a conclusion of this chapter, as well as of the entire dissertation, it should be pointed out once more that the model may have to be adapted slightly in the years to come. But there is already substantial evidence available to believe that its core characteristics and predictions are and valid and will remain being so. Researchers are therefore invited to help improve the work presented here, while at the same time practitioners can already – carefully and with due diligence – apply the model's recommendations to improve their decision-making processes in emerging markets.

Appendix: list of interviewees

The following information is provided for each company interviewed: Company name (in bold), location of headquarters, brief description of industry, interview partners with date and place of the interview. The list is ordered alphabetically by company name.

The interviews lasted an average of 1.5 hours. Very few lasted for less than 1 hour. The maximum interview time was 5 hours.

Table A.0.1: Statistics about the survey companies

Companies in main sample (Europe, HK, China)	40
Interviewees in companies ¹⁸⁰	73
Individuals and institutions in sample	10 with 11 interviewees
Sum of interviews	85
Companies interviewed in phase 1 (Europe)	10 with 21 interview partners
Companies interviewed in phase 2 (Hong Kong)	19 with 25 interview partners
Companies interviewed in phase 3 (China)	23 with 27 interview partners
European companies	22
Companies from Hong Kong	14
Others	4
Additionally: projectmarket case	12 interviews with 11 interviewees
Additionally: elance case	1 extended phone interview
Total number of interviews	98

¹⁸⁰ Without projectmarket and eLance

Interviews with companies in Europe, Hong Kong and China

ABB

Switzerland, engineering conglomerate, phases 2 and 3

- Stephan Truffer, Associate Director Finance - Asia Pacific Region, ABB Energy Ventures, Hong Kong, 17 November 1998.
- Paul Wong Xin Le, Chief Representative, ABB China Ltd., Shanghai Representative Office, Shanghai, 4 November 1999.

Air Liquide

France, producer of industrial gases, phase 3

- Jean-Pierre Rossi, Managing Director and Chief Representative of Air Liquide Group, China Management Department Air Liquide China, Shanghai, November 1999.

Alcatel

Belgium, telecommunications company, phase 3

- Günther Strobel, President, Shanghai Bell Company Limited, Shanghai, 4 November 1999.

Bayer

Germany, pharmaceuticals and chemicals, phase 2

- Dr. Michael Portoff, Managing Director, Bayer China Company, Limited, Hong Kong, December 1998.

Charoen Pokphand Group

Thailand (group), China (JV company); conglomerate (group), livestock and animal feed producer and processor (JV company), phase 3

- Liu Jian, General Manager of Adm. Dept., Shanghai Dajiang (Group) Stock Co. Ltd., Shanghai, November 1999.
- Gu Weiwen, Section Chief of Secretary, Shanghai Dajiang (Group) Stock Co. Ltd., Shanghai, November 1999.

Cheung Kong Infrastructure Holdings Ltd.

Hong Kong, infrastructure, phase 2

- Eric Kwan, CEO China Infrastructure, Hong Kong, 18 November 1998.

China Light & Power

Hong Kong, power supply, phase 2

- Y.B. Lee, General Manager China, CLP Power China; Managing Director, China Energy Investment Co. Ltd., Hong Kong, 24 November 1998.

Ciba Speciality Chemicals

Switzerland, industrial chemicals, phase 2 and 3

- Albert Kappeler, Director of Finance Region China, Ciba Speciality Chemicals (Hong Kong) Ltd., Business Support Centre, Hong Kong, 9 December 1998.
- William Siu Lun Yau, Division Head, Ciba Speciality Chemicals (Hong Kong) Ltd., Consumer Care, Hong Kong, 10 December 1998.
- Nicholas Kolesch, Marketing Planning Analyst, Ciba Speciality Chemicals (Hong Kong) Ltd., Consumer Care, Hong Kong, 10 December 1998.
- Richard Hartland, General Manager, Ciba Speciality Chemicals (China) Ltd., telephone interview Shanghai - Beijing, 22 November 1999.

CITIC Pacific Limited

Hong Kong, construction, phase 2

- Vernon Moore, Deputy Managing Director, telephone interview in Hong Kong, 10 December 1998.

