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Adaptive Learning Routines and Time in Strategic Decision-Making Processes in Emerging Markets

by

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Abstract

This paper attempts to map out the learning routines of organizations in adapting their decision-making processes to the emerging market environment of China. The ability to increase the speed and quality of learning through conscious exploitation of learning routines would bring about better performance faster and hence would be of strategic importance to the firm. The findings have shown that this can be achieved through improving the efficiency of learning routines, e.g. through intentional learning, the employment of experienced decision-making agents, or better timing of actions and interventions. Strategic time concepts are found to be extremely relevant.

Keywords

decision-making; emerging markets; learning; time; strategic time; China

Introduction

The strategic decision-making processes of western MNCs have been clearly mapped out in the literature (Mintzberg, et.al., 1976). However, these processes are largely based on FDI decision-making in stable environments (Aharoni, 1966). In the unstable and relatively unknown environments of emerging markets, whether these be emerging geographical markets like China or the emerging technological market of the Internet, where reliable information, knowledge and experience are often lacking, and where change is often rapid and unpredictable, the strategic decision processes are likely to be modified incrementally over time as decision-making agents interact with their decision environment. This is consistent with the literature on behavioural theories of the firm where the organization is perceived as being objective driven and routine-based, and capable of incremental adaptation to the operating environment through experience (trial-and-error) and over time (March and Simon, 1958; Lindblom, 1959; Cyert and March, 1963).

This paper focuses on this issue of adaptive learning routines and the concept of strategic time in decision-making processes in emerging markets. Through learning routines, companies adapt their decision-making processes better and better to the target environment. At the same time, they have to make sure that this process is in line with the company's capabilities and the country's state of development. Strategic time variables are found to be useful to understand these adjustment processes.

The analysis is based on a study of the FDI decision-making processes of Western MNCs in China for which the research method of grounded theory was used to develop understanding on the focused issue of adaptive learning and strategic time. The ability to increase the speed of learning through conscious exploitation of such learning routines would bring about better performance faster and hence would be of strategic importance to the firm. This is particularly so, given the positive relationship between strategic investment decision processes and organizational performance both in the long- and short-term (Papadakis, 1998).

Strategic decisions are aimed at timing actions and interventions, increasing or reducing speed and time periods, and improving the quality of learning in time, and hence achieving the desired performance over time. In these aspects, strategic time concepts (Reinmoeller and Chong, 2000; Chong, Reinmoeller and Komm, 2001) are found to be the most relevant to organizational learning and decision processes.

Strategic timing

Few studies on organizational life in general and FDI decision-making processes in particular include time as an explicit variable in their analysis. Luo (1998) studied the relationship between the timing of FDI and the performance of multinationals' Chinese subsidiaries using cost benefit analysis of reported accounting data and demonstrated that the timing of an investment in China has "significant influence on overall, as well as on individual aspects of venture performance" (p.391). He also found that early investors outperform late entrants in market growth in the host country although these pioneers also face much higher risks (p.403f). His results strongly suggest that a realistic and prudent (proactive) timing strategy is vital for the success of a firm's FDI activities.

Aliber (1970), and Buckley and Casson (1981) highlighted the importance of the timing decision when switching between methods of internationalization. Rivoli and Salorio's (1996) study showed the effect of the higher uncertainty of an emerging market environment on the timing decision. In a more specific reference to timing, Mintzberg, et.al. (1976), found in their study of strategic decision processes, that timing was used by managers as a variable to "purposely speed up or delay a decision process to take advantage of special circumstances, to await support or better conditions, to synchronize action with another activity, to effect a surprise, or to gain time" (p. 265). By manipulating the strategic time variable, managers could try to bring the firm's decision-making process in line with the environment and situational factors.

The importance of speed in decision-making processes is mentioned briefly by Daniels (1971) who noted that there is a need to act quickly. The duration of the decision-making processes has been found to vary greatly, ranging from a couple of days to several years (Hickson, et al., 1986; Butler, et al., 1993). In addition, Hickson (1986) also analyzed the degree of discontinuities within decision-making processes, a concept which is very similar to Mintzberg's “interruptions” and “speed-ups” (1976) which respectively lengthen or shorten the duration of a decision process.

