The effects of inter- and intra-cultural variations on managerial discretion and the implications for national competitiveness

Haj Youssef, M.

UNIVERSITY OF WESTMINSTER

THE EFFECTS OF INTER- AND INTRA-CULTURAL VARIATIONS ON MANAGERIAL DISCRETION AND THE IMPLICATIONS FOR NATIONAL COMPETITIVENESS

Moustafa Haj Youssef

A thesis submitted in partial fulfilment of the requirements of the University of Westminster for the degree of Doctor of Philosophy.

March 2017

Abstract

This thesis examines cross-cultural differences in managerial discretion and the extent to which variations in inter- and intra-cultural practices affect the degree of freedom in decision-making that is afforded to executives. Research into the degree of discretion, or ‘latitude’ of executive action, has primarily focused on individual-, firm-, and industry-level factors which, either enable or otherwise constrain the freedom of executive action. However, research into its national-level antecedents and consequences remains limited. This thesis further develops and extends the extant literature into the topic of managerial discretion by seeking to adopt a broader interpretation of national culture in relation to its effect on executive discretion across 18 countries from 6 different regional clusters.

The research entails a quantitative assessment to examine the relationship between cultural practices, managerial discretion and national competitiveness. The investigation into the national-level antecedents, consequences and the role of managerial discretion is studied using a mixture of primary and secondary data. Primary data consists of measurements of the degree of managerial discretion that is derived from survey responses of a panel of senior management consultants, who provided 792 discretion scores for the sampled countries. Secondary data consists of cultural practices derived from GLOBE cross-cultural project and national competitiveness scores operationalized using the Global Competitiveness Index (GCI).

The thesis presents three empirical analyses of socio-cultural dynamics. The research first addresses how cross-national variations in cultural practices impact managerial discretion. The findings reveal that institutional collectivism, uncertainty avoidance, power distance, future-, humane-, and performance orientations, together with gender egalitarianism, assertiveness and cultural looseness, all influence the degree of discretion. In the second

dimension, the notion that intra-cultural variation plays a crucial role in shaping managerial discretion is critically discussed. An empirical analysis supports such a proposition and demonstrates a strong and positive association between these two constructs. For the third aspect, the relationship between managerial discretion and national performance is measured and evaluated by determining the impact upon national competitiveness. The data demonstrate that the degree of discretion directly influences national competitiveness and effectively mediates the relationship between cultural practices and national competitiveness.

Overall, this PhD contributes to the field of strategic management, by discovering for the first time new national-level antecedents and consequences of managerial discretion, offering new theoretical insights and practical implications.

Table of Contents

List of Figures

List of Tables

Acknowledgements

It may be cliché but I cannot quite believe that I am now sitting writing the last section of my PhD thesis. When I first started my doctoral studies, and started reading published thesis, I said to myself, “why do all doctoral researchers have the same wording in their acknowledgments section?”. Now I know why: no doctoral researcher, myself included, can ever believe that they are finishing their thesis and are due to submit. It is an incredible feeling that I have never felt before. It is the end of a long period of hard work, spending many *nuits blanches* and reading lots of papers. After several years working in the Arabian Gulf and traveling from one country to another, it was a wise decision to start my doctoral programme and I have never regretted it. I owe my heartfelt thanks to my wife, father-in-law and father for convincing me to carry on with this research. I know that I haven’t reached this stage because of my manly physique, good looks, green eyes or my own intelligence – which are of course core competences that have helped me to secure a certain competitive advantage. However, I don’t want to talk strategy in this section; the list of people that have helped and supported me during this endeavour is long and I need to thank all of them sincerely for getting me to this stage.

First and foremost, I must start by thanking the wonderful Abu Pascal (as we say in Lebanon), my Director of Studies, Dr. Ioannis P. Christodoulou. As well as being a great academic, an excellent lecturer and loved by all students, especially women, I must admit that Ioannis is an amazing person with a great personality. He is generous with his time and advice, very supportive, particularly in times when I felt so down, and always encouraging and helpful. Ioannis, I couldn’t have done it without your support and without you being by my side. Thanks, must also go to my supervisor Dr. Thoralf Dassler and to Dr. Stephan Ludwig for helping with the analysis. Thank you for all your comments and suggestions. Special thanks must go to Prof. Alison Rieple for her constant support and for always giving me valuable feedback on my work. Another special thanks must go to Dr. Jaafar El-Murad for his support as well and for his trust. And to Dr. Franz Buscha, I would like to say thank you very much for your support and for understanding my personal situation.

I am extremely grateful for the people who matter the most to me and whom I owe the most – my family. I will start by thanking my father-in-law, Dr. Maher Hussein, who is proud of me and happy that I am striving for the highest educational qualification available; thanks also to my mother-in-law Mrs. Hanadi Ballout – and sorry for not spending time with you when you came to visit us in London because of my PhD thesis. Thank you also to Dr. Lama Hussein and Mr. Khalil Hussein for their love and support, and a big fat thank you to my amazing sister Mrs. Carol Haj Youssef for her endless love and support and for considering me like her third child; I must also thank her for helping me with the data collection, particularly in the Middle East sample. Thanks also to my brother Eng. Samer Haj Youssef for his constant help and support.

My biggest thank you must go to my adorable mother, Mrs. Hala Souk, who has been a constant source of support, help and encouragement. Thank you for all your prayers and for always protecting me with your love and kindness. Whatever I do, I cannot compensate you for all that you have done and continue to do for me. I am truly blessed to have such a wonderful mother. I must also acknowledge my profound gratitude to my king and my idol – my father General Salman Haj Youssef. I write this thank you with tears covering my face and with deep sadness covering my heart; I know how proud you would be to see me graduating and finally becoming a doctor. I know that you are watching me from heaven now, and I hope that you are proud of me and that I have fulfilled your dreams by completing this thesis. I miss you more than

anything in this world and love you so much. I promise to continue my life as you told me and will stick to your advice and wisdom. As I promised you at the end, this PhD is dedicated to your soul.

Finally, my greatest appreciation and gratitude goes to my soulmate and partner – my amazing wife Dr. (soon to be) Hiba Hussein. I thank you from the bottom of my heart for all your love, support, help, endurance and for your ability to understand me during my research and during hard times. You’ve been the source of my inspiration and always will be. I can’t thank you enough for what you have done; I couldn’t have done it without you. I love you so much.

Dedication

My father, Salman Haj Youssef, was immensely proud that his youngest son was working towards his PhD. Despite not speaking English, he promised to review my thesis once I had translated it into Arabic as he had a great interest in strategy, having been a military general in the Lebanese National Army – a CEO, one could say, leading 10,000 soldiers.

