## "INTERPRETING AND RESPONDING TO STRATEGIC ISSUES: THE IMPACT OF NATIONAL CULTURE"

bу

Susan SCHNEIDER\*
and
Arnoud DE MEYER\*\*

N° 89 / 61 (All)

- \* Associate Professor of Organisational Behaviour, INSEAD, Boulevard de Constance, 77305 Fontainebleau, France
- \*\* Associate Professor of Technology Management, INSEAD, Bouelvard de Constance, 77305 Fontainebleau; France

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# Interpreting and responding to strategic issues: The impact of national culture

Susan C. Schneider Associate Professor

Arnoud De Meyer Associate Professor

INSEAD
European Institute of Business Administration

Blvd. de Constance 77305 Fontainebleau FRANCE

(33-1) 60-72-4000

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## Interpreting and responding to strategic issues: The impact of national culture

Perceptions of environmental uncertainty and organizational control influence strategic behavior. As national culture influences these perceptions, we expect to find cultural differences in interpretation and response to strategic issues. Executive and MBA participants in a European business school read a case describing the potential repeal of the Mc Fadden act (deregulating interstate banking in the U.S.) and completed questionnaires rating interpretations and responses to that issue. National culture was found to influence interpretation and responses. In particular, Latin European managers when compared with other managers were more likely to interpret the issue as a crisis and as a threat. Latin Europeans were also more likely to recommend proactive behavior than were their counterparts. This study indicates that different cultures are likely to interpret and respond to the same strategic issue in different ways. These differences may help to explain and predict different responses of European countries to "1992".

Assessments of environmental threats and opportunities and organizational strengths and weaknesses are the sine qua non of strategic management. Although these assessments can have an objective basis, they are often influenced by subjective perceptions and interpretations (Daft & Weick, 1984; Stubbart & Smircich, 1985). Environmental uncertainty, for example, can be assessed "objectively" through industry analysis (Porter, 1980), yet is perceived differently by different managers (Duncan, 1972). Furthermore, perceptions of environmental uncertainty and of organizational control and capability may influence the choice of proactive vs. reactive strategic behaviors (Dutton & Duncan, 1987; Paine & Anderson, 1975; Daft & Weick, 1984).

"Strategic issues", i.e. environmental events that may have an important impact on organizational performance (Ansoff, 1980), are also subject to perception and interpretation. As these events are often ill-defined and ambiguous, their meaning must be attributed. Multiple meanings are possible, but recent management literature has addressed interpretations of "crisis" (Billings, Thomas, Milburn & Schaalmam, 1980) and "threat" and "opportunity" (Jackson & Dutton, 1988). These interpretations derive from perceptions of issues as negative or positive, as potential losses or gains, and as uncontrollable or controllable. These interpretations trigger different decision processes and different behaviors (Dutton & Jackson, 1987; Nutt, 1979; Cowan, 1987). For example, under "threat", organizations tighten control, restrict the flow of

information, and reduce participation in decision making (Staw, Sandelands & Dutton, 1981), as well as focusing effort on internal adaptation rather than external environmental change (Dutton & Jackson, 1987). Individuals faced with a situation described as "potential loss" have been shown to engage in more risk-taking behavior (Tversky & Kahneman, 1974).

Differences in interpretation and response to strategic issues have been linked to individual, group, and organizational characteristics. Individuals are more likely to pursue innovative strategies when they are younger, better educated and less experienced (Hambrick & Mason, 1984), feel that they have control over their environments (Miller, Kets de Vries & Toulouse, 1982), and are extrovert and intuitive in their approach towards gathering and evaluating information about the environment (Miller, Toulouse & Belanger, 1985). Issues are readily interpreted as marketing or accounting, for example, by members of those functions (Dearborn & Simon, 1958).