Two frameworks for analyzing multiple time experiences in an organizational context have been discussed in the literature. Pointing to the difference between linear clock time and experiential time, Butler (1995) argued that we experience the present based on our knowledge of the past and how we envision the future. He also proposed four clusters of time experiences: Clock, Organic, Strategic, and Spasmodic time experiences. These time clusters are differentiated by the degree of the experience of the present time in terms of regularity and novelty, the type of codification of past knowledge (homogeneous vs. heterogeneous) and memory (short and long), and the intra-organizational congruence of visions for the future, as well as the planning horizon. Buttler explains how the four typologies of time experiences are related to different types of organizations, and to different modes of decision making . Clock time is often found in bureaucratic organizations, which are characterized by a computational decision-making style. This is contrasted with a spasmodic time experience, to which a muddling-through or inspirational decision-making style can be attributed. In a clock time setting, management has a common vision for the future and past knowledge is well codified in a homogenous way. In the spasmodic time setting, the decision-making style involves sporadic processes (Hickson et.al., 1986), which are characterized by disagreement about the company's future and the heterogeneous codification of knowledge.

In an emerging market, the future is uncertain and codified knowledge about past developments is seldom available. As a result, the prevalent time experience will lean towards the spasmodic type, according to Butler's model, which predicts a chaotic, rather than orderly, decision-making process and enactment of results. As a result, more decision making opportunities will be missed than under stable conditions. These implications are, by and large, in line with the results of empirical studies of strategic decision-making processes discussed above (e.g. Aharoni, 1966; Mintzberg, et al., 1976).

Outside decision making studies, Reinmoeller and Chong (2000) have proposed a framework for analyzing multiple time experiences in knowledge management based on four temporal settings, namely, productive leisure, defining moment, velocity and seasonality. According to them, productive leisure, "offers a perspective on disciplined activity at leisure which provides for a rich experience in time". In this setting, a company does not necessarily do anything but it is open to intuition by keeping the firm's antennas out and accumulating tacit knowledge at a leisurely pace (Polany, 1997). In contrast to productive leisure, velocity (or speed) refers to actions intended to minimize time.

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 effectively garnered and directed the energies of its members to a new course. Seasonality "is grounded in the fact that personal experiences in time are not necessarily unique occasions ... Everyday life in organizations represents recurrent micro-patterns nested in larger recurrent macro-patterns. The continuous passing and repetition creates the experience of rhythmic duration, i.e. simultaneous change and flow. Such objective seasonality links individual behavior to organizational routines through basic recurrence and specific change." Although Butler's spasmodic time experiences are clearly relevant to our study of decision processes in unstable emerging environments, the rest of his model may be less so. On the other hand, the Reinmoeller/Chong model which focuses on time experiences as variables for strategic change through learning (knowledge transfer) processes, is clearly directly applicable to our varied settings of decision-making processes in emerging markets.

Although foreign direct investment decision-making processes are very complicated and complex, there is considerable agreement as to what constitutes these processes, at least among multinational organizations. Most researchers adopt a phase model approach, similar to the general model proposed by Mintzberg, et.al. (1976). However, none of these researchers have investigated how timing or other time variables could influence any of the varied phases of the foreign direct investment decision process.