Unfortunately, he was diagnosed with lung cancer in September 2015 and later in March was diagnosed with Idiopathic Pulmonary Fibrosis. As soon as I knew my father's condition, I was set about trying to finish my thesis as soon as possible so that he might see it in its final form. Unfortunately, God's will went against my efforts and my father's will, who passed away just a couple of months before I completed my PhD in October 2016.

I could not have imagined my life without him; he has been my biggest supporter since I was a child; the idol in my teenager years; the king in my adulthood. I cannot forget his smile, his beautiful green eyes, his white hair and moustache, his smell, his wise words and the way he spoke to me. He was so proud of me. I can hardly bare the massive loss of him not being here with me while completing this thesis. I promised him that I would do whatever it took to get this PhD and pledged to devote it to him while he was alive.

It is with my utmost pride and affection that I devote and dedicate this PhD thesis to my father:

General Salman Haj Youssef

(1951-2016)

May your soul rest in peace

Declaration

I declare that all the material contained in this thesis is my own work.

Moustafa Haj Youssef

List of Acronyms

IC_P: Institutional Collectivism Practices

IC_V: Institutional Collectivism Values

UA_P: Uncertainty Avoidance Practices

UA_V: Uncertainty Avoidance Values

PD_P: Power Distance Practices

PD_V: Power Distance Values

FO_P: Future Orientation Practices

FO_V: Future Orientation Values

HO_P: Humane Orientation Practices

HO_V: Humane Orientation Values

PO_P: Performance Orientation Practices

PO_V: Performance Orientation Values

GE_P: Gender Egalitarianism Practices

GE_V: Gender Egalitarianism Values

AA_P: Assertiveness Practices

AA_V: Assertiveness Values

OD: Ownership Dispersion

LO: Legal Origin

EF: Employer Flexibility Index

CL: Cultural Looseness

GCI: Global Competitiveness Index

IT: Information Technology

CSQ: Commitment to the Status Quo

1. Introduction

CEO influence on firm performance has increased from 8.6% over the period of observation 1950-1969 to 26.4% over 1990-2009 (Quigley and Hambrick, 2015). Managerial discretion or the latitude of executive action (Hambrick and Finkelstein, 1987) is the primary conduit enabling CEOs to place their own distinctive marks on firms' outcomes (Crossland and Hambrick, 2011). Accordingly, executives or CEOs matter only to the extent to which they possess discretion.

Managerial discretion is limited to the 'zone of acceptance of powerful stakeholders' (Hambrick and Finkelstein, 1987) in the sense that executives' actions should fall within this zone of acceptance and should be considered acceptable by those stakeholders. Recent research uncovers individual, organisation and industry-level antecedents of managerial discretion (e.g. McClelland *et al.*, 2010; Peteraf and Reed, 2007; Quigley and Hambrick, 2012). However, as Crossland and Hambrick (2011) and Wangrow *et al.* (2015) suggest, beyond the micro-level aspects, at the broader national-level, culture may have further significant influence on the degree of executive leeway. At a national level, culture shapes people's practices and behaviours (Javidan *et al.*, 2006; Mantzavinos *et al.*, 2001). As such, these culturally embedded practices also directly impact organisational and leaders' behaviour within countries (Geletkanycz, 1997; House *et al.*, 2004). Yet, the influence of culture on managerial discretion has been given scant attention in the literature. Although Crossland and Hambrick (2011) were the first to empirically demonstrate the link between culture and managerial discretion, they fell short in interpreting the multi-dimensional aspect of national culture. Culture includes a multitude of different dimensions (Taras *et al.*, 2009) that are all important when assessing cultural influences. Studies that ignore this multitude are therefore limited in their scope and only address part of a more comprehensive construct (Richter *et al.*, 2016).

It is important to note that the management field in general focuses solely on the one aspect of culture, which relates to cultural values, while neglecting other aspects of culture (e.g. practices and intra-cultural variations) (Aktas *et al.*, 2016). This orientation has led to a shortcoming in our understanding of various management constructs (including managerial discretion) and has led tier-one scholars to call for an expansion of the "conceptual toolkit" to broaden the scope of cross-cultural research (Earley and Mosakowski, 2002; Gelfand *et al.*, 2006). Therefore, this PhD thesis moves beyond the value aspect of culture by examining the impact of an array of cultural practices – institutional collectivism, uncertainty avoidance, power distance, future-, humane-, and performance orientations along with gender egalitarianism, assertiveness and cultural looseness – on the degree of managerial discretion available to CEOs of public firms headquartered in 18 countries from six different regional clusters (Anglo, Nordic Europe, Germanic Europe, Latin Europe, Middle East and Confucian Asia).

Beyond the need to uncover the influence of the practices aspect of culture, recent research emphasises the importance of considering the implications of the varying degrees to which these practices are adhered (e.g. Gelfand *et al.*, 2011). Intra-cultural variation reflects the degree of homogeneity/heterogeneity in views innate to a society (Carpenter, 2000; Uz, 2015). It is reasonable to assess cultural dimensions from an aggregate level by assuming spatial homogeneity within a country; however, drawing upon the idea that culture is a multi-dimensional construct, there should be a balance between cross-national and intra-national diversity in culture (Tung, 2008a). Despite the recent evidence that shows that intra-cultural variation could be as salient as or sometimes even more than cross-country variation (Tung and Verbeke, 2010), its association with managerial discretion has not yet been explored. Thus, a more nuanced understanding of the implications of intra-cultural variation in general and the variation surrounding cultural practices may aid in further understanding the national drivers/hindrances of managerial discretion.

Furthermore, research that focuses on the consequences of managerial discretion has almost exclusively focused on few factors, notably: CEO effect on firm performance, firm strategic behaviour, level and nature of CEO compensation (Wangrow *et al*., 2015). Apart from other outcomes (e.g. industry attention patterns (Abrahamson and Hambrick, 1997)), this stream of work discarded the possibility that managerial discretion could have a national-level outcome. Although these micro-level studies have contributed to the construct of managerial discretion, there exists a stark controversy whether greater degrees of managerial discretion are always desirable (Crossland and Hambrick, 2011). Therefore, this study adds a new line of enquiry on the consequences of managerial discretion by investigating its influence on the performance of countries measured by national competitiveness.