Groups develop different metaphors as interpretations of the same strategic events that can then influence action (Sapienza, 1985). Group dynamics, e.g. "group think", can result in risky behaviors due to interpretations of "shared stereotypes" of outsiders and "illusions of invulnerability" of the group (Janis, 1971). Organizational strategy, structure and style can also influence interpretation and response to strategic issues; organizations

that are "prospectors" (Miles & Snow, 1978), that have informal and decentralized structures, and "entrepreneurial style" are more likely to interpret environmental events as "opportunities" and to respond proactively (Meyer, 1982; Thomas & McDaniel, 1988).

#### National culture

National culture may also play a role in interpreting and responding to strategic issues as it shapes underlying assumptions about the environment and the organization (Schein, 1985). Sallivan & Nonaka (1988), for example, found Japanese managers more likely than American managers to interpret issues as threats and to differ in information scanning and sharing within the organization as a function of that interpretation. These findings could be attributed to cultural differences regarding attitude towards uncertainty and perceived control over the environment (Hofstede, 1980; Kluckholn & Strodbeck, 1961; Hall, 1960; Nowotony, 1964). Japanese managers compared with American managers prefer to avoid uncertainty (Hofstede, 1980) and perceive less control over their environments and therefore react adaptively (Maruyama, 1984; Kagono, Nonaka, Sakakibara & Okumura, 1985). Thus one could argue that Japanese managers would more likely interpret a strategic issue as a "threat" and restrict information sharing as was found.

The reasoning here is that when managers tend to avoid uncertainty, they will interpret strategic issues which are

uncertain in their potential impact and ambiguous in their definition as a threat. The converse is that when managers are more tolerant of uncertainty, they are more likely to interpret a strategic issue as an opportunity. Following similar logic, strategic responses will be reactive when uncertainty tends to be avoided; and conversely strategic responses will be proactive when uncertainty is tolerated. Hofstede (1980) has argued that the tendency to avoid uncertainty will result in risk averse behavior. Uncertainty may be better tolerated when perceived as controllable and active steps are taken to reduce it (Schneider, 1989). As national culture is believed to influence these perceptions towards uncertainty, it is expected that national culture will have an impact on the interpretation and response to strategic issues. Therefore,

Hypothesis 1: National culture will influence the interpretation and response to strategic issues.

Country clusters found in previous cross national research on managerial values and beliefs have been attributed to similarities in national culture (Ronen & Shenkar, 1985; Hofstede, 1980). For example, managers from France and Italy tend to respond similarly when compared with German and Dutch managers. As cross national research demonstrates greater differences between countries than within countries, national differences are often used as a proxy for cultural differences. Country clusters, however, may serve as a better indicator of culture. Therefore culture is herein defined by country cluster based on previous research findings as follows: North American - U.S. and Canada; Anglo - U.K.;

Northern European - Netherlands, Germany, Switzerland, Austria; Latin European - France, Belgium, Italy, Spain, Portugal; and Nordic - Denmark, Norway, Sweden, Finland.

Differences among managers in different countries have been shown in terms of uncertainty avoidance and perceived control over the environment. For example, Latin Europeans are more likely to avoid uncertainty and therefore be more risk averse in their behavior than their counterparts in other cultures (Hofstede (1980). French managers, for example, tend to respond to problems by focusing on their own "turf", referring problems up the hierarchy, and letting the government buffer the organization from the environment (Crozier, 1964). That French managers prefer clear-cut job descriptions and hierarchy seems to support the tendency to avoid uncertainty (Laurent, 1983). Therefore, the following hypotheses comparing Latin European managers with managers from other cultures are tested:

Hypothesis 2: Relative to other managers, Latin European managers will interpret strategic issues as threats.

Hypothesis 3: Relative to other managers, Latin European managers will be more reactive in their strategic response.

#### Method

## Sample

To test these hypotheses, questionnaires were administered to executive and graduate students enrolled in a major European Business School. For some groups the case and questionnaire were

to be prepared for class discussion; for others they were simply requested to complete it for research purposes. Although the response rate varied, no significant differences were found between conditions. Of the 333 questionnaires returned, 303 were usable in that they had been fully completed.

