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

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*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. Given a case describing an issue concerning deregulation of the U.S. banking industry, managers 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. 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 and Weick 1984; Smircich and Stubbart, 1985). Environmental uncertainty, for example, can be assessed 'objectively' through industry analysis (Porter, 1980), yet is perceived differently by different managers (Duncan, 1972). Perceptions of environmental uncertainty and of organizational control and capability influence the choice of proactive vs. reactive strategic behaviors (Dutton and Duncan, 1987; Paine and Anderson, 1975; Daft and Weick, 1984). For example, faced with uncertainty and ambiguity, managers may respond actively or passively to interpret their environments. Milliken (1987) found that managers tend to spend more time and resources on environmental scanning and forecasting when faced with uncertainty than when they are confident and believe that they have a good understanding of the situation. This proactive

behavior in the face of uncertainty, however, assumes perceptions of control. At the organizational level, activity vs. passivity determines proactive vs. reactive behavior (intrusiveness) in interpreting the environment (Daft and Weick, 1984).

Behavior is considered to be proactive when actions are taken to effect change, in the environment or in the organization, and reactive when simply responding to change. Prospectors vs. defenders are considered equally proactive—the former by seeking new products and markets and the latter by seeking to protect core competences; reactors are considered to be reactive—responding haphazardly to environmental changes (Miles and Snow, 1978). Waddock and Isabella (1989) found that beliefs that the environment is understandable were related to proactive behavior and better performance regardless of the strategy *per se*, e.g. defender or prospector. Therefore, it is important to understand the relationship between perceptions of the environment and the organization, interpretations of events, and strategic response.

## INTERPRETING AND RESPONDING TO STRATEGIC ISSUES

'Strategic issues' are environmental events that may have an important impact on organizational performance (Ansoff, 1980). Strategic issues by their very nature are ill-defined, and their potential impact is uncertain (Mintzberg, Raisinghani, and Theoret, 1976). As these events are thus subject to perception and interpretation, multiple meanings are possible. Recent management literature has addressed interpretations of 'crisis,' 'threat,' and 'opportunity.' Crisis interpretations derive from the perceived value of possible loss, probability of loss, and time pressure (Billings, Milburn, and Schaalman, 1980). Threat and opportunity interpretations derive from perceptions of issues as negative or positive, as potential losses or gains, and as uncontrollable or controllable (Dutton and Jackson, 1987).

Different interpretations trigger different decision processes and different behaviors (Nutt, 1984; Cowan, 1986). For example, under 'threat,' organizations tighten control, restrict the flow of information, and reduce participation in decision-making (Staw, Sandelands, and Dutton, 1981), focus more effort on internal adaptation rather than external environmental change, and take actions of large magnitude, i.e. more costly and difficult to effect (Dutton and Jackson, 1987). Taking actions of large magnitude is consistent with findings that individuals tend to engage in more risk-taking behavior when faced with a situation described as 'potential loss' (Tversky and Kahneman, 1974). Defining core competences, establishing a 'niche,' developing organizational capabilities, and emphasizing efficiency are examples of internally oriented actions which characterize 'defenders.' Seeking new products and new markets, diversifying, and emphasizing innovation are examples of externally oriented actions which characterize 'prospectors.' Internally oriented action represents efforts to assert control where possible, as internal events are considered more understandable and controllable (Milliken and Dukerich, 1989). Organizations may also diversify activities in order to minimize risk. However, this appears to be inconsistent with 'threat rigidity' which predicts that behavioral repertoires become more narrow (Staw *et al.*, 1981).

Based on the above discussion, given interpretations of 'threat,' organizations are more likely to be active than passive, proactive vs. reactive, to engage in risk-taking behaviors, to diversify activities, and to focus actions internally. Furthermore, the nature of the response may in turn influence subsequent interpretations and perceptions as selective attention is paid to congruent evidence. Meyer (1982), for example, found that 'prospectors' were more likely to label events as opportunities. Figure 1 summarizes the discussion of the relationship between perception, interpretation, and response.

## DETERMINANTS ACROSS LEVELS OF ANALYSIS

The assumption underlying this body of research is that strategic action is dependent upon perceptions and interpretations of the environment, the organization, and the strategic issues. These perceptions and interpretations are subject to influences at multiple levels of analysis, e.g. individual characteristics, group process, and organizational context. For example, *individuals* are more likely to pursue innovative strategies when they are younger, better educated, and less experienced (Hambrick and Mason, 1984), feel that they have control over their environments (Miller, Kets de Vries, and Toulouse, 1982), and are extrovert and intuitive in their approach towards gathering and evaluating information about the environment (Miller, Toulouse, and Belanger, 1985). Strategic issues are readily interpreted as marketing or accounting issues, for example, by members of those respective functions (Dearborn and Simon, 1958).

*Group dynamics* also influence interpretation and response to strategic issues. For example, groups develop different metaphors as interpretations of the same strategic events that can then influence action (Sapientza, 1985). Group dynamics, such as 'groupthink,' can encourage risky behaviors due to interpretations such as 'shared stereotypes' of outsiders and 'illusions of invulnerability' of the group (Janis, 1971). Thomas and McDaniel (1990) have demonstrated that high information processing capacity of the top management team is related to the CEO's perceptions of strategic issues as positive, as gain, and as controllable (i.e. as opportunity).

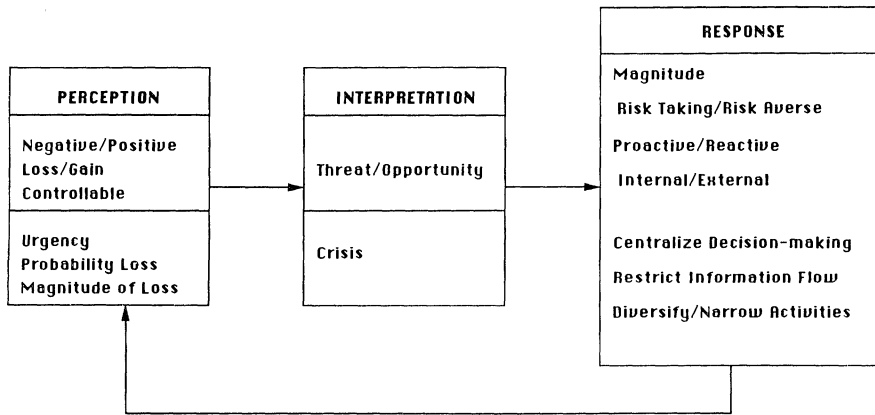


Figure 1. Model of perception, interpretation, and response

*Organizational context*, e.g. strategy, structure, and style, can also influence interpretation and response to strategic issues. Organizations that are ‘prospectors,’ that have less formalized and less centralized structures, and an ‘entrepreneurial style’ are more likely to interpret environmental events as ‘opportunities’ and to respond proactively (Meyer, 1982). Thomas and McDaniel (1988) argue that in organizations described as political, strategic issues are more likely to be labelled as a threat, as different interest groups conflict and compete for limited organizational resources. They also argue that organizations would be less political given perceptions of control as there is less distortion of information possible or as means–ends relationships are more clear-cut (i.e. less uncertainty). While their findings did not support their argument, this line of reasoning warrants further exploration.

Despite the recent research efforts to discover the determinants of issue interpretation and response at different levels of analysis, characteristics of the *environmental context* have not been sufficiently explored. For example, what is the role of the economic, regulatory, political, and market environment in issue interpretation and response? A positive economic climate, e.g. growth, could result in issues being interpreted as opportunity rather than as threat, and in behavior being proactive rather than reactive. The sociocultural context of an organization may also play an important role. The purpose of this study is to explore the impact of national culture on interpreting and responding to strategic issues.

## THE IMPACT OF NATIONAL CULTURE

Strategic behavior differs across nations. Kagono *et al.* (1985) found national differences between Japanese, European, and American firms in their approach to strategy formulation. The Japanese approach is described as ‘evolutionary,’ emerging and adaptive to environmental conditions. The European and American approach is described as ‘strategic planning,’ as it is directed from the top and controlling towards the environment. In the Japanese approach, information is gathered from middle-level managers and information sharing is more extensive, which generates greater information processing capacity (Duncan, 1974), richer information (Daft and Lengel, 1986), and enhances organizational learning (Nonaka and Johansson, 1985). While there has been much discussion of the differences of Japanese firms when compared with firms in other countries, particularly the U.S., there is little discussion as to the underlying reasons for these differences. Schneider (1989) has argued that different cultural assumptions regarding the environment and the nature of relationships within the organization result in different approaches—controlling vs. adapting—in formulating strategy.

Cultural differences may also have an impact on interpreting and responding to strategic issues. Sullivan and Nonaka (1988), for example, found Japanese managers more likely than American managers to interpret issues as threats and to restrict information scanning and sharing within the organization as a function of that interpre-

tation. One could argue that Japanese managers would more likely interpret a strategic issue as a 'threat' and restrict information sharing as they prefer to avoid uncertainty (Hofstede, 1980) and perceive less control over their environments (Maruyama, 1984; Kagono *et al.*, 1985). Assumptions about the environment and the organization, and more specifically with regard to perceptions of uncertainty and control over the environment, are particularly relevant to understanding strategic response as previously discussed. As national culture is believed to influence these perceptions towards uncertainty (Hofstede, 1980) and control of the environment (Kluckhohn and Strodtbeck, 1961; Hall, 1960; Nowotony, 1964), 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.*