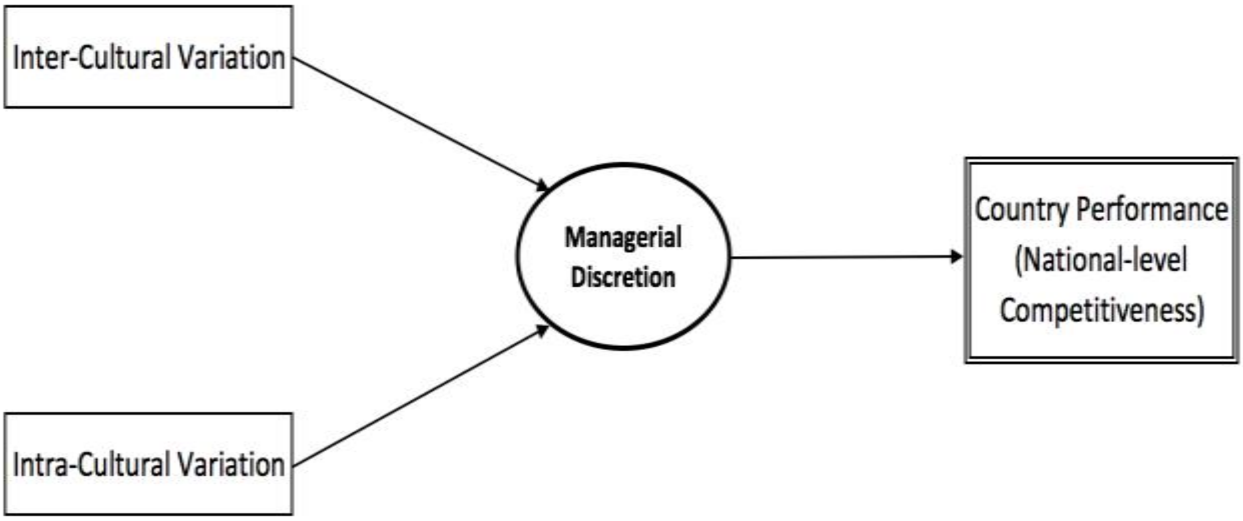
Accordingly, this thesis builds on the initial work in the national domain of managerial discretion (Crossland and Hambrick, 2011) and draws upon cross-cultural (House *et al.*, 2004) and institutional theory (North, 1990). In their study, Crossland and Hambrick (2011) examined the association between one aspect of culture (values) and managerial discretion. In this PhD, the author builds on their work and further extends the strategic management, particularly the upper echelon theory, by presenting an in-depth examination of other cultural aspects (practices) and their relative effect on the degree of CEO discretion.

Second, this work integrates the advancement in cross-cultural research with the strategic management realm by exploring the interaction between intra-cultural variation and managerial discretion. Although there have been some initial attempts to highlight the importance of cultural heterogeneity/homogeneity within a given country in affecting various micro and macro-level variables in the broader management literature (e.g. Beugelsdijk *et al*., 2014), this is largely lacking in the strategic management and discretion literatures. Moreover, despite the explicit acceptance of stakeholders that exist in the original conceptualization of managerial discretion (Hambrick and Finkelstein, 1987: 374), the effect of various stakeholders' groups and their zones of acceptance on managerial discretion seems not to have been the subject of previous scholarly attention. This thesis draws on the stakeholder theory (Donaldson and Preston, 1995) to show that the latitude of executive actions is not solely related to the aggregate acceptance of most stakeholders but is also subject to the acceptance of individual stakeholders' groups. This study therefore introduces new antecedents of managerial discretion.

Third, this research contributes to the managerial discretion literature through the assessment of the national-level implications of managerial discretion. Very few academics (e.g. Crossland and Chen, 2013) have examined the impact of managerial discretion on a macro-level construct. Even some scholars (Crossland and Hambrick, 2011) have discarded the idea that managerial discretion may be a desirable construct to drive country performance. In contrast, this study develops a theoretical framework that relates managerial discretion to national-level outcomes and empirically assesses its association with country competitiveness. Also, a paucity of work in the discretion literature has attempted to use discretion as a mediator (Wangrow *et al.*, 2015), thus the understanding of how relationships between antecedents and outcomes at the national level are affected by managerial discretion and the role of discretion in enhancing certain outcomes in given environments is very limited. As such, this thesis sheds light on the mediating role that managerial discretion plays between national culture and competitiveness.

This thesis' orienting theoretical model is shown in Figure 1 below.

Figure 1: Theoretical Model



1.1. Rationale Behind the Study

The focus of this PhD thesis is a theme that has developed throughout the PhD program that the author has undertaken at the University of Westminster. While generally a PhD candidate starts with a general feel or sense of a specific enquiry or area of interest within the broader management discipline, it is essential to answer primary questions before converging to a focal point. One of such questions focuses on understanding the way in which individualities and practices of business leaders affect organisational outcomes. Built into this enquiry is the implicit assumption that business executives do shape their organisational fate and form. There are plenty of evidence to support this view, which resides in the strategic choice theory (Child, 1972). But, there are other views which indeed argues the opposite. Population ecology theorists argue that environmental selection, and not business executives or managers, are the primary factors that shape organisational outcomes (Hannan and Freeman, 1977). Such a dichotomy between these two schools of thoughts was bridged by the concept of managerial discretion, which was introduced by Hambrick and Finkelstein (1987). The introduction of the discretion construct, which mediates the effect of competing forces (environmental, normative inertial, etc.); it was this insight that eventually demonstrated to be an essential point in the research.

Managerial discretion is conceptualized as the latitude in executives' decision-making (Hambrick and Finkelstein, 1987). It explicitly emerges as a conceptual link between theories that are predominantly deterministic ((e.g. population ecology (Hannan and Freeman, 1977), or neoinstitutionalism (DiMaggio and Powell, 1983)) and those that are mostly managerial (e.g. upper echelons (Hambrick and Mason, 1984)). Discretion exists to the extent that constraints to decision-making are relatively absent and when multiple plausible alternatives are available for executives to choose from. As such, it is a function of the individual executive (e.g. locus of control), the organisation (e.g. resource availability) and the task environment (e.g. industry regulations) characteristics or any combination of these. Together, these internal and external factors comprise a powerful range of possible limitations or catalysts for executive actions.

At the individual level, research shows that executives operating within the same domain can foresee a distinct set of actions depending on their individualities and psychological characteristics (Wangrow *et al.,* 2015). Some can envision a wider range of alternatives and create multiple courses of actions that would affect organisation outcomes. These psychological micro-foundations are unique features that determine executives' discretion. For instance, executives with greater locus of control (Carpenter and Golden, 1997), ambiguity tolerance (Dollinger *et al.*, 1997), networking relations (Geletkanycz and Hambrick, 1997), risk-taking behaviour (Roth, 1992) and lower commitment to the status quo (McClelland *et al.,* 2010) possess more discretion.

At the organisational level, firms with abundant resources that are easily transferable allow executives to foresee change and choose from a wider variety of alternatives (Hambrick and Finkelstein, 1987). Similarly, the lack of ingrained organisational culture and the existence of a passive board accord executives with more discretion (Boyd and Salamin, 2001). Relatedly, CEO duality increases the likelihood of strategic change, which in turn enhances managerial discretion (e.g. Quigley and Hambrick, 2012; Kim, 2013). In contrast, organisations with an entrenched, rigid culture resulting from standardised routines and control place strict constraints on executives' actions and make it difficult for them to initiate any strategic change (e.g. Key, 2002; Wangrow *et al.*, 2015).