COSCO Pacific Limited

Hong Kong, construction, phase 2

- Kelvin T.Y. Wong, Deputy Managing Director, analyst meeting in Hong Kong, 26 November 1998.

Georg Fischer AG

Switzerland; piping systems / investment goods, phase 1 and 3

- Dipl.-Ing.ETH Urs Werner, Head of International Market Development, Executive Vice-President, Schaffhausen, Switzerland, 9 July 1998.
- Gustav Erne, Managing Director, Georg Fischer Piping Systems Ltd., Shanghai, Shanghai, 24 November 1999.

Giordano

Hong Kong, clothing retailing, phase 2

- Jimmy Chan, Executive Director, Giordano International Ltd., Hong Kong 18 November 1998.

Guangzhou Investment Co. Ltd.

Hong Kong, infrastructure, phase 2

- Sophia Y.F. Yan, Executive Director, Hong Kong 16 November 1998.

Henkel KGaA

Germany, consumer chemicals, phase 1 and 2

- Dr. Lehner, Vorstandsmitglied Henkel KGaA, Düsseldorf, 25 August 1998.
- Alfredo Gangutina, President, Henkel Asia Pacific, telephone interview in Hong Kong, 6 December 1998.

Hoechst AG (now: Aventis)

Germany, pharmaceuticals and chemicals, phases 1 and 3

- Lothar J.A. Hinkel, Corporate Center, Regional Coordination, Hoechst AG, Frankfurt/Main, 29 and 30 July 1998.
- Dr. Stefan Kanter, Director, Business Unit Asia/Australia, Hoechst Roussel Vet, Frankfurt/Main, 29 and 30 July 1998.
- Dipl.-Ing. Horst Waesche, Vorstandsmitglied Hoechst Holding AG, Frankfurt/Main, 29 and 30 July 1998.
- Timmer, Hoechst AgrEvo, Vorstandsmitglied, Frankfurt/Main, 29 and 30 July 1998.
- Dr. Ruediger Barth, Chairman, Hoechst (China) Inv. Co. Ltd., Beijing, 2 December 1999.

Hoffmann La Roche AG

Switzerland, pharmaceuticals, phases 1 and 3

- Dr. Leuenberger, Verwaltungsrat, Vizepräsident, Hoffmann La Roche AG; Verwaltungsratpräsident, Givaudan-Roure, Basel, Switzerland, 8 July 1998.
- Dr. Brönnimann, Leiter Vitamine und Feinchemikalien, Hoffmann La Roche AG, Basel, 8 July 1998.
- William R. Keller, General Manager, Shanghai Roche Pharmaceuticals Ltd., Shanghai, 16 November 1999.

Hongkong Telecom

Hong Kong, telecommunications, phase 2

- Adam Sing, General Manager Business Development (China), Hong Kong, 9 December 1998.

Hopewell Group

Hong Kong, infrastructure, phase 2

- Alan C.H. Chan, Managing Director, Delta Roads Ltd., Hong Kong, 11 December 1998.
- Michael K.C. Leung, Commercial Manager, Delta Roads Ltd., Hong Kong 11 December 1998.

Hewlett Packard

USA, computer products and services, phase 3

- Baron Ho, General Manager, China Hewlett-Packard Co., Ltd., Shanghai Branch, Shanghai, November 1999.

Hutchison Whampoa

Hong Kong, conglomerate, phase 2

- Simon C.K. To, Managing Director, Hutchison China, Hong Kong 20 November 1998.

JVC

Japan, electronics manufacturer, phase 3

- Masayuki Hongo, Managing Director, JVC Shanghai Electronics Co., Ltd., Shanghai, 23 November 1999.

Kohler

USA, industrial products, phase 3

- Bernhard H. Langel, President, Kohler-Asia and Kohler China Investment Co., Ltd., Shanghai, 11 November 1999.