Of the 303 subjects, 134 were MBA students, 169 were executives. The average age was 33.5 years, ranging from 23 - 56. Average years of education post high school was 5.1: 38% had studied business and economics; 44% had studied science and engineering; and 18% other. The average length of experience was 9.4 years: 14% in finance; 27% in marketing; 8% in production; 11% in R&D; and 19% in general management. Twenty percent had had previous banking experience. The 303 participants represent 16 countries as indicated by their response to "nationality": 9.8% North American; 19.6% Anglo; 23.8% Northern Europeans; 28.4% Latin Europeans; and 18.3% Nordic.

An important characteristic of the sample is its "international" character. The participants were attending educational programs conducted in English at an international business school and often had had a wide range of international experience, either in terms of personal history or work experience. Fifty-nine percent had lived abroad for an average of 3.2 years. English reading ability was self-rated as fair (7.9%), good (27%), and fluent (66%).

No significant differences were found as a function of the demographic data: age, education, MBA vs executive students, previous banking experience, function, international experience, or reading ability. Nor did demographic data differ significantly across cultures.

### Procedure

The participants are asked to read a case, called the Essex Bank Case, and fill out a questionnaire. The case and questionnaire, originally developed by Dutton and Jackson (1984), were revised by the authors based on a pilot study to check if it could be used with an international sample and the need to focus on one strategic issue presented in a neutral manner. The case (the equivalent of 4 -5 pages single spaced) provides a very general description of events related to the deregulation of the U.S. banking environment, of the Essex Bank - a ficticious medium sized bank in the midwestern United States, and of the potential repeal of the McFadden Act. The participants are told in the case that

"Jeff Waters, President of Essex Bank, is personally concerned with the Bank's response to the possible repeal of the McFaddden Act. The McFadden Act of 1927 currently prohibits interstate banking. Its repeal would dissolve barriers to interstate banking. This issue is considered one of the banking industry's major issues for the 1980's.

Waters has asked you to prepare a report on what the Bank's response should be to the potential repeal of the McFadden Act. This is a critical assignment, as you must prepare the report for a personal briefing with Waters and a formal presentation to the Policy and Planning Committee."

The questionnaire that follows contains 36 items (using a 7-point Likert scale) designed to assess issue interpretations (e.g. The

issue is a "crisis") and responses to the potential repeal of the McFadden Act (e.g. "Begin major changes in organizational design"). Both the case and questionnaire were written in English.

The responses to the items on the questionnaire were subject to analysis of variance calculated to assess the overall impact of national culture. Tukey studentized range test was used to test the significance of the differences between the means on questionnaire items of the different cultures. Given previous research findings, multiple regression analyses were calculated to control for the effects of age, field and number of years of education and experience, previous banking experience, international experience, and English reading ability.

### Results

The answer to the question "Does national culture influence the interpretation and response to strategic issues?" is yes as shown in table 1.

insert table 1 about here

The results of the analysis of variance indicate that national culture influences whether the issue is seen as a crisis (p<.001), as stimulating (p<.01), as a threat (p<.05), the future better if resolved (p<.05), as difficult to resolve (p<.10), quick action neded to resolve (p<.10), one correct solution (p<.10), and as an

opportunity (p<.10). Therefore, national culture appears to affect the interpretation as a threat and as a crisis and to a lesser extent as an opportunity.

It was also found that national culture appears to affect strategic responses to: allocate funds to lobby to support repeal (p<.01); train (p<.01); fund new technology (p<.01); change organization design (p<.01); raise profit objectives (p<.05); write to discourage repeal (p<.05); to act quickly (p<.05); to raise profit objectives (p<.10); inform employees (p<.10); to scan (p<.10); diversify (p<.10); and set trends (p<.10). These indicate a willingness to take action and invest substantial resources and thereby can be considered as proactive behavior. Thus, national culture appears to have an important influence on responses that reflect proactive behaviors. Therefore, hypothesis 1 is confirmed.