Also, the task environment, in which firms operate, could drastically alter executive actions. Some industries can afford a greater variety of choices/actions than others. Hambrick and Abrahamson (1995) argue that advertising and R&D intensity along with market growth have a positive impact on managerial discretion. However, industry regulation constrains executives' latitude of actions (Peteraf and Reed, 2007). Similarly, Finkelstein (2009) finds demand variability along with industry concentration to negatively affect CEO discretion.

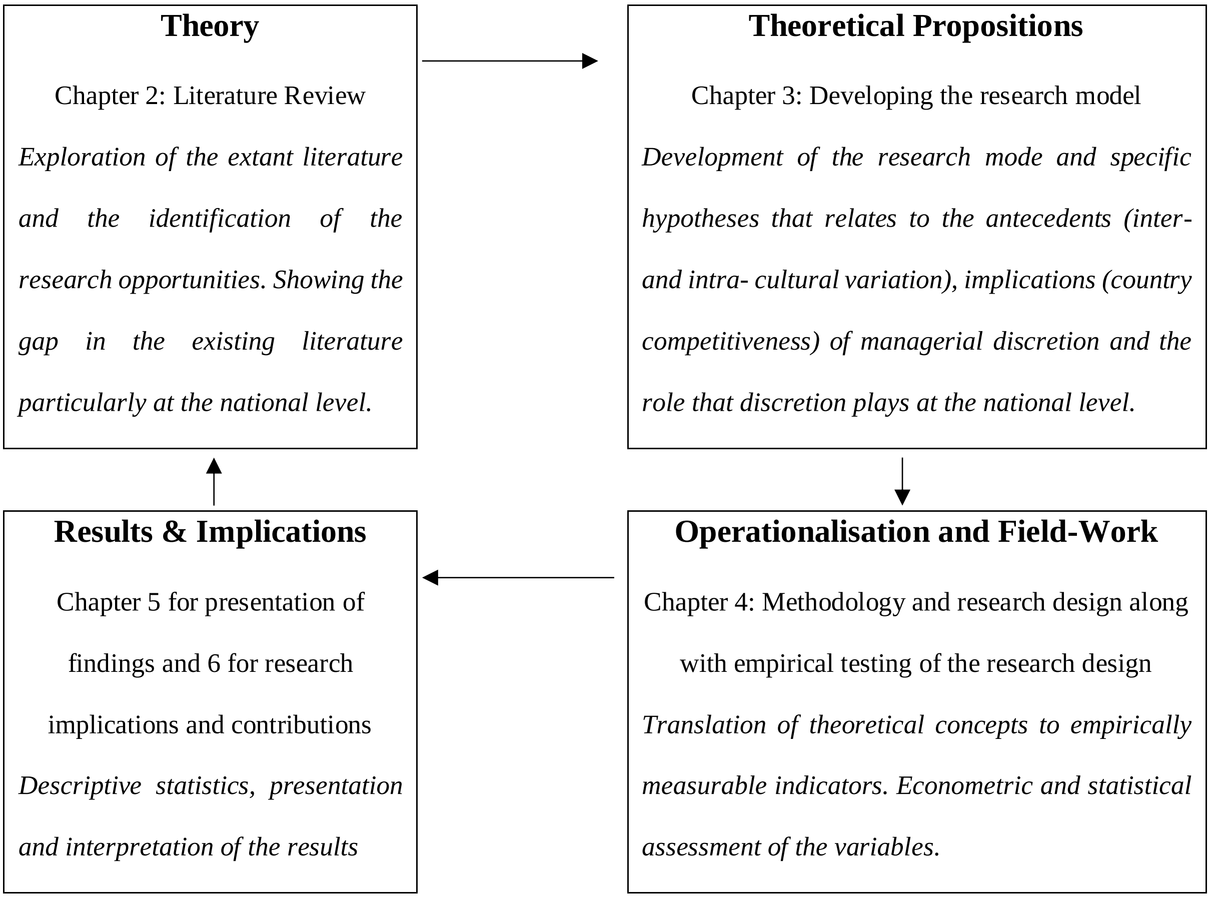
Although Hambrick and Finkelstein (1987: 379) argue that discretion is closely related to "the degree to which the environment allows variety and change", much of the previous research, as will be discussed in the sections below, conceptualizes the task environment in terms of industry characteristics. Very little work has considered the impact of the macro-environment, more precisely the national institutions, on executive discretion. Only recently, managerial discretion has been examined on a national-level (Crossland and Hambrick, 2011). However, there still exists a dearth of research into the national level of discretion. National culture is comprised of a broader array of dimensions (Javidan *et al.*, 2006), and as such further research is needed into the remaining cultural dimensions and their implications on managerial discretion. The dearth of studies into the national-level framework of managerial discretion is surprising given the evident support that organisational phenomena are widely different across countries. Additionally, work focusing on business executives, role of government, corporate governance, cross-country differences, and the effect of globalization (e.g. Griffiths and Zammuto, 2005; Makino *et al.*, 2004; Spencer *et al.*, 2005) have all suggested that the uniformity of the freedom in decision making for business executives is subject to characteristics of the national-level.

The pivotal point of this PhD thesis follows from the above identified issues and aims to fill in the gap in the existing literature on studies that only focuses on the individual, organisation, and industry and ignores the macro-level factors. The aim is not only to highlight the importance of the national-level, but also to explore the various antecedents, consequences and understand the role that discretion plays at such macro-level. By doing this, the author presents an iterative approach to theory building that is mainly lacking in this stream of research (Lawrence, 1997).

1.2. Research Framework

One of the most important criterion for any research is the ability to establish a direct and clear relationship between the theory and the empirical analysis (data) that is employed to test a theory (Rose, 1982). Hughes (1976) argues that theory and the evidence (data) are sometimes considered as distinct languages, and as such one should face some challenges to translate. Therefore, the framework adopted in this research is of a central importance as it illustrates how the core components are theoretically and systematically related to each other and to one another in the aim to establish an evident link to theory. This framework is described in figure 2 below.

Figure 2: Research Framework



Source: Compiled by the author based on Rose (1982)

1.3. Research Questions

This PhD thesis seeks to answer the following research questions:

1. What are the inter-, and intra-country antecedents and manifestations of managerial discretion?
2. What is the national-level implication of managerial discretion?
3. What role does managerial discretion play between the national-level antecedents and consequences?

1.4. Thesis Overview

The core strength of this study is the ability to provide a holistic understanding of national culture and its implication on managerial discretion. Such a complete approach is provided via the examination of the inter (across countries) and intra (within) cultural variation of 18 countries, along with the national-level implications of discretion. In the remainder of this chapter, the author provides an overview of the adopted structure.

