Decision making in emerging markets: The Delphi approach's contribution to coping with uncertainty and equivocality

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Abstract

Firms in emerging markets are particularly challenged by uncertainty and equivocality in their long-term oriented decision making. These markets are characterized by dynamic institutional contexts especially affecting the predictability of future developments in the business environment. Based on the organizational information processing theory (OIPT), we first analyze how widely applied decision theories, organizational as well as procedural approaches contribute to coping with uncertainty and equivocality in emerging markets from a decision-making perspective. Accounting for inherent information asymmetries, we then elaborate the potential of future-oriented Delphi studies to serve as an information processing aid. To demonstrate the applicability of Delphi-based studies in the context of emerging markets we draw on case examples centered on China’s and India’s automotive industry, India’s aerospace and defense industry as well as the health insurance industry in rural India in 2020.

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1. Introduction

Emerging markets offer both enormous business potential across industries but also very distinct institutional contexts. This unique institutional environment needs to be well understood when planning, evaluating, implementing and expanding business operations in these markets (Khanna & Palepu, 1997; Khanna, Palepu, & Sinha, 2005). Organizational information processing theory (OIPT) stipulates that managers' information level influences decision making effectiveness and, as a result, firm performance (Galbraith, 1974; Tushman & Nadler, 1978). According to Daft and Lengel (1986), decision makers are challenged by two major information contingencies. First, uncertainty, defined as a lack of information. In our context, uncertainty may occur in different environmental domains and refer to various stakeholder activities (e.g. regulations of the government or competitors' strategic moves). Second, equivocality, or ambiguity, defined as the lack of clarity of available information. In equivocal situations, multiple potential interpretations of the information at hand conflict with each other. Hence, their implications (e.g. for the focal industry or firm) remain unclear (Daft & Macintosh, 1981). Changes in the institutional environment of emerging markets such as political shifts and evolving market conditions challenge managers in their decision making through both uncertainty about which changes might occur and equivocality about how to interpret changes in order to anticipate relevant consequences and interrelations at an early stage (Kuklinski, Moser, & Georgi, 2012). In addition to a significant lack of information that firms naturally face in foreign markets, emerging markets are more dynamic and 'surprise-intensive' (Root, 1984, p. 22) than most firms are accustomed to from their home markets.

The more adequate the information needs of decision makers are met, the better the effectiveness of their decision outcomes (Galbraith, 1974; Tushman & Nadler, 1978). The information processing requirements of firms in emerging markets are mainly exogenously pre-determined due to the dynamic institutional context. Hence, they have little choice but to adapt their information processing capacities in order to manage the information contingencies. Yet, predominant strategic management as well as decision theories directs little attention towards the question of how to actively cope with information contingencies. Managers draw on little guidance how to balance limited information processing capacities with high information processing requirements. In this paper, we focus on the information acquisition of decision-making processes, i.e., the phase of information gathering rather than phases associated with evaluating alternatives and choosing courses of action (Simon, 1960). Although the sequential character of
conceptualized decision phases has been subject to critique, the differ-
entiation allows for a further clarification of the paper’s locus from an
OIPT perspective. We stipulate that in our particular context future-
oriented Delphi studies offer valuable support for the information
gathering efforts of managers (Hartman, Lundberg, White, & Barnett,
1995). We assert that properly employed Delphi studies can serve as a
promising information gathering aid and enhance the decision making
effectiveness in emerging market settings.

Based on organizational information processing theory, the paper
focuses on the information gathering phase of decision making processes,
and elaborates the potential of future-oriented Delphi studies as an
information gathering aid in emerging markets. More precisely, the con-
tribution of the paper is threefold. First, we provide a comprehensive over-
view of potential approaches to cope with the decision making challenges
in emerging markets; specifically, we evaluate each approach’s poten-
tial contribution to reducing uncertainty and equivocality. Second, we
elaborate on the applicability of the Delphi-based approach in the
context of the organizational information processing theory. Third, we
demonstrate the flexibility and appropriateness of the Delphi-based
approach in different country and industry contexts through four case
examples.

The remainder of this paper is structured as follows. The next
chapter outlines key characteristics of emerging markets as well as the
resulting decision-making challenges, and introduces the central tenets
of organizational information processing theory. Subsequently, we
discuss the applicability and effectiveness of procedural approaches,
analogical reasoning and extrapolation techniques as well as dominant
decision theories with respect to coping with information contingencies
in emerging markets. We then introduce the Delphi method and elabo-
rate on the effectiveness of future-oriented Delphi-based information
gathering efforts in order to cope with uncertainty and equivocality.
We draw on four emerging market case examples: The health insur-
ance, the aerospace and defense as well as the automotive industry in
India and the automotive industry in China in 2020 (in total 183 expert
panel participants). Finally, we proceed with conclusions, followed by
limitations and implications for research and practice.