Managers in different countries differ in their perceptions of uncertainty and control over the environment which has organizational consequences. For example, Latin European managers prefer to avoid uncertainty which can result in more centralized and formalized organization structure, i.e. bureaucracy (Hofstede, 1980). Laurent (1983) has demonstrated that Latin European managers prefer clear-cut job descriptions, clear hierarchical lines, and centralized decision-making. The importance of well-defined roles and responsibilities in French vs. Dutch factories has also been found (D'Iribarne, 1989). In line with Voltaire's (*Candide*) advice, 'Il faut cultiver notre jardin,' French managers 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). These cultural factors contribute to the stronghold of bureaucracy, as well as the strong hand of the government, in deciding company policies which may inhibit entrepreneurial behavior (Schneider, 1985).

These organizational characteristics may create or reflect a sense of not having control over the external environment and thus lead to directing one's efforts towards controlling the immediate, internal environment. According to Maruyama

(1984), northern Europeans perceive greater control over the environment and are more proactive in managing it when compared with Japanese, which he attributes to more predictable weather patterns in northern Europe. Perhaps, given less intemperate climates in Latin Europe, there is less perceived need to manage the environment. Attitudes of determinism vs. fatalism may also relate to religion. Furnham (1989) found the Protestant work ethic to be related to locus of control and need for achievement.

Latin European managers also view organizations as political rather than instrumental, i.e. more focused on relationships than on tasks and functions (Inzerelli and Laurent, 1983). Business ideology is less developed in Latin Europe where the quality of life and relationships is more important than making money. The French have recently been criticized for being more concerned with taking vacations than making deals (Scherrer, 1987). Latin European managers are often viewed as more philosophical in their approach to business negotiations, rather than pragmatic or action-oriented (Adler, 1986; Weiss and Stripp, 1985).

Research, reviewed in the previous section, has demonstrated that strategic issues are more likely to be labeled as a threat when the environment is perceived as uncertain and unpredictable, when organizational control and capability are perceived as low, when organizational structure is centralized and formalized, when organization decision-making is 'political,' and when the ideology is not 'entrepreneurial.' Given the above discussion, Latin European managers are more likely to label strategic issues as 'threat.' As a result, strategic responses will be of greater magnitude and internally adaptive in order to reduce uncertainty and reassert control, as argued by Dutton and Jackson (1987). 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 choose strategic responses that are of greater magnitude and more internally focused.*



## 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 resulting in a rate of response varying from 10 to 90 percent. However, for the most part (about 75 percent), questionnaires were prepared for class discussion. No significant differences are expected between these conditions as the subsample of students remains similar to the overall population of students attending this institution. 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. Demographic data were collected regarding: nationality, age, sex, religion (optional), years of education post-high school (equivalent), type of education, years of experience, type of experience, previous banking experience, years abroad, and English language (reading) ability. Table 1 indicates mean and standard deviation for demographic variables.

The 303 participants represent 16 countries, as indicated by their response to 'nationality.' As crossnational research demonstrates greater differences between countries than within countries, national differences are often used as a proxy for cultural differences. Country clusters, based on previous crossnational research which attributes similar managerial values and beliefs to similarities in national culture (Ronen and Shenkar, 1985; Hofstede, 1980), may serve as a better indicator of culture. Therefore culture is herein defined by country cluster 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.<sup>1</sup>

<sup>1</sup> Although in some of the countries mentioned above there are different language groups, e.g. in Belgium there is Dutch, French, and German; and in Switzerland there is German, French, and Italian (as well as Retho-Roman), we chose to base the country clusters on previous research findings as support for these groupings has been demonstrated empiri-

Table 1. Demographics of sample ( $n = 303$ : executives, 169; MBA, 134)

	Mean	Standard deviation
Age	33.5	7.1
Years education	5.1	2.1
Years experience	9.4	6.8
Years abroad	3.3	5.6
Education by field:		
Science/engineering		42%
Business/economics		39%
Law		5%
Other		13%
Experience by function:		
Marketing		27%
General management		19%
Finance		14%
R&D		11%
Production		8%
Other		10%
Banking experience		20%
International experience		59%
English reading ability		
Fluent		66%
Good		26%
Fair		7.9%

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. English reading ability was self-rated as fair, good, and fluent. For the MBA sample, English reading ability is required for admission (as measured by TOEFL and GMAT scores). As there is less control over language facility with the executive sample, we rely on self-ratings. With the exception of the North American and Anglo clusters, no one particular cluster more than another indicated self ratings as 'fair' (which account for less than 8 percent of the sample).

cally. It may be that religion and common history, rather than language, explains the clusters as Latin Europe tends to be predominantly Catholic, while northern Europe, Nordic, Anglo, and North America tend to be predominantly Protestant. Furnham's (1989) findings of the relationship between the Protestant work ethic (PWE) and managerial attitudes may be relevant in this regard.

## 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 present authors based on a pilot study so that they could be used with an international sample and so that the issue was presented in a neutral manner. The case (the equivalent of four or five 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 fictitious medium-sized bank in the midwestern United States, and of the potential repeal of the McFadden Act which restricts interstate banking. 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 McFadden 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 1980s.

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 seven-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') (see Appendix). 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 then used to test the significance of the differences between the means on questionnaire items of the different culture groups. The Tukey studentized range test is a multiple comparison procedure to compare means after an analysis of variance has rejected the null hypothesis. The Tukey test is a more sensitive test than the Scheffe procedure, and

assumes sample sizes of roughly similar order of magnitude, which was the case in this study. We have equally applied a more conservative Scheffe procedure and obtained the same results.

Multiple regression analyses were calculated to control for the effects of demographic differences (MBA vs executive students, age, years of education, type of education, years of experience, type of experience, previous banking experience, international experience, or reading ability in English). None of the relevant regressions of the issues and responses with demographic data had *r*-squares significantly different from zero and coefficients different from zero on a 5 percent significance level. Demographic data did not differ significantly across cultures, except for the Anglo cluster which tended to be younger and therefore had fewer years of education and experience, and to have a more 'liberal arts' type of education. However, multiple analysis of variance testing the main effects and interactive effects of age, type of education and type of experience, show no significant main or interactive effects, except for the influence of national culture.

## RESULTS

The answer to the question 'Does national culture influence the interpretation and response to strategic issues?' is 'yes', as shown in Table 2. The results of the analysis of variance indicate that national culture influences whether the issue is seen as a crisis ( $p < 0.001$ ), as stimulating ( $p < 0.01$ ), as a threat ( $p < 0.05$ ), the future better if resolved ( $p < 0.05$ ), as difficult to resolve ( $p < 0.10$ ), quick action needed to resolve ( $p < 0.10$ ), one correct solution ( $p < 0.10$ ), and as an opportunity ( $p < 0.10$ ). Therefore, national culture appears to affect the interpretation as a crisis, as a threat, and to a lesser extent as an opportunity, as well as interpretations of difficulty, urgency (stimulating, quick action needed), and certainty (future better if resolved, one correct solution).

It was also found that national culture appears to affect strategic responses to: allocate funds to lobby to support repeal ( $p < 0.01$ ), train employees ( $p < 0.01$ ), invest in new computer technology ( $p < 0.01$ ), change organization design ( $p < 0.01$ ), write to discourage repeal ( $p$

Table 2. Impact of national culture on interpretation and responses to strategic issues by ANOVA and Turkey HSD studentized range test