In chapter 2, the researcher offers a detailed and critical review of the relevant literature that examined the antecedents and consequences of managerial discretion. The author discusses the development of the construct of discretion, previous empirical attempts and relevant individual, organisational, industry and national-level correlates. A consideration of the multidisciplinary inputs to the field of managerial discretion, and a critical review of the development of such a construct enables the researcher to identify the opportunities and specific theory development directions. The researcher concludes that there exists an important drawback in the current literature, that is the failure to consider and draw attention to the importance of the national environment as an important predictor of discretion and to assess the national-level implication of managerial discretion.

Having, in the preceding chapter, identified the gaps within the existing literature, the author in Chapter 3 builds in the institutional, stakeholder and economic development theories to develop the theoretical model and provides the substantial context within which the conceptual framework of this thesis is developed. With the research framework, as illustrated in figure 2, in place, specific hypotheses are generated to address the research questions formulated earlier in the preceding section.

Chapter 4 introduced the methodological underpinning of this research and links the theory and evidence together. This is achieved via translating the theoretical model into measurable indicators and then discussing the different techniques employed to operationalize the variables. The philosophical approach, research paradigm and constructs validity and reliability are also considered in this chapter.

In Chapter 5 presents the findings of the empirical analysis conducted to test the proposed relationships between variables. While, the beginning of chapter 5 presents the findings that relate to the antecedents of managerial discretion, particularly effect of inter-, and intra-cultural variations on managerial discretion; the final sections of chapter 5 presents results relating to the implication of the managerial discretion and the mediating role it plays at the national-level.

Lastly, Chapter 6 discusses the important implications and contributions of the results found in this thesis, suggests several avenues for future research and identifies several shortcomings or limitations.

1.5. The Context of the Study

The existing research in the upper echelons and the managerial discretion streams provided evidences supporting the view of the strategic choice theory but have abated calls (e.g. Hambrick in Cannella and Pettigrew, 2001) to move beyond explaining and investigating if executives matter, to a finer grained loom that demonstrate when they matter. Central to this research is the development of a model that specifically addresses when executives matter from a national-level perspective. The principle aim of this thesis is to contribute to the advancement of the discretion literature and the upper echelon theory by building on prior research in an iterative fashion to contribute to theory building. This is achieved by building on extant research and based on a thorough review of the existing literature. The literature review process resulted in identifying significant challenges or gaps in the macro-level theorization of managerial discretion, that is the ignorance of the national level. Also, other identified gaps are related to the treatment of managerial discretion as a black box and by using perceived discretion as an alternative. On such basis, a theoretical framework is developed, specific research hypotheses are proposed and empirically tested in a rigorous process at the national-level across 18 countries from 6 different cultural cluster. This concludes with the identification of the specific contributions of this research, and the implications for theory and practice. For clarity purposes, it is important to note, that in-line with the existing literature and mainstream research in the discretion field (Crossland and Chen, 2013; McClelland *et al.*, 2010; Wangrow *et al.*, 2015), the author uses the wording "managerial" to denote to executive particularly CEOs discretion. In most studies in the discretion literature, authors have used managerial discretion to refer to CEOs discretion, so the word managerial doesn't refer to junior or middle managers but only refer to CEOs.

1.6. Research Contribution

This PhD thesis provides several contributions to the academic community in the form of contribution to theory in the field of strategic management particularly research into the topic of upper echelons and managerial discretion, and provides practical contribution to the professional community. Lawrence (1997: 18) stated that "theories are always in process", yet despite the advancement in the strategic leadership and upper echelons in terms of bridging macro and micro approaches to organisational studies, the macro-level construct of managerial discretion, which solely focuses on the task environment, has been called into question (Wangrow *et al.,* 2015). Although, Crossland and Hambrick (2011) have attempted to broaden the milieu in which discretion is studied, no further developments of the theory have taken place. Therefore, this thesis aims to address the gap that currently exists in the discretion literature to develop and test the theory that builds on the national-level in this stream of research.

In terms of theoretical contribution, the thesis develops a model which tests the different national dimensions of managerial discretion and provides an empirical assessment of the implications to national performance measure by competitiveness. This model contributes to the field of strategic management particularly studies examining the construct of managerial discretion by broadening the milieu in which executives’ matter, discovering new national-level antecedents and consequences of such a construct. Also, the research adds to existing literature by demonstrating that managerial discretion mediates the relationship between culture and national competitiveness. Therefore, showing the positive role of managerial discretion in driving the competitiveness of countries.

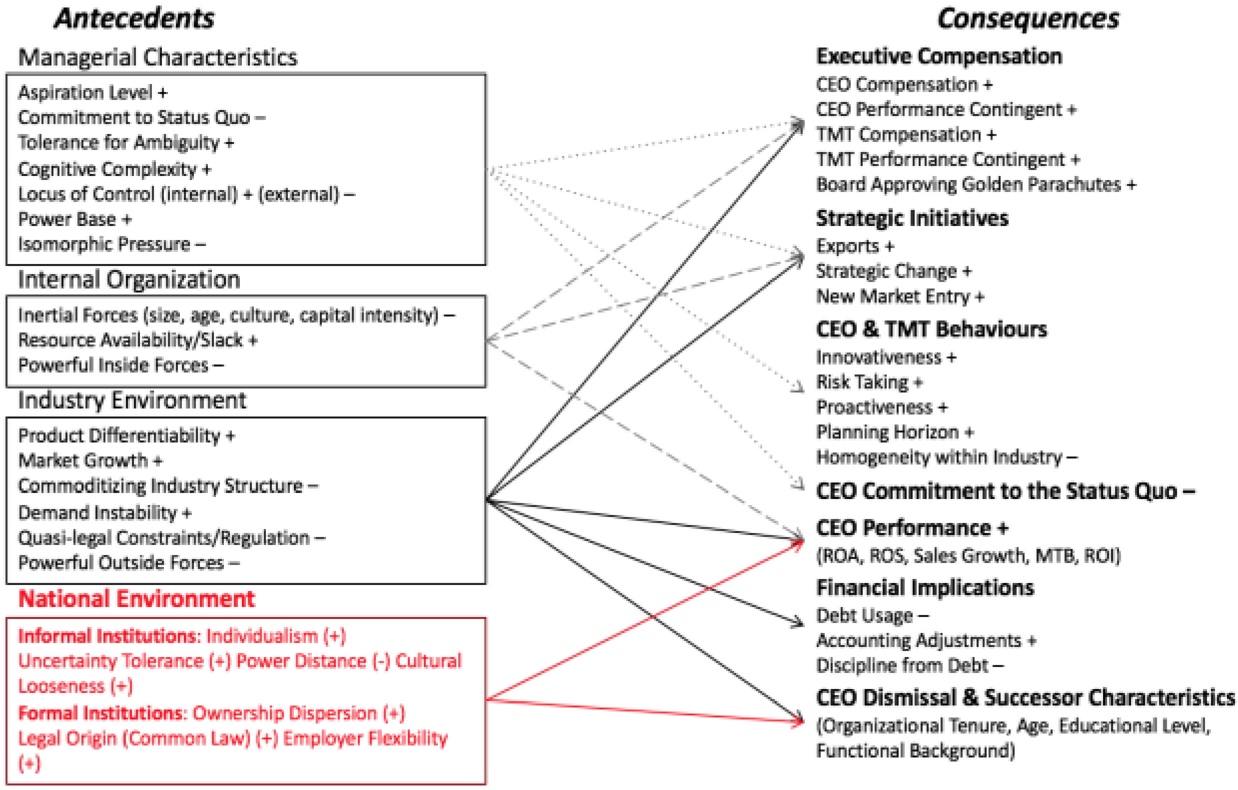
Of interest to professionals or practitioners will be the differential effect of culture on the latitude of actions for executives. This may be particularly interesting to multinational corporations or companies wishing to internationalize into new markets, as it will provide a better understanding of the institutional environment (particularly culture) of the host country and its effect on the freedom in decision making. Also, it will be of great interest to companies involved in cross-border mergers or acquisitions as it will aid in the development of selection criteria and the preparation for such transactions to assess its potential outcomes.