Furthermore significant differences are found between means of the country clusters. Table 1 also summarizes the results of the Tukey HSD tests showing the significant differences (p<.05 level) among means of country clusters. Results show that Latin Europeans were more likely to interpret the issue as a crisis than both Northern European and Nordic groups; Anglo group was also more likely to indicate crisis and "stimulating" when compared with the Northern Europe group; Latin European were also more likely to indicate threat than the Northern European group. These findings support hypotheses 2, that Latin European managers will perceive threat

more than other managers; as well as crisis which can be considered as an extreme case of threat. However, as the Anglo group is also more likely to interpret the issue as a crisis when compared with the Northern European group, the underlying reason cannot be uncertainty avoidance as this culture ranks low on this dimension (Hofstede, 1980).

Regarding strategic response, Latin Europeans were more likely than Northern Europeans to change design and to diversify; and when compared with the Anglo managers, to lobby to support repeal and to invest in technology. Nordic managers were more likely to act quickly than Anglo. North American managers were more likely to write to discourage repeal and least likely to fund training when compared with all but Anglo managers and least likely to change design when compared with Latin managers. Thus Anglo and North American managers appear more reactive while Latin European managers appear more proactive behavior. Therefore, hypotheses 3 was not supported.

#### Discussion

This research has demonstrated that national culture influences the interpretation and response to strategic issues. Furthermore Latin European managers in comparison with other managers more often interpreted the issue as a crisis. Latin Europeans were more likely to recommend strategic responses that involved greater investment which could be interpreted as proactive behavior. This does not support the logic that Latin European culture in avoiding

uncertainty will tend to be risk averse (reactive) as proposed by Hofstede (1980), as in fact, the North American and Anglo cultures which do not prefer to avoid uncertainty tended to be the most reactive. It may support previous research wherein interpretations of threat will lead to proactive behaviors such as risk taking (Tversky & Kahneman, 1974) and greater investment of resources — time, effort and/or money (Dutton, Stumpf & Wagner, 1988).

Therefore, if Latin European managers are more likely to interpret strategic issues as crisis, then perhaps they are more likely to recommend that changes are made in response to that interpretation. However, the Anglo managers also tended to interpret crisis but then responded more reactively. Therefore, while cultural differences are found in interpreting and responding to strategic issues, the underlying reasons for this remain to be uncovered.

The present findings demonstrating the impact of national culture on interpreting and responding to strategic issues build on past research which demonstrated the effects of individual and organizational characteristics. However, one of the remaining concerns is to specify the relationship between these variables, i.e. whether these variables — individual, organizational or cultural — directly influence strategic response or indirectly affect the response through interpretation. The work of Dutton and Jackson (1987) and Tversky & Kahneman (1974) argues that the interpretation influences the response. In discussions of

individual and organizational differences, the role of interpretation is not made explicit as a mediating mechanism. The present research has demonstrated that culture affects both the interpretation and the response but has not demonstrated that interpretation plays a mediating role. Further research is needed to demonstrate the causal linkages.

For example, what is the relative importance of national culture and organizational structure? Previous research has demonstrated differences between national cultures in organizational design and policies (Hofstede, 1980; Laurent, 1983). Latin European organizations are characterized by greater centralization and formalization and as more political than other organizations. These organizational characteristics also contribute to interpreting and responding to strategic issues as threats (Meyer, 1982; Thomas & McDaniel, 1988). Does culture influence this process through organizational structure or independently?

Another unresolved question is: What role do individual differences play? In this research individual demographic differences did not appear to play a role in affecting strategic issue interpretation and response. This contradicts previous findings that age, experience and function influence risk taking vs. risk averse responses (Hambrick & Mason, 1984). Personality differences that have been proposed such as locus of control, tolerance of ambiguity, perceptual and cognitive styles, and

neurotic styles remain to be demonstrated. Are these differences influenced by culture as well?