2. Decision making in emerging markets: an organizational
information processing perspective

As opposed to the relatively stable political, social and economic
environments in developed countries, emerging markets are portrayed
by a dynamic institutional context characterized by opaque regulations
and little transparency in decision-making processes of governmental
institutions such as courts and other relevant entities (Hoskisson,
Eden, Lau, & Wright, 2000). In many instances, emerging markets have
arisen from centrally planned economies and undergone an institu-
tional transition towards free(r) market principles and safeguarding
mechanisms (Hoskisson et al., 2000; Wright, Filatotchev, Hoskisson, &
Peng, 2005). Hence, the institutional framework enabling and regulat-
ing economic transactions is rapidly evolving (Hoskisson et al., 2000;
Wright et al., 2005).

The considerable dynamics in the business environments of emerg-
ing markets can be structured along political, economic, social and
 technological aspects (PEST). The political environment in emerging
markets is characterized by government policies that favor economic
growth or liberalization. Still, emerging markets remain comparably
regulated and considerable governmental involvement occurs more
frequently than in most industrialized countries (Hoskisson et al.,
2000; Khanna & Palepu, 1997; Wright et al., 2005). The economic
environment is mostly characterized by less developed product and
financial markets (Khanna & Palepu, 1997; Khanna et al., 2005). In the
social domain, major differences between industrialized and emerging
markets concern not only the educational system (e.g. higher illiteracy
rates) but also regional and country-specific cultural aspects determin-
ing key factors such as customer requirements or the code of conduct
during economic transactions (Khanna & Palepu, 1997). From a tech-
nological perspective, many emerging markets lag behind in relevant
business infrastructure conditions such as communication and transpor-
tation systems, energy and water supply or automation of production
processes (e.g. Khanna & Palepu, 1997). As a result, we assert two
main aspects to be particularly challenging in emerging markets:
institutional voids referring to a less-established institutional fram-
work (Khanna & Palepu, 1997; Khanna et al., 2005) as well as difficult-
to-predict, often non-linear changes of the institutional context.
These challenges along with companies’ constrained information pro-
cessing capacities confront managers with incomplete and ambiguous
information.

According to OIPT, organizations are open social systems which
process information to complete or coordinate tasks (Daft & Lengel,
1986; Tushman & Nadler, 1978). Following the understanding that un-
certainty constitutes some kind of information deficit, Galbraith (1974)
suggests information processing as an uncertainty-reduction strategy. If
firms acquire sufficient and adequate information, they can reduce and
eventually eliminate information contingencies (Sharman & Shaft,
2011). Thus, larger information requirements demand increased
information gathering and processing. The better the ‘fit’ between the
information processing requirements and capacities, the higher is the
effectiveness of the decision outcomes and subsequently corporate
performance (Keller, 1994).

Firms can align their information processing requirements and
capacities by either reducing their information requirements, or taking
measures to increase their information processing capacities; both can
prove equally effective (Bensou & Venkatraman, 1995). However,
information processing requirements in emerging markets are predom-
nantly influenced by exogenously determined conditions, i.e. the insti-
tutional context (Egelhoff, 1991). Firms can only limitedly reduce such
information processing requirements (e.g. by lobbying). Accordingly,
 firms normally have to adapt their limited information processing
capacities to the pre-determined level of information processing
requirements (e.g. Bensou & Venkatraman, 1995; Georganzas &
Acar, 1995). In this respect, research suggests a change of organizational
structures and designs including process coordination and control
mechanisms as well as analogical reasoning and extrapolation
techniques (Bensou & Venkatraman, 1995; Lipshitz & Strauss, 1997).

3. Decision making approaches in emerging markets

3.1. Organizational approaches

In line with both organizational information processing as well as
structural contingency theory, researchers stipulate that adapting an
organization’s structure to the specific environmental conditions
forms a prerequisite for organizational effectiveness (e.g. Bensou &
Venkatraman, 1995; Leifer & Huber, 1977). An appropriately adapted
“organizational design can provide information of suitable richness to re-
duce equivocality as well as provide sufficient data to reduce uncertainty”
(Daft & Lengel, 1986, p. 559). In this context, organismic and mechanis-
tic structures are two commonly distinguished generic options (Burns &
structures have greater information processing capacities than mecha-
nistic structures and can cope with higher levels of uncertainty and
equivocality; organismic structures can thus be considered better suited
for dynamic business environments such as emerging markets.

3.2. Procedural approaches

In order to improve their decision making effectiveness firms need
to consider an adaptation of implemented routines and processes
(Miller & Friesen, 1983). For example, Milliken (1987) suggests that
firms should adapt their strategic planning processes in light of ‘state’,
effect’ and ‘response uncertainty’. In situations characterized by state
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