2. Antecedents and Consequences of Managerial Discretion: A Review of Relevant Literature

The main aim of this review is to examine the articles that operationalized and studied the construct of managerial discretion in the broader strategic management and management disciplines. All articles included in this review are published in peer-reviewed top journals and are highly cited. The review included some theoretical papers, however mainly focused on empirical papers that examined the discretion construct. In-line with this thesis, majority of the articles reviewed in this chapter were specific to CEOs discretion, while using the wording as managerial discretion. Using the Social Science Citation Index, the author search particularly for terms that are either directly related to managerial discretion or are considered as synonyms of managerial discretion. As such, the researcher searched for the term "managerial discretion"; "industry discretion"; "organisation discretion"; "individual discretion"; "national discretion"; "CEO discretion"; "latitude of actions"; managerial objectives" in each of the top journals. The author followed a selective sampling to include articles that are more relevant to this research and that have followed or applied the main aspects of the discretion construct that was originally introduced by Hambrick and Finkelstein (1987). Also, articles found were mainly published in the: Academy of Management Journal, Academy of Management Review, Administrative Science Quarterly, Journal of International Business Studies, Strategic Management Journal, Management Science, Journal of Management, Journal of Management Studies, Organization Science, to name a few. All articles were published between 1988 and 2016. This resulted in over 150 articles, so to find the highly-cited ones, the author used google scholar to see which articles have been highly cited out of the initial sample. This filtering led to less than 100 articles, which were then reviewed to determine whether they all should be included in the literature review section of the thesis. Finally, the author used only the articles that directly assessed the discretion constructs and examined either it's antecedents or consequences. The reason behind such selection is that some of the articles often used managerial discretion as a theoretical hook without testing or examining the antecedents (sources), consequences (implications) or the role that discretion plays between different constructs (mediator, moderator). Therefore, this has even filtered the number of articles that were included in the below review, which are around 55. Including all these articles, even if some of the variables presented in these papers are not included in the empirical analysis of this research, is essential for several reasons. First, to show that despite the growing body of research that studied the concept of managerial discretion, none and very few have a looked at the macro dimension, particularly the characteristics of the national environment (i.e. culture). Second, to highlight the main gap within the existing literature and to show that importance of studying the national-level to open new horizons and broaden the milieu in which discretion is studied, which is one of the aims of this thesis. Lastly, to highlight the main implications of managerial discretion and show that such stream of research is lacking important implication, that is the impact on national competitiveness.

A critical review of the relevant literature is presented in the below sections by classifying and discussing the various constructs, or in more technical terms antecedents and consequences, of managerial discretion. At the beginning the author provides an overview of the discretion literature, then discusses the construct at different dimensions (individual, organisation and industry) then concentrates on the essence of this PhD, the national environment, and conducts an extensive critical review of all related published studies. Figure 2 summarizes the literature review in terms of its antecedents and consequences by highlighting the research gap that is mainly present in the national dimension.

Figure 3: Summary of Antecedents and Consequences of Managerial Discretion



2.1. Historical Synopsis on Managerial Discretion

As mentioned earlier, the concept of managerial discretion refers to the latitude of options of actions that is afforded to senior executives and mainly CEOs. While Hambrick and Finkelstein (1987) took the credit to introduce such seminal construct in the management research, managerial discretion existed even earlier but in different forms. For instance, in sociology, Lieberson and O'Connor (1972) argued that business leaders are of a great importance for their organisations, as they account for changes in companies' performance and more importantly their individualities (leader traits) are the primary factors that shape the success of their organisations over time. Also, similar argument is echoed in the upper echelon theory (Hambrick and Mason, 1984), which argues that firms' outcomes and actions reflect executives' cognitions, often proxied by their demographic characteristics. In other words, if an executive is accorded greater latitude of options, then organisations' actions are more related to the executive individualities.

The discretion construct acts as a link between two opposing or conflicting view in organisational theories: strategic choice and population ecology (Crossland, 2008). Strategic choice theory (Child, 1972) argues that the chosen strategies by top managers are the main factors contributing to organisational outcomes (Andrews, 1971). Whereas, the theory of population ecology argues that organisational outcomes are subject and limited to internal and external constraints or pressures (Hannan and Freeman, 1977). The discretion model presented by Hambrick and Finkelstein (1987) reconciles these two opposing views by recognizing that internal and external forces shape organisations outcomes but this will be subject to the pressures imposed by these forces on executives' actions. Executive discretion can be enabled or constrained subject to the existence of each of these forces (internal or external). Hambrick and Finkelstein (1987) in their development of the concept of managerial discretion focused on three primary forces that determine the level of executives' discretion: managerial characteristics, internal organisational factors and industry factors. However, another macro-force, national factors, also play a crucial role in the determination of the discretion levels, which is the core of this thesis. The author starts the below discussion by discussing the antecedents or factors that determine the degree of discretion from different dimensions, then discusses the main implications or consequences.

2.2. Antecedents of Managerial Discretion

2.2.1. Managerial Characteristics

Studies of organisations have been mainly approached from two perspectives: sociological and psychological. The sociological perspective considers organisations as a function of structural factors and differences. But, from the psychological angle, organisations are a function of the personalities and capacities of specific individuals that have an influence over organisations' outcomes. In other words, executives' psychological features and their association with an organisation have a crucial role in restricting or boosting the extent to which they can envisage and implement various actions (Hambrick and Finkelstein, 1987). Even within the same environment, top managers have a distinct set of choices based on the linkage between their own individualities and the environment (Child, 1997). Building on the upper echelon theory (Hambrick and Mason, 1984), a company is an echo of its top executives' psychological characteristics. These personal attributes strongly influence executives' cognitive base and their interpretation of actions. Consequently, this will be reflected in their firms' strategic choices. For instance, an executive locus of control, tolerance for ambiguity, commitment to the status quo, ability to deal with cognitive complexities and many other individualities constitute their psychology-based personality, which will in turn affect firms' outcomes (Wangrow *et al.*, 2015). In this vein, many scholars have investigated the impact of individual executives' characteristics on managerial discretion.