Other interpretations may also be important in determining responses. For example, the most significant finding in the present study was the influence of culture in interpreting crisis. "Crisis" is a function of the perceived value of possible loss, probability of loss and time pressure (Billings et al, 1980). Perhaps culture in its different time perspectives, e.g. emphasis on the past vs. the future and monochronic vs polychronic time, will affect the sense of urgency (Schneider, 1989). Cultural differences may provide fertile ground for exploring different reactions to industrial crises as in the case of Bhopal (Shrivastava, 1987).

There are important mangerial implications that arise from this research. While Jackson & Dutton (1988) demonstrate that managers are generally prone to perceive threat, we have demonstrated that culture influences the perception of threat. We have also demonstrated that Latin European managers are more likely to indicate proactive behaviors. This may imply that Latins Europeans may overreact to some situations while others may not react enough. Furthermore it may be more difficult to convince Latin Europeans that a situation is not a crisis while difficult to convince other managers that it is. This points out the need to present issues in different ways in different countries. Thus

communicating and creating meaning around strategic issues are critical activities in mobilizing resources and effort and in influencing the distribution of power within organizations.

The present research was conducted in the classroom, using a fictitious case in a (for most participants) distant environment. This enabled participants to project their worldview without reference to the reality of their own national situations. However European managers are at present facing the strategic issue of "1992" - the deregulation of restrictions on intercountry trade in general and intercountry banking in particular. While interpretations of "1992" as threat or crisis may reflect economic readiness of different countries to respond, this research demonstrates that there will be cultural influences that may exacerbate this interpretation. The tendency to respond proactively may result in more hasty and risky strategies without necessary reflection. Perhaps, on the other hand, 1992 can serve as a stimulus for encouraging change to happen more quickly and on a grander scale than would have happened otherwise.

Different country perceptions of "1992" have already been demonstrated (International Management, February 1988). Another survey found that 48% of Spanish and French companies and 32% of Italians indicated intention to make substantive changes in response to 1992 in comparison with 12% of West German companies (Eurobusiness, July 1989). The present research findings can begin

to help to explain why and to predict strategic behaviors. Further field research is planned to explore how "1992" as a strategic issue is being interpreted and responded to within Europe. Given the increasingly global nature of business, it is important to understand why the same environmental event can be interpreted and responded to in different ways in different countries.

Understanding these differences can provide a competitive advantage in facing international competitors in a global market.