Essex Bank Questionnaire		Overall		Country clusters means					ANOVA <i>F</i>	
		Mean	Standard deviation	1 ( <i>n</i> =30)	2 ( <i>n</i> =60)	3 ( <i>n</i> =73)	4 ( <i>n</i> =82)	5 ( <i>n</i> =55)		HSD*
<i>Issues</i>										
1	Benefit by acting	5.31	1.69	5.53	5.71	5.18	5.33	5.26	0.4199	
2	Personal advantage	4.82	1.78	5.10	4.80	4.75	5.05	4.42	0.2835	
3	Crisis	3.80	1.85	3.86	<i>4.13</i>	<i>3.10</i>	<i>4.39</i>	<i>3.38</i>	*	0.0001
4	Stimulating	5.87	1.21	6.26	<i>6.18</i>	<i>5.56</i>	5.97	5.57	*	0.0033
5	Act as choose	3.17	1.86	3.66	2.78	3.40	3.20	3.00		0.1764
6	Threat	5.44	1.51	5.40	5.75	<i>5.06</i>	5.74	5.14	*	0.0152
7	Gain not loss	2.84	1.57	2.63	2.59	2.87	2.81	3.25		0.2087
8	Action constrained	5.26	1.51	5.10	5.40	5.27	5.37	5.00		0.5630
9	Positive impact	4.19	1.51	3.93	4.06	4.27	4.21	4.32		0.7549
10	Act quick to resolve	4.88	1.70	4.40	4.50	5.10	5.03	5.03		0.0963
11	Loss not gain	3.55	1.72	3.36	3.73	3.63	3.45	3.53		0.8447
12	Opportunity	5.42	1.47	5.70	5.81	5.41	5.15	5.31		0.0722
13	Pressure to act	5.26	1.50	5.33	5.36	5.27	5.14	5.29		0.9291
14	Future better if resolved	4.83	1.56	4.40	5.21	4.84	4.96	4.44		0.0432
15	Difficult to resolve	5.57	1.51	5.70	5.45	5.34	5.95	5.31		0.0517
16	One correct solution	2.17	1.50	1.76	1.95	2.47	2.36	1.94		0.0538
17	Will be repealed	5.15	1.47	4.90	4.96	5.26	5.29	5.16		0.5626
<i>Responses</i>										
18	Lobby to repeal	2.23	1.59	2.66	<i>1.78</i>	1.93	2.53	2.44	*	0.0083
19	Scanning	5.86	1.47	6.16	6.25	5.70	5.81	5.55		0.0706
20	Lower profit objectives	2.46	1.67	2.62	2.36	2.76	2.16	2.54		0.2334
21	Alter market niche	3.94	1.79	3.36	3.74	4.12	4.22	3.80		0.1358
22	Large-scale training	4.10	2.02	<i>2.90</i>	3.83	<i>4.17</i>	<i>4.54</i>	<i>4.26</i>	*	0.0025
23	Computer technology	3.89	1.93	3.58	<i>3.43</i>	3.76	<i>4.55</i>	3.66	*	0.0038
24	Takeover candidate	4.16	2.03	3.86	4.20	4.05	4.57	3.77		0.1787
25	Hire someone to monitor	4.44	2.05	4.30	4.05	4.41	4.63	3.77		0.3869
26	Raise profit objectives	4.54	1.86	4.24	4.11	4.43	4.96	4.64		0.0695
27	Major change in org. design	4.77	1.79	<i>4.23</i>	4.95	<i>4.39</i>	5.33	4.50	*	0.0025
28	Inform employees	5.31	1.85	4.76	5.36	5.08	5.33	5.83		0.0949
29	Write discourage repeal	3.18	2.09	4.34	3.33	3.02	2.98	2.90	*	0.0224
30	Task force	5.01	2.00	5.10	4.70	5.09	5.24	4.81		0.5071
31	Diversify activities	3.67	1.90	3.89	3.64	3.65	<i>4.00</i>	<i>3.09</i>	*	0.0947
32	Recruit new talent	3.72	1.90	3.66	3.73	3.26	4.08	3.80		0.1180
33	Quick action	4.67	1.66	4.33	4.22	4.88	4.65	<i>5.09</i>	*	0.0331
34	Set trends	5.11	1.48	4.86	4.71	5.37	5.20	5.18		0.0955
35	Join forces	4.82	1.78	4.55	4.81	4.76	4.95	4.87		0.8696
36	Expand activities	3.84	1.84	3.39	3.65	4.01	3.96	3.88		0.5112

Country clusters: (1) North American; (2) Anglo; (3) northern European; (4) Latin European; (5) Nordic.

\*Turkey HSD studentized range test—significant difference between means ( $p < 0.05$  level).

Italicized item numbers 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).

$< 0.5$ ), quick action ( $p < 0.05$ ), raise profit objectives ( $p < 0.10$ ); inform employees ( $p < 0.10$ ); scan ( $p < 0.10$ ); diversify ( $p < 0.10$ ); and set trends ( $p < 0.10$ ). National culture appears to affect internally oriented actions (train and inform

employees, invest in computers, change design) as well as externally oriented actions (lobby to support or write to discourage, scan) as well as proactive behavior (quick action, set trends, diversify, raise profit objectives). Thus, national



culture appears to have an important influence on interpretation and response to strategic issues, confirming Hypothesis 1.

Significant differences are also found between means of the country clusters. Table 1 summarizes the results of the Tukey HSD tests showing the significant differences ( $p < 0.05$  level) among means of country clusters. Results indicate that Latin Europeans were most likely to interpret the issue as a crisis and as a threat (with the exception of the Anglo group). These findings provide some support for Hypothesis 2, that Latin European managers will interpret the issue as a threat more than other managers.

Regarding strategic response, Latin Europeans were most likely to change organization design, to invest in large-scale training and computer technology, to lobby to support repeal, and to diversify. These actions represent significant investment of time and resources and can be considered 'of large magnitude' but actions are directed externally (lobby, diversify) as well as internally (change design and invest in computer technology). Therefore, Hypothesis 3 is only partially confirmed.

## DISCUSSION

The present study demonstrates the impact of national culture on interpreting and responding to strategic issues. More specifically, Latin European managers in comparison with other managers (with the exception of Anglo managers) were significantly more likely to interpret the issue as a threat and, even more so, as a crisis. Latin European managers were also more likely to recommend strategic responses that involved greater investment of resources and that were internally as well as externally directed. This finding is in line with previous research which argues that interpretations of threat are related to strategic actions of greater magnitude in terms of investment or risk (Dutton and Jackson, 1987; Tversky and Kahneman, 1974), but it does not support the argument that actions will be more internally rather than externally oriented. However, while this earlier research argues that interpretation influences response, the present research has only demonstrated that culture affects both the interpretation and the response,

and has not demonstrated that interpretation plays a mediating role.

### Relationships: direct or indirect?

In discussions of individual and organizational determinants the role of interpretation is not made explicit as a mediating mechanism. Further research is needed to specify the relationship between these variables, and to empirically demonstrate whether these variables—individual, group, organizational or cultural—directly influence strategic response or indirectly influence the response through interpretation. Figure 2 demonstrates the possible relationships.

In addition, we need to clarify the relationship of national culture with regard to organizational, group, and individual variables. For example, what is the relative importance of national culture on interpreting and responding to strategic issues when compared to organizational structure? Previous research has demonstrated differences between national cultures in organizational design; Latin European organizations are found to be more centralized, formalized, and political (Hofstede, 1980; Laurent, 1983). These organizational characteristics also contribute to interpreting and responding to strategic issues as threats (Meyer, 1982; Thomas and McDaniel, 1990). Does culture influence this process through organizational structure or independently? In addition, group differences have been found across cultures in that Germans vs. French managers differ in terms of structure (task specialization) and dynamics (willingness to challenge norms) (Kilduff and Angelmar, 1989). What influence would that finding have on interpreting and responding to strategic issues?

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, years of experience, and function influence risk-taking or innovative behaviors (Hambrick and Mason, 1984). Personality differences that have been found—such as locus of control, tolerance of ambiguity, perceptual and cognitive styles, and neurotic styles—need to be examined with regard to the extent that these may differ by culture. Further research is needed to demonstrate the main and

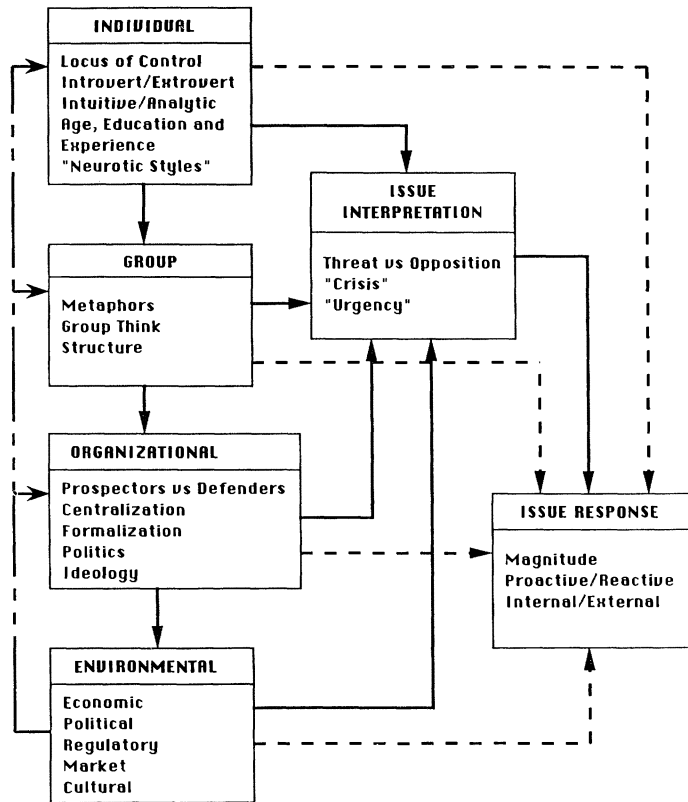


Figure 2. Determinants of strategic issue interpretation and response

interactive effects of individual, group, and organizational characteristics with national culture on interpretation and response.

### Cultural differences?

While cultural differences are found in interpreting and responding to strategic issues, the underlying reasons for this remain to be discovered. The findings do not support the logic that avoiding uncertainty will lead to interpretations of crisis as the Anglo group was also more likely to interpret the issue as a crisis. Nor does it support the argument that uncertainty avoidance would lead to being risk-averse, as taking risks would likely increase uncertainty rather than decrease it (Hofstede, 1980: 171). Both the North American and Anglo cultures indicated responses that could be considered passive or risk-averse (e.g. were more likely to write to discourage repeal, scanning, and were least likely to take quick actions, expand activities, or develop

capabilities). Therefore, the underlying reason for these interpretations or responses cannot be attributed to uncertainty avoidance, as both of these cultures rank low on this dimension (Hofstede, 1980).

The notion of uncertainty avoidance found in the comparative management literature (which derives from responses to three items on the Hofstede (1980) questionnaire that relate to anxiety, stress, and job security) may not correspond to notions of environmental analyzability as discussed in the organizational theory literature. The idea that environments are perceived as more unanalyzable or more uncertain when uncertainty is avoided needs to be questioned. For example, given the need to avoid uncertainty, uncertainty may be denied, making the environment appear more understandable than it is. This argument is congruent with findings that some managers will perceive more uncertainty than others to the extent that they are tolerant or comfortable with it; low tolerance for ambiguity has been associated with 'premature

closure' and dogmatic thinking (Frenkel-Brunswick, 1949).

Perhaps uncertainty avoidance is not important *per se*, but how that uncertainty is managed is important. Discussions regarding the Japanese approach to strategy indicate that Japanese manage uncertainty by matching it (requisite variety, Ashby, 1956) in order to better understand it, rather than by trying to reduce it as done in western cultures (Nonaka and Johansson, 1985; Pascale, 1984). The reactive behaviors on the part of the North American and Anglo cultures found in this study may reflect the effort to manage uncertainty by reducing it or minimizing its importance. These findings may be consistent with research which demonstrates that interpretation of 'issue feasibility,' which derives from perceptions of certainty and control, was related to investment of time and attention, but not money (and thus considered to be 'symbolic') (Dutton, Stumpf and Wagner, 1990). While notions of control are central to the discussions of 'threat vs. opportunity,' and crisis, the nature or forms of controls used in response may vary. Thus the interrelationship between perceptions of uncertainty and control on interpreting and responding to strategic issues needs to be further explored.

The most significant finding in the present study was the influence of culture in interpreting crisis. Crisis is similar to threat in terms of being perceived as negative, as not controllable, and as a potential loss, yet differs from threat in terms of perceived probability and magnitude of that loss and time pressures (Billings *et al.*, 1980; Smart and Vertinsky, 1984). Dutton *et al.* (1990) found urgency to be the most important predictor of allocating financial as opposed to symbolic resources (time and attention). Therefore, interpretations of urgency may be more important in determining strategic response, particularly with regard to proactive vs. reactive behavior.

Cultural differences in terms of time perspectives will affect the sense of urgency. For example, issues will be seen as less urgent when there is an emphasis on the past vs. the future. When time is seen as unlimited and expandable (polychronic vs monochronic time, Hall, 1960), the sense of urgency will also be less. However, Latin cultures are often stereotyped in this regard as 'mañana' (tomorrow) societies. Therefore, the underlying cultural reasons for the label of 'crisis'

remain elusive. Nevertheless, cultural differences may provide fertile ground for exploring different responses to industrial crises, as in the case of Bhopal (Shrivastava, 1987).

Interpretations of 'importance' may also differ across cultures. Quality of working life may be more important than high levels of productivity or efficiency. Milliken and Dukerich (1989) found no difference in interpretations of 'importance' between internal vs. external issues. However, given different perceptions of control over the environment, this finding needs to be tested across cultures. For example, French managers may interpret internal issues as more important because they perceive to have more control over the internal rather than external environment. Further research is needed to discover other possible interpretations, and to examine the potential influence of national culture.

### Limitations

There are certain limitations and concerns that still need to be addressed. Administering the case and questionnaire in English does raise some concern about reading ability, as well as about meaning equivalence of the questionnaire items. For example, while 'crisis' (English), 'crises' (French) and 'krisis' (German) all derive from the same Roman root, 'crisis' may have different emotional loadings in different countries. This was in part the point of the study to test whether this is in fact true, and while the findings about Latin Europeans may nicely fit the stereotypes ('excitable'), those about the Anglo culture ('stiff upper lip') do not. It must be kept in mind that since the Anglo cluster also interpreted crisis to a significant extent, language cannot be considered to be of great importance in explaining the findings. Factor analysis conducted on questionnaire items in the pilot study does indicate that items load on factors in meaningful ways, e.g. threat and opportunity items load on separate factors (Jackson and Dutton, 1988) providing some reassurance that meaning is equivalent.

A case based in the Midwest, U.S.A., was used in order to serve as a projective technique. It was assumed that Europeans would not readily identify their own country situation with the U.S. situation (they in fact usually protest the contrary), and that their responses would thus not be influenced by their home country situation,

e.g. the economic or regulatory context. In fact, the North American cluster was kept in the sample to check whether 'familiarity' influenced the responses. The case intentionally describes the environment, the bank, and the issue in a broad and vague manner in order to elicit the participants' own world-views. It is further unlikely that any one particular country cluster would more readily identify with this situation as European banking, as well as much of European industry, was (at the time of the study) still quite regulated. Deregulation of the financial services industry in Europe, among the member states of the EEC, has received wide attention only in the past year (1989–90) and remains to be implemented with the realization of the common market in 1992. A parallel case ('Metrobank') has been developed describing the European banking environment, a medium-sized commercial bank, and the 'second banking directive' (which allows banking activity across national borders) to explore these issues in the European context.

### The real world

There are important managerial implications that arise from this research. While Jackson and Dutton (1988) demonstrate that managers are generally prone to perceive threat, we have demonstrated that culture influences the perception of threat and, even more so, crisis. We have also demonstrated that Latin European managers are more likely to indicate more proactive actions. These findings may imply that Latin Europeans 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 as communicating and creating meaning around strategic issues are critical activities in mobilizing resources and effort, and in influencing the distribution of power within organizations. It is also important to examine the degree to which culturally determined interpretation bias can constrain flexible or adaptive behavior (Hedberg, 1981; Starbuck, 1983; Weick, 1979).

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, and responses to, '1992' have already been demonstrated: the French government was actively pushing for it by investing in publicity and creating data bases; the Germans appeared confident and 'not worried'; and the English were more actively resisting it (Bruce, 1988). Another survey found that 48 percent of Spanish and French companies, and 32 percent of Italians, indicated intention to make substantive changes in response to 1992, in comparison with 12 percent of West German companies (*EuroBusiness*, July 1989). The Acquisitions Monthly Database (AMDATA) indicates that West German and U.K. firms are more likely the target than French, Italian, and Spanish firms, although there was no difference between French and German firms as bidders. While this may indicate that the financial performance to date of West German and U.K. firms makes them attractive targets, one questions their readiness and willingness to proact in the changing environment which may result in becoming a target rather than a bidder. According to *Business Week* (1990), French companies '[in 1989] . . . became the biggest player in Western Europe, making one-third of all acquisitions.'

### CONCLUSION

The present research builds on past research which demonstrated the influence of individual, group, and organizational characteristics on interpreting and responding to strategic issues by exploring the influence of the environmental context, i.e. the impact of national culture. It also goes beyond exploring differences between 'Japan and the western world' by exploring within-region differences in Europe. Although



differences among country clusters were found in interpretation and response, the underlying cultural reasons for these differences remain elusive. Perhaps this is because it is quite difficult to extricate 'culture' from the national context. Further research is needed to explore the influence of the environmental (national) context. Field research is in progress to explore how '1992' as a strategic issue is being interpreted and responded to within Europe, with special emphasis on the national context of the banking industry in two countries—including economic, political, regulatory, and competitive aspects, and the history and nature of activities of 'real' banks.

The present study demonstrates that national culture will influence interpretations and response to strategic issues. More specifically, national culture influenced 'crisis' and 'threat' interpretations and proactive responses, both internally and externally oriented. Given the increasingly global nature of business, it is important to recognize that 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 and in co-operating with international partners in the global arena.

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## APPENDIX: ESSEX BANK QUESTIONNAIRE

1. Essex will benefit by acting on the issue.
2. A manager at Essex could gain a personal advantage by acting on the issue.
3. The issue is a crisis.
4. The issue is a stimulating one.
5. Essex can act as it chooses.
6. The issue poses a threat to Essex.
7. For Essex, there is much to be gained but not much to lose.
8. The actions Essex takes will be constrained by others.
9. The issue will have a positive impact on the bank's performance.
10. Action must be taken quickly to resolve the issue.
11. There is much to be lost but not much to be gained.
12. The issue presents an opportunity for Essex.
13. There is pressure to act.
14. The future of Essex would be better with resolution of the issue.
15. The issue is difficult to resolve.
16. There is probably only one correct solution.
17. The McFadden Act will be repealed.
18. Allocate substantial funds to support Political Action Committees (lobbying groups) which encourage the repeal of the McFadden Act.
19. Set aside a small amount of funds for environmental scanning activities related to the McFadden Act.
20. Lower profit performance objectives for Essex Bank.
21. Alter current market niche to target high-income individuals.
22. Begin a large-scale training program for all employees to prepare them for the upcoming changes in their job tasks.
23. Allocate a large amount of funding for new computer technology to handle checks.
24. Take actions that will encourage other banks to see Essex as a good candidate for takeover.
25. Create a new job position and hire a person whose job would be to monitor legislative activities related to the McFadden Act.
26. Raise profit performance objectives.
27. Begin major changes in organizational design to facilitate interstate banking.
28. Inform employees about the potential repeal of the McFadden Act and its consequences.
29. Write government agencies to express support for the continued enforcement of the McFadden Act, i.e. to discourage interstate banking.
30. Form a task force of long-term bank employees to prepare a report about how Essex should respond to the issue.
31. Propose that Essex diversify into other activities.
32. Seek the advice of the well-established experts within the organization. Vigorously recruit for new talent to help find solutions.
33. Take action slowly. Take action quickly.
34. Let others make mistakes and try to learn from their failures. Try to be a trend-setter to stay ahead of the crowd.
35. Keep solutions to yourself so the competition doesn't take advantage of you. Join forces with neighboring banks and discuss the issue to maximize the probability of not making a poor decision.
36. Invest scarce resources in activities related to the McFadden issue. Invest scarce resources to expand banking activities unrelated to the McFadden issue.