ABSTRACT

This chapter examines processes of strategic investment decision making (SID-making) in Chinese enterprises, and then compares them to those in Britain. China's SID-making is characterized by the state's centralized control, government interventions and extensive bargaining and lobbying by managers. British cases show similar patterns but they were less likely to be constrained by the government. The author argues that SID-making has an intrinsic nature which determines the pattern of SID processes, while decision-contexts had an influence only on the arrangement of activities and relationships between participants.

METHODOLOGY

This chapter summarizes the results of two empirical studies (Child and Lu 1996, and Lu 1996). The first was conducted during 1991 and 1992 in three Chinese and three British enterprises. The second (Lu 1996) studied management decision-making processes in six State-owned Chinese enterprises located in Beijing.

Both studies shared similar methodologies. First, executives were asked to report on the most significant recent SIDs. Then, researchers selected the most appropriate SID and conducted interviews with the CEO and those managers who had actively participated in the decision-making process. In both studies managers were also asked to compare current SIDs to those which had occurred before 1985. Interview questions addressed such issues as the initiation of the SID, the degree of participation in the process, the involvement after the decision was taken, the routines and formal procedures followed, the differences in opinions and the extent of political activities, the procedures for final approval etc. If appropriate, documents such as company reports, memos, proposals, investment assessment reports and approval documents were examined as complementary sources of data.
For a more thorough description of the methodology refer to Child and Lu (1996) and Lu (1996).

STRATEGIC INVESTMENT DECISIONS

Strategic investment decision (SIDs) are nonroutine capital investment decisions with significant long-term consequences for the firm (Barwise et al 1986). Osteryoung (1974) argued that SIDs were significant to the firm for three reasons. First, SIDs demand a commitment of relatively substantial amounts of resources - such as financing, raw materials, human resources and information. This can give rise to a real threat to the firm’s existence, because all these resources are put into a project over a short period. Second, the outcome of the SID has an extended influence not only on the firm itself, but also on competitors and external environments. For instance, the technology selected in the SID may affect the level of innovation in a whole industry, and the firm’s choice of investment location has impacts on local employment, residential patterns, and environmental issues. Third, SIDs can involve a much higher cost commitment than the initial investment capital, because it is difficult to reverse the action once the SID is implemented. The firm thus has to take a total loss if the SID is miscalculated. As a consequence, the firm needs to develop special methods and tools for the design and selection of alternatives. One result is that major SIDs involve formal procedures for capital budgeting, leaving a well documented paper trail.

With these unique features, SID-making becomes attractive to scholars of decision-making and organization theory. Various models have been developed with different standpoints. The normative finance perspective regards the SID as a technical problem with logically consistent procedures which attempt to rationalize the choice by emphasizing an investment project’s overall effectiveness of achieving strategic goals, efficiency of allocating and using resources, and minimization of risks in the future. The ultimate expectation of the SID is to maximize investors’ benefits.

In contrast to the normative perspective, organization theories, especially those which advocate organization-environment relations, argue that the SID-making is a process in which decision-makers face ambiguities caused by controversial goals and participants’ inconsistent preferences (March 1988). Moreover, as participants have diverse or even conflicting interests, the SID-making involves bargaining and, as a result, its outcome is determined by a balance of powers and influences among participants. Furthermore, an external intervention might be imposed on the SID process if the project causes an impact on surroundings, for example discharging chemicals into the environment. In this case, the SID’s economic rationality will be reduced by conforming to social obligations.

This debate regarding the extent to which SID-making is rational and universal or circumstantially determined by the contexts requires empirical evidence. Up to now, most studies of SID-making have focused on those occurring in Western capitalist countries, where firms are assumed to enjoy sufficient freedom to pursue