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|  | Coun                | try Cl              | usters              | means      |                     | SD . | ANOVA<br>F |
|--|---------------------|---------------------|---------------------|------------|---------------------|------|------------|
| Essex Bank Questionnaire                           | #1<br>n=30          | #2<br>n=60          | #3<br>n=73          | #4<br>n=82 | #5<br>n=55          | •    | £          |
| Issues   |                     |                     |                     |            |                     |      |            |
| 1 benefit by acting                                | 5.53                | 5.71                | 5.18                | 5.33       | 5.26                |      | .4199      |
| 2 personal advantage                               | 5.10                | 4.80                | 4.75                | 5.05       | 4.42                |      | .2835      |
| 3 crisis   | 3.86                | 4.13                | 3.10                | 4.39       | 3.38                | *    | .0001      |
| 4 stimulating                                      | 6.26                | $\frac{6.18}{6.18}$ | 5.56                | 5.97       | 5.57                |      | .0033      |
| 5 act as choose                                    | 3.66                | $\frac{3.23}{2.78}$ | $\frac{3.30}{3.40}$ | 3.20       | 3.00                |      | .1764      |
| 6 threat   | 5.40                | 5.75                | 5.06                | 5.74       | 5.14                | *    | .0152      |
| 7 gain not loss                                    | 2.63                | $\frac{3.75}{2.59}$ | $\frac{3.00}{2.87}$ | 2.81       | 3.25                |      | .2087      |
| 8 action constrained                               | 5.10                | 5.40                | 5.27                | 5.37       | 5.00                |      | .5630      |
| 9 positive impact                                  | 3.93                | 4.06                | 4.27                | 4.21       | 4.32                |      | .7549      |
| 10 act quick to resolve                            | 4.40                | 4.50                | 5.10                | 5.03       | 5.03                |      | .0963      |
|  | 3.36                | 3.73                | 3.63                | 3.45       | 3.53                |      | .8447      |
|  | 5.70                | 5.81                |                     | 5.15       | 5.31                |      | .0722      |
| 12 opportunity                                     | 5.33                | 5.36                |                     | 5.14       | 5.29                |      | .9291      |
| 13 pressure to act<br>14 future better if resolved |                     |                     |                     | 4.96       | 4.44                |      | .0432      |
| 15 difficult to resolve                            | 5.70                |                     | 5.34                | 5.95       | 5.31                |      | .0517      |
|  | 1.76                |                     |                     | 2.36       |                     |      | .0538      |
|  |                     |                     |                     |            |                     |      | .5626      |
| 17 will be repealed                                | 4.90                | 4.96                | 5.26                | 5.29       | 5.16                |      | .5020      |
| Responses  |                     |                     |                     |            |                     |      |            |
| 18 lobby to repeal                                 | 2.66                | 1.78                | 1.93                | 2.53       | 2.44                | *    | .0083      |
| 19 scanning  | 6.16                | 6.25                | 5.70                | 5.81       | 5.55                |      | .0706      |
| 20 lower profit objectives                         | 2.62                | 2.36                | 2.76                | 2.16       | 2.54                |      | .2334      |
| 21 alter market niche                              | 3.36                | 3.74                | 4.12                | 4.22       | 3.80                |      | .1358      |
| 22 large scale training                            | 2.90                | 3.83                | 4.17                | 4.54       | 4.26                | *    | .0025      |
| 23 computer technology                             | $\frac{3.58}{3.58}$ | 3.43                | $\frac{3.76}{3.76}$ | 4.55       | 3.66                |      | .0038      |
| 24 takeover candidate                              | 3.86                | 4.20                |                     | 4.57       | 3.77                |      | .1787      |
| 25 hire someone to monitor                         | 4.30                | 4.05                | 4.41                | 4.63       | 3.77                |      | .3869      |
| 26 raise profit objectives                         | 4.24                |                     |                     | 4.96       | 4.64                |      | .0695      |
| 27 major change org design                         | 4.23                | 4.95                |                     | 5.33       | 4.50                | *    |            |
| 28 inform employees                                | 4.76                | 5.36                | 5.08                | 5.33       | 5.83                |      | .0949      |
| 29 write discourage repeal                         | 4.34                | 3.33                | 3.02                | 2.98       | 2.90                | *    | .0224      |
| 30 task force                                      | 5.10                | 4.70                | 5.09                | 5.24       | 4.81                |      | .5071      |
| 31 diversify activities                            | 3.89                | 3.64                | 3.65                | 4.00       | 3.09                | *    |            |
| 32 recruit new talent                              | 3.66                | 3.73                | 3.26                | 4.08       | 3.80                |      | .1180      |
| 33 quick action                                    | 4.33                | 4.22                |                     | 4.65       | 5.09                | *    | .0331      |
| 34 set trends                                      | 4.86                | $\frac{1.22}{4.71}$ |                     | 5.20       | $\frac{5.18}{5.18}$ |      | .0955      |
| 35 join forces                                     | 4.55                | 4.81                | 4.76                | 4.95       |                     |      | .8696      |
| 36 expand activities                               | 3.39                | 3.65                | 4.01                | 3.96       | 3.88                |      | .5112      |
| or expand decivities                               |                     |                     | ****                |            |                     |      |            |

Country Clusters: #1 North American; #2 Anglo; #3 Northern European; #4 Latin European; #5 Nordic

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Item #3 (2,3) (3,4) (4,5)
#4 (2,3)
#6 (3,4)
#18 (2,4)
#22 (1,3) (1,4) (1,5)
#23 (2,4)
#27 (1,4) (3,4)
#29 (1,3) (1,4) (1,5)
#31 (4,5)
#33 (2,5)
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<sup>\*</sup> Tukey HSD studentized range test - significant difference between means (p<.05 level)

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