Mannemann AG

Germany, engineering and telecommunications, phase 1 and 3

- Karin Terhart, Handlungsbevollmächtigte, Leiterin der Abteilung Vertriebsorganisation, Mannesmann AG, Düsseldorf, Germany, 3 August 1998.
- Frau Senn, Mannesmann AG, Düsseldorf, 3 August 1998.
- Baumeister, Mannesmann Demag AG, telephone interview.
- Nordmann, Mannesmann Dematic, telephone interview.
- Dipl. Ing., Dipl. Wirt.-Ing. Gerd-H. Kohl, Head of Controlling Department, Mannesmann AG Representative Office Beijing, Beijing, 3 December 1999.
- Dr. Alexander Schütz, Head of Finance Department, Mannesmann (China) Ltd., Beijing, 3 December 1999.

Merck KGaA

Germany; pharmaceuticals, phase 1 and 3

- Wolfgang Hönn, Geschäftsführer, Merck KGaA Darmstadt, telephone interview St. Gallen - Darmstadt, 2 October 1998.
- Dr. Richard Zhang, Merck Representative Office, Shanghai, November 1999.

Nestlé

Switzerland, food, phase 1 and 3

- Alexander J. Kemball, Assistant Vice President, Legal Department, Nestec Ltd., Vevey, Switzerland, January 1999.
- Khing Fong Lim, Vice President, Nestlé S.A., Vevey, January 1999.
- Thomas Schelling, Vice President, Nestlé S.A., Vevey, January 1999 and Beijing, 30 November 1999.
- J.M. Müller, Chairman and Chief Executive Officer, Nestlé (China) Ltd., Beijing, 30 November 1999.

New World Infrastructure Ltd.

Hong Kong, infrastructure, phase 2

- Douglas Chan, Managing Director, Hong Kong, 19 November 1998.
- Dennis Y.K. Chan, Assistant Manager – Finance, Hong Kong, 19 November 1998.
- Johnny Chiu, Manager Finance, Hong Kong, 9 December 1998.

Novartis

Switzerland, pharmaceuticals, phase 3

- Tiong-Tee Tan, Managing Director and Sector Head Consumer Health China, Shanghai Novartis Nutrition Ltd., Shanghai, 26 November 1999.
- Paul Lau, President and Chief Representative, Novartis Participation AG, Beijing Representative Office, Beijing, 29 November 1999.

Robert Bosch GmbH

Germany; car parts, phase 1 and 3

- Dr. Manger, retired, Vorstandsmitglied Bosch GmbH; Stuttgart, 6 August 1998.
- Dipl.-Ing., Dipl. Wirtsch.-Ing. Klaus E. Majer, Senior Manager, Business Planning Asia, Stuttgart, 6 August 1998.
- Hartmut Sand, Director of Board, United Automotive Electronic Systems Co., Ltd., Shanghai, November 1999.

Schneider Electric

France, electrical supplies, phase 3

- Isabelle Zhang Dan Hui, Business Development Manager, Strategy & Marketing, Schneider Electric (China) Investment Co., Ltd., Beijing, 29 November 1999.

Shui On Holdings Ltd.

Hong Kong, construction, phase 2

- Richard K.N. Ho, Vice Chairman, Hong Kong, 20 November 1998.

Siemens

Germany, electronics conglomerate, phase 3

- Peter A. Borger, President, Siemens Shanghai Mobile Communications Ltd., Shanghai, 3 November 1999.

SKF

Sweden, industrial supplies, phase 3

- Sten Wendin, General Manager, SKF (China) Investment Co., Ltd., Shanghai, November 1999.

Sulzer AG

Switzerland, industrial goods, phase 1 and 3

- Dipl.-Ing.ETHZ Dr.sc.techn. Hans Jäger, Vice President Asia/Pacific, Sulzer International Ltd., Winterthur, Switzerland, 18 June 1998.
- Dr. Hody, retired, Vice President Asia Sulzer International Ltd., Uerikon, Switzerland, 7 July 1998.
- Victor Chiam, General Manager, Sulzer Shanghai, Shanghai, 12 November 1999.

Swire Pacific

Great Britain, conglomerate, phase 2

- Steve W. Mason, Executive Director, Swire Beverages, Hong Kong, 27 November 1998.

Vivendi

France, utility, phase 2

- Eric Diers, Group Representative, Vivendi, Hong Kong, 11 November 1998.
- James Spencer, President, Sithe Asia Holdings Limited; President & CEO, Sithe China Holdings Ltd., Hong Kong, 16 December 1998.