Miller *et al.* (1982) were among the first scholars to report a positive relationship between executives' (mainly CEO) behaviour and firm performance. Their work was based on Rotter's (1966) conceptualization of internal and external individuals (classification of locus of control), in which internal individuals possess a lower score in the locus of control measurement and are seen to believe that all events happening are under their control. This contrasts with externals, who believe that events and outcomes are not controllable and are beyond their reach (Rotter, 1966). Miller *et al.* (1982) found that internal CEOs tend to foresee more risk-taking and innovative strategies that deviate from industry competitors. Locus of control is one of the main managerial characteristics that have been used to assess discretion. Internals as opposed to externals are more energetic, have deeper involvement, possess persuasive power and tend to produce innovative strategies. However, such characteristics should be accompanied with a flexible environment. Locus of control showed an indirect relationship to the environment and structure; sometimes the environment places constraints that push a personality in the external direction (Miller *et al.,* 1982), which leads to a lower degree of discretion. However, it is important to emphasise that locus of control is a stable characteristic, which does not change over time (Kinicki and Vecchio, 1994). Locus of control is also individually dependent and context-independent compared to managerial discretion, which is context-dependent and may vary significantly over time (e.g. Hambrick *et al.,* 1993; Hutzschenreuter and Kleindienst, 2013). Therefore, locus of control is a predictor and a factor affecting discretion level.

Some argue that locus of control is inevitably associated with risk-taking behaviour (Boone and DeBrabander, 1993). Internal executives are thought to possess important reading skills that allow them to tweak their assessments of situations based on the changes in the external environment (Carpenter and Golden, 1997). To understand how managers, perceive managerial discretion, Carpenter and Golden (1997) found that locus of control has a direct link with the perception of managerial discretion. Individuals' perception of managerial discretion is affected by the power that others attribute to them, particularly in situations where those individuals have little discretion (Carpenter and Golden, 1997). The idea here is that executives, due to their involvement in various strategic planning and proposing additional ideas, will give an impression to others as powerful individuals, even though in fact they have less latitude of actions. Additionally, locus of control plays an important role in selecting relevant business partners. In a study of the effect of reputation on the decision to collaborate with other businesses, Dollinger *et al.* (1997) discovered a mediating role for the locus of control construct. They argued that internals, due to their highly-perceived discretion, engage in partnership with other firms even if those organisations show signs of negative reputation (Dollinger *et al.*, 1997). Such thinking is related to the suppression function that internal executives possess. Internals can analyse and read information even if those data are negative for them; this provides a strong foundation for innovative, risky and bold actions. These arguments are backed up by the idea that internals, due to their belief that they are in control, perceive themselves as having greater managerial discretion than their external counterparts.

Moving forward, some researchers have investigated other managerial characteristics and their role in influencing degrees of managerial discretion. In this domain, some studied whether risk-taking, openness and consensus decision-making characteristics have a relation with the strategic choices that firms adopt in their global operations (Roth, 1992). When executives tend to take risk in their actions, they would possess greater discretion and subsequently follow a global strategy that gives them more control over subsidiary activities. This is because multi-domestic strategies provide little discretion to executives based at the companies' headquarters and higher discretion to the foreign subsidiary manager. Opening and consensus strategic decision-making characteristics limit the degree of managerial discretion, as in such cases executives will be more open to take on board others' ideas; which might reduce their latitude of actions. Geletkanycz and Hambrick (1997) argued that intra-industry ties (within industry relationships) lead to strategic conformity compared to extra-industry (external industry relations) relationships that result in strategic deviation. Those networking characteristics for executives are associated with the interpretation and information gathering reserve that they collect from such linkages. Accordingly, when executives possess intra-industry relations, they tend to conform to industry norms, which means that they tend to see themselves as having low discretion. In contrast, executives possessing external industry ties will gather additional information that broadens their cognitive base. This enhances their array of actions, allowing them to foresee a broader range of distinct strategies.

In another vein, Buchholtz *et al.* (1999) showed that managerial discretion plays an important mediating role in the consideration of corporate giving (philanthropy) activities. This is backed up by the findings of Hayley (1991), which emphasise level of managerial control (discretion) as an important factor in philanthropic activities, along with the idea that philanthropic activities reflect a good image of executives. They concluded that while corporate resources exist and executives possess high discretion with higher personal responsibility, they are more likely to implement philanthropic actions (Buchholtz *et al.*, 1999). However, some might argue that in recent environments, corporate philanthropy has become a strategic choice, where it helps in enhancing corporate profile, reputation, customer loyalty, legitimization, social acceptance, etc. When executives follow such orientation, they are not giving away their own money but instead are giving away that of their shareholders. Thus, their own values are not considered important; it is only related to the discretion level they possess.

In the upper echelon field, studies have identified several CEO characteristics that are fundamental antecedents of discretion. This includes executive age (Simons *et al.*, 1999), education (Hambrick *et al.*, 1996; Rajagopalan and Datta, 1996; Cho and Hambrick, 2006), functional background (Geletkanycz and Black, 2001), tenure and succession (Carpenter and Fredrickson, 2001). This research stream has focused on executive individualities and their relationship/influence on firms' strategies and performance. Executives' age may have a role in forming their interpretation of incidents and in turn will affect their understanding base that leads to certain strategic choices. But, how can such attributes be relevant to managerial discretion? Singer and Sewell (1989) claimed that there is a preference for older individuals to occupy high-status roles than their younger counterparts. Their argument is based on the impression that individuals with white/grey hair, seriousness, sobriety in speech, etc. are symbolic of their seniority, which in turn will bring certain skills and experience to the table. Thus, when such executives are in place, they may be able to express or illustrate higher levels of power. Carpenter and Golden (1997) indirectly supported such a proposition by showing a positive relationship between these two constructs. They reported that "managers in part through impression management activities… increase their power and enlarge their latitude of actions" (Carpenter and Golden, 1997:187). Though such a relationship exists only to the extent to which the contextual framework or external environment allows it to happen. In contrast, it is argued that in high-discretion environments, which allow greater changes and diversification, the average TMT age tends to be lower (Wiersema and Bantel, 1992). Thus, it could be postulated that managerial discretion has a negative relationship with age.