Research methods

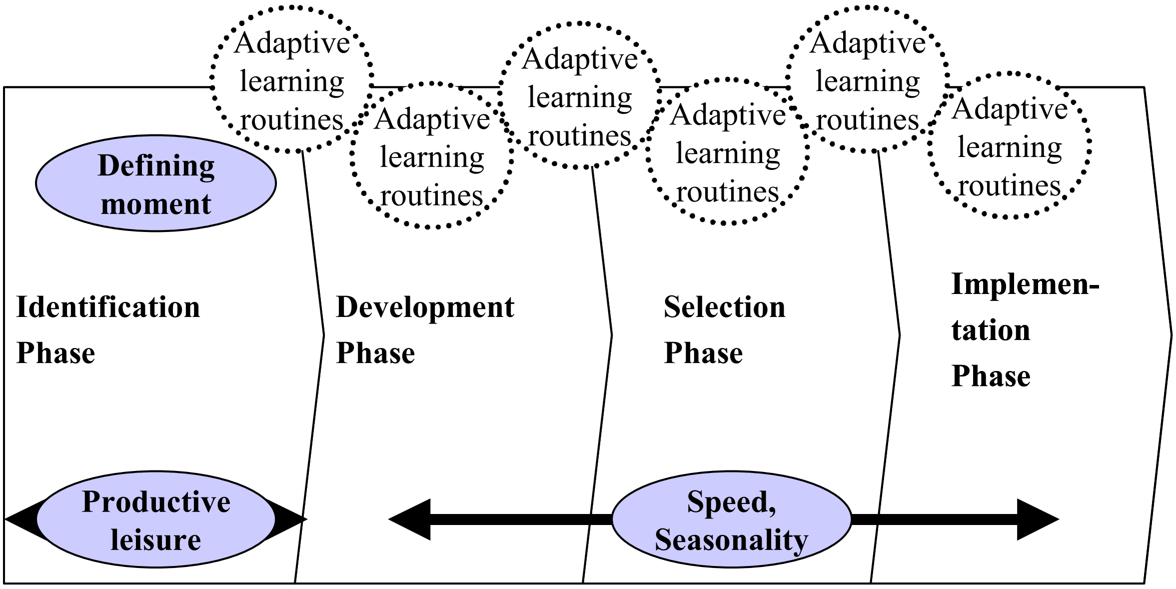
For the field research, we followed the "Grounded Theory" approach, which was developed by Glaser and Strauss (1967) and later refined by Strauss and Corbin (1990) and Miles and Huberman (1984). We started our field research phase with a number of hunches as to how an emerging market environment might affect decision-making processes of large corporations. We therefore designed an initial interview guideline, which included a variety of topics, amongst them also a number of questions in connection with time and timing of various aspects of the decision-making process. Our more than 70 interviews in 40 multinational companies were semi-structured, which helped us to touch all issues we thought might be important, but was flexible enough to let the interviewer explore those issues, concerns and topics that provided the most insights at the individual companies. After each interview, we modified our guideline to include new variables, to focus on specific aspects in more detail in subsequent interviews, or shorten topics which proved to be of little practical relevance. The ongoing analysis of the findings of our interviews created an iterative process in which we constantly tested and developed our ideas, inferences and concepts. By applying this inductive process, we let a theory emerge from the data, which was well grounded in our research findings.

Adaptive learning routines and time within decision making phases

Decision-making processes in general and foreign direct investment decision-making processes in particular can be differentiated into four main phases. These are the decision identification phase, the strategy development phase, the alternative selection phase, and finally the implementation phase (cf. e.g. Simon, 1947, Mintzber, et al. 1976). The data from our sample companies show that learning routines not only happen in all of these phases but also connect them as indicated in figure 1.

When a company enters an emerging market for the first time, its decision-making process is usually optimized for the company's stable home market. Once the company is exposed to the emerging market environment, however, it is forced into an adaptation process because it soon realizes that trusted ways of taking decisions do not work anymore in an environment which is characterized by a lack of reliable information and a high degree of uncertainty.

Figure 1: Adaptive learning routines and strategic time concepts in decision-making processes



Many examples for how such adaptation works in practice could be discovered during the field research. One of these is the employment of experienced decision-making agents. These would be managers who know the target region very well and have been explosed to the emerging market environment for several years. Ideally such managers would come from within the company but external talent may also be of considerable help. Much more so than would be the case in stable industrial countries, knowledge from the field has to be actively included in strategic decision-making processes for emerging markets because top level decision-makers are much less familiar with the decision environment.

Such adaptation of decision-making processes takes place in the form of learning routines. A company would experiment with a new way of taking a decision, e.g. relying more on hunches of experienced locals rather than sophisticated mathematical models which require a lot of data. The company would then evaluate the results of this decision processes and if they are satisfactory, it would be well inclined to use a similar approach again in the next decision-making process. Thus, the learnings from one project is being used to optimize the next process, starting a process of adaptive learning routines.

Very often, such learning happens without anybody actively starting the process or noticing it. The process can be strenghthened, however, if learning happens intentionally. In this way, companies would set up systems which would ensure an optimal realization of the results from the learning process through the codification of tacit knowledge and recording the results of adaptation of standard decision-making processes. Critical to this process of managing adaptive learning routines are timing issues. The better actions and interventions are being timed, the more successful they will be.

Productive Leisure

In our decision making framework, productive leisure characterizes the identification phase which is part of the country entry decision process. Very often, no specific project is evaluated during this phase. The firm is generally alert to the possibility of investing in the new country, but does not necessarily have a specific idea about any particular investment project. One of the sample companies, for example, started to watch China closely from late 1979, not long after Deng Xiaoping started to open the country to foreign investments. No explicit decision was necessary to start this very unstructured and initially rather aimless observation process. In the first few years, no investment was considered but the company actively increased its exports to China. During this time, the company also sought to gain more experience with China. It followed newspaper reports more closely, and started to send people to the region to get a more direct feel of the place.

Another company opened a representative office, with the goal of gathering market intelligence and to support its export business. Opening a small office was not a strategic decision, as no major decision-making process needed to be launched. It showed, however, a general alertness of the company to possible opportunities in China during this period of decision recognition characterized by productive leisure. Through our interviews, we discovered that during the decision identification phase, the firm gathered market know-how and experience through exports, business trips, representative offices, small scale licensing deals, or a general alertness in respect of the target country. The firm also seeks to achieve this goal using a productive leisure approach, which allows for a lot of creativity in assessing and gathering information without imposing any time pressure.

In both these cases, it is evident that what started off as unstructured learning became a routinized phase in productive leisure. In other words, the realization of value in such unstructured learning would lead to the routinization of productive leisure in an organization, thus making unstructured learning an organizational routine.

Defining Moments

In our model, a defining moment happens when the company is preparing in a leisurely way for market entry and turns general identification phase into a specific, project-focused decision identification phase. A related concept is that of the gestation period, which is the time from the inception of an idea to its treatment as a live issue in an organization (Butler, 1995). Through a defining moment, the actual project decision-making process gets kick-started. The company does not yet know what sort of project it will eventually implement, but the decision on an actual project is now recognized as being the goal of the process under way. In our sample companies, usually the CEO, company president or another senior executive suddenly realized that "something has to be done" about the Chinese market. Tacit knowledge that was accumulated over the years during the productive leisure part of the identification phase, suddenly materialized in a decision to start investigating a potential investment in the target country.

Defining moments may come in various forms. In one of our sample companies, for example, 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 China. For another company, the defining moment was the conclusion of a general study on the Asia-Pacific market. In some other companies, the defining moment may even have occurred years ago, but without any fanfare resulting in a constant alertness to market entry opportunities.

In all these instances, regular learning routines of the decision process were quickly set in motion to facilitate decision making. The interaction of these routines with their environments would lead to their subsequent adjustments and hence adaptation of the organizational decision making process.

Speed

The time concept of speed or velocity is important to all phases of the decision-making process. This includes even the first phase, as productive leisure seeks to purposely reduce speed in order to facilitate learning. Although a company needs not necessarily try to be as fast as possible in its decision-making process, it should recognize that speed is an important variable which management could influence. Timing a company's country entry (proactive timing) and project investments (proactive timing initially and reactive timing after the investment took place) are important for maintaining the fit between the organizational capabilities and its environment. If a company has very little experience with emerging markets, it will need to spend a lot of time during the early phases of the decision-making process, in order to get the timing right. Any first mover advantage that a company may achieve through a speedy decision-making process is likely to be wiped out by the problems and mistakes caused through inexperience, and hence, poor timing. A company with little experience in the current target country but ample experiences in similar emerging economies may, on the other hand, be much better suited to take advantage of early opportunities, as it has prior experience in the use of adaptive learning routines from ventures elsewhere.

Volkswagen in China is a good example. Volkswagen was the first automotive company to invest in China. It did so because it believed that its experience in emerging Latin America was relevant to China of the early, 1980s. It therefore felt more comfortable than its competitors that its organization could cope with the new country’s environment and was therefore best suited to take advantage of it. Small companies, on the other hand, which are lured by media euphoria to jump onto the band wagon of investing in a potentially enormous new market may easily come to realize that their organizational capabilities did not match the market's requirements. Many failures of small companies can be attributed to this mismatch and a much too rapid developmental speed in market entry and investment. In such cases, when not enough experience is available internally in the organization, companies do have two possibilities. They can either acquire information and experience from outside advisers and new hires or decide on a slower developmental pace. Whatever the decision, it is important to realize that the speed of the decision-making process in each developmental phase should be managed to keep the organization in step with the environment.

Seasonality

Seasonality refers to the repetitiveness of experience, likened to nature’s repetition of seasons of the year. It can happen in the same phases in which speed is also often a characteristic of the decision-making process. 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 are very similar irrespective of whether emerging markets or more stable markets are being analyzed (Aharoni, 1966; Larimo, 1995). This is not true due to the very different environments between emerging and stable markets. For example, in emerging countries where data is insufficient, usual rigorous market analysis may not be possible, thus making strategic decision making quite different. Furthermore, similar phases of each decision process may have its own peculiarities and different phases of the same project could also be different.

Although a step-by-step development where one project follows another is possible, 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 a relatively late market entry which allowed for a lot of learning from the experiences of other firms, one of our sample companies managed to negotiate a series of joint ventures quickly one after the other. 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 may not lead to favorable results. Part of the success of this company 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 sufficient experience and knowledge, the company was able to increase the speed of its investment decisions processes tremendously because of the repetitiveness of the investment decisions processes.

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 co-operate extensively during the early phases of market entry by taking advantage of a specific organizational unit and concentrate the decision making authority during the early days (and years) of investing in a new emerging country within one division or even person (as was the case in one of our sample companies). 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.

Right timing

In having the "right timing", a firm's capabilities must match the requirements of its operating environment. 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). What is often neglected, however, is the need to get the timing right in the implementation phase and beyond. In a rapidly developing emerging economy, the environment may change quickly and the conditions on which decisions were based may have to change accordingly. This being the case, a firm may need to adjust its own capabilities and timing of decisions in order to keep in step with the environment (reactive timing).

Many late entrants to China started to flood into the market in the early 1990s. This flow of direct investments, however, slowed down significantly during the late 1990s, when over-capacity in China and a deterioration of the 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 which started to invest even more during the crisis by purchasing more assets, preferably the shares of subsidiary companies from their joint venture partners. This acceleration strategy can also 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. Even though joint ventures with local partners do offer benefits, such as local knowledge and market access, these benefits became less important and the drawbacks of operating international joint ventures, like strategic conflict and slow decision making, became more problematic in an increasingly more competitive market environment. Realizing this mismatch, some companies would invest speedily the moment the opportunity arises, particularly given the depressed asset prices due to the Asia crisis.

Conclusion and implications

In this paper we have discussed how adaptive learning routines and explict focus on strategic time variables can improve decision-making processes for emerging markets. Our focus on time variables has enabled us to uncover important facets of the decision-making process which European companies have evolved through trial and error in the unfamiliar, unstable and ever changing environment of the emerging Chinese economy. The switch from operations in a familiar and stable market to an unfamiliar, unstable and ever changing one would often require a redirection and new focus for the organization concerned. This could take place at a point in time - the “defining moment” – which started up the country specific decision process for FDI of the particular firm, which is really the first phase in the strategic decision-making process to invest in the country. This phase is characteristically “unstructured”. During this phase, the organization (its members in the field) gathers information to gain knowledge and understanding about the country and its operating environment, explores investment opportunities in a leisurely and creative manner without having any clear idea of a project. This time experience of the organization’s members is called “productive leisure”. Such “productive leisure” could be used effectively by an organization to enable relevant members to learn and become well prepared in a new environment, seek new opportunities and where applicable, seize opportunities effectively using our concept of “proactive timing”.

We also discovered the repetitive projects decision process cycles of investing organizations. These cycles reflect both learning and experience from previous cylce(s) as they gain speed (an everyday time concept) over time. Such cycles also become an internal timing mechanism (the concept of seasonality), enabling the organization to time each new project decision proactively. Given the ever changing environment, project managers have also to keep pace with such changes after the successful initiation of the project through “reactive timing”.

The adaptation of decision-making processes to an emerging market environment happens through adaptive learning routines. It is advisable for companies to make these learning routines explict in order to maximize the learning effects. Future projects will continue to benefit from previous ones if the adaptive learning routines are continued, either by involving experienced managers or accessing codified knowledge.

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