Volkswagen

Germany, car manufacturer, phase 3

- Manfred Heinze, Dep. Managing Director and Commercial Executive, Shanghai Volkswagen Automotive Co. Ltd., Shanghai, November 1999.

Wienerberger AG

Austria; piping systems, phase 1 and 3

- Dr. Josef Weinzierl, Director - Asia Operation, Wienerberger Rohrsysteme und Abwassertechnik Ges.m.b.H, Vienna, 4 September 1998.
- Meng Lin, General Manager, Shanghai Wienerberger Plastic Pipes, Shanghai, 11 November 1999.

Winterthur AG

Switzerland, insurance, phase 3

- Wallace Y.F. Lam, Assistant Managing Director, Winterthur Insurance (Asia) Ltd., Shanghai Branch, Shanghai, 8 November 1999.

Herald Holdings Limited

Hong Kong, consumer goods manufacturer, phase 2

- Robert Dorfman, Director, and Hong Kong General Chamber of Commerce - American Committee, Hong Kong, 23 November 1998

Creation & Distribution Limited

Hong Kong, light industry, phase 2

- Ho, Peter, Director, and Hong Kong General Chamber of Commerce – European Committee, Hong Kong, 8 December 1998.

Interviews with institutions and individuals in Hong Kong

Various institutions and individuals

These people and institutions helped the researcher gain further understanding for certain specific aspects of the research project

- John Child, Professor, Hong Kong University, Hong Kong, 5 November 1998.
- David Dodwell, Co-author of "The Hong Kong Advantage"; Executive Director, Forrest International; Jardine Flemming, Hong Kong, 5 November 1998.
- Michael J. Enright, Co-author of "The Hong Kong Advantage"; Visiting Professor, The University of Hong Kong School of Business, Hong Kong, 18 December 1998.
- Gordian Gaeta, China Expert, formerly Director, Booz Allen & Hamilton, Hong Kong, 20 November 1998.
- Erwin A. Hardy, Chairman, The European Chamber of Commerce in Hong Kong; Hardy Overseas Corporation, Hong Kong, 26 November 1998.
- Alfred E. Mayer, Austrian Trade Commissioner, Austrian Trade Delegation, Hong Kong, 10 November 1998.
- Michael R. Preiss, Advisor Corporate Banking, DG Bank, Hong Kong, 2 December 1998.
- Helmut Sohmen, Chairman and President, World-Wide Shipping Group Ltd.; Chairman, Pacific Basin Economic Council, Hong Kong, 11 November 1998.
- PriceWaterhouseCoopers, Martina Wong, Partner, telephone interview in Hong Kong, 11 December 1998.
- HSBC, Thomas H.S. Poon, Hongkong Bank China Services Limited, Project Finance Manager and Lau Pak Keung, Hongkong Bank China Services Limited, Project Finance Manager, Hong Kong, 17 November 1998.

Interviews with projectmarket and eLance

Interviewees within projectmarket

The participative field research phase lasted from May to December 2000. All interviews, specifically focusing on the various strategic decision-making processes within projectmarket¹⁸¹ took place in January 2001.

A total of 11 people were interviewed at least once, including the company's CEO and COO. In addition, the researcher has had the opportunity to talk with virtually everyone in the organization over the course of the full field research period.

- Interviewee 1: COO.
- Interviewee 2: Co-Founder and CEO.
- Interviewee 3: VP Customer Service, previously, VP International Expansion (two interviews).
- Interviewee 4: VP Product Development.
- Interviewee 5: Technical Team
- Interviewee 6: Co-Founder and VP Finance.
- Interviewee 7: Technical Team.
- Interviewee 8: VP Marketing (telephone interview).
- Interviewee 9: Manager, Customer Service.
- Interviewee 10: Technical Team.
- Interviewee 11: VP, Personnel and Legal.

After the research was completed, feedback about the analysis was obtained from and the research results discussed with several of the interviewees, including two founders and the VP of Customer Service.

Interview with eLance

Arwyn Bryant, General Manager (telephone interview on 15 May 2001)

¹⁸¹ Alias (cf. footnote 17)

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Education

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1992 – 1997	Studies of business administration and economics at the University of Graz.
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1980 – 1992	Primary and Grammar school in Graz.

Professional Experience

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