Furthermore, additional investigations discovered a link between a CEOs' tenure and their aim to foresee strategic change. Some considered that CEOs with high organisation and position tenure are more likely to show low intention to foresee strategic change (Miller, 1991; Henderson *et al.,* 2006), and such a feature will decrease firm innovation (Wu *et al.,* 2005; Simsek, 2007). Accordingly, CEO commitment to the status quo (CSQ), which is the enduring belief that a firms' current strategies are correct (Hambrick *et al.,* 1993), will increase (Hambrick and Finkelstein, 1987). In relation to managerial discretion, increased CEO commitment to the status quo will lead to a limited range of action perceived by that CEO. However, from another standpoint, due to their increased confidence in the way in which their company has been operating, along with the rigidity of its strategic orientation, CEOs will be having a higher level of discretion. Yet, both arguments will vary significantly depending on the environmental stimuli. McClelland *et al.* (2010) argued that CEOs' commitment to the status quo in high-discretion environments (industries) has a negative impact on firm performance; however, this is not applicable in low-discretion contexts.

Therefore, out of the seven initial individual antecedents proposed by Hambrick and Finkelstein (1987), only CSQ and locus of control have been explicitly examined. Despite several attempts to theoretically link other individualities with managerial discretion, the literature fails to give additional attention to and directly assess the impact of executives' psychological characteristics on discretion. To sum up, the author has discussed in the above section how executives' characteristics – such as age, tenure, locus of control, CSQ, personal responsibility, and risk-taking behaviour – could affect the degree of their managerial discretion. The next discussion will centre on the second dimension of managerial discretion: the internal organisation.

2.2.2. Internal Organisation

Moving on from the individual psychological construct of discretion, this section discusses another important micro-construct: organisational characteristics. Organisation attributes such as inertial forces, resource availability, powerful inside stakeholders, board of directors' structure and characteristics, and many other factors represent the second source influencing degrees of managerial discretion. A firm's internal characteristics define the extent to which it is open to a range of possible actions. Such openness endows CEOs with greater latitude to implement actions. For instance, the existence of robust inertial forces places constraints on top executives' calls for change (Hannan and Freeman, 1984). Such a force limits the amenability of the firm, making the CEO less able to execute a variety of actions (Hambrick and Finkelstein, 1987). Similarly, powerful internal stakeholders guide executives' discretion. Powerful internal stakeholders with high CSQ restrain executives from adopting any strategic changes because their priority is to sustain the incumbent strategies, processes and structure of the firm (Pfeffer and Salancik, 1978). Resource accessibility also plays a significant role: it provides additional leeway for top executives to implement actions corresponding to their determination (Wangrow *et al.,* 2015). For that reason, companies that have experienced extensive financial or resource expenditures will not be able to provide additional leeway for executives' actions. Hence, firms will be committed to their products and processes (Hambrick and Macmillan, 1985) along with sustaining their current courses of activities.

Singh and Harianto (1989), in their work on the adoption of 'golden parachutes', which represent incentive packages for executives as insurance in the case of a takeover threat, found that concentrated ownership structure (non-management stock ownership) and higher board member tenure as opposed to CEO tenure lead to ignorance regarding golden parachutes. These results indicate that, in compliance with some board characteristics, CEOs will end up having various levels of influence. When top executives do not possess stock ownership and there exists concentrated ownership of stocks/shares, along with boards having a higher tenure, the CEO is not able to influence boards of directors, which results in lower discretion. In contrast, when the board of directors has a lower tenure and dispersed stock ownership, the CEO will have higher discretion. In the same research orientation, academics argued that CEO and TMT pay is related to the ownership structure of the firm. In dispersed ownership structures, firms are management-controlled, whereas in concentrated ownership, firms are owner-controlled (Werner and Tosi, 1995). Management-controlled organisation pay is related to growth, and executives can advocate their own pressures to establish a suitable pay structure compared to owner-controlled firms where pay is strongly associated with performance. Accordingly, managerial or executive discretion plays a core function in constructing firms' pay structure, particularly for those executives. To empirically support such a view, Werner and Tosi (1995), in their study of the effect of ownership structure on compensation strategy, found that firms providing higher managerial levels (management-controlled) tend to pay more premiums in terms of salaries, bonuses and long-term incentives as opposed to low-discretion organisations. This is due to the increased latitude of action that executives possess when ownership is dispersed allowing them to amend the compensation strategy in their favour.

Furthermore, Campbell *et al*. (2012) investigated the impact of shareholder direct access or involvement in the nomination of new directors. They argued that granting owners greater influence regarding the nomination of new directors, having a classified board structure (Gompers *et al.*, 2003) and a board composed of true outsiders (outside directors) will diminish executives' latitude of actions (Campbell *et al.*, 2012). Such shareholder involvement reduces agency costs but at the same time increases the power base of those shareholders and their control over executives' actions. When a board of directors is comprised of a large proportion of outsiders, the independence of the board increases (Finkelstein *et al.*, 2009). Accordingly, shareholder involvement in directors' nominations and board composition act as internal organisation factors that impact the level of managerial discretion.

Moving forward, some scholars have looked at a distinct factor that has a considerable effect on the design of executive incentive plans. Rajagopalan (1997) looked at the fit between firms' strategic orientation and its top managers' incentive plan based on Miles and Snow's (1978) typology. He discovered a better performance fit for firms implementing an annual bonus, in which they use cash and accounting measure incentives, with defenders (firms with no or little engagement in market/product development) rather than prospectors (firms that endeavour to pioneer in market and product development). On the other hand, performance is healthier when prospectors use long-term, stock-based and market-measured incentive plans as opposed to defenders (Rajagopalan, 1997). In the same vein, Rajagopalan and Finkelstein (1992) presumed that prospectors have the highest degree of discretion and CEO pay, which is based on firm performance, compared to defenders and reactors. This is because both the strategic orientation of defenders and the annual bonus scheme have similar time horizons (short). Managers can be evaluated in line with their performance without bearing any risk as opposed to prospectors where such orientation requires managers to foresee riskier behaviour and long-term goals. Also, it is related to the agency theory as variations in strategic orientation lead to changes in managerial motivation and control behaviour (e.g. Eisenhardt, 1989; Jensen and Murphy, 1990). Therefore, managerial discretion is positively associated with firms' strategic orientation. The higher the variations in firm strategic orientation, the higher the changes in the degree of ambiguity, availability of a diversified array of actions and the outcome uncertainty (Rajagopalan and Finkelstein, 1992). Hence, prospectors are thought to provide more discretion to executives and allow a greater tolerance for innovative and novel strategies to be implemented. Whereas, for defenders, due to the existence of stable and unchanging orientation, novel and innovative strategies would not be tolerated; accordingly, executives follow the previous pattern of their firms, which indeed lowers their level of discretion. Despite these interesting findings, it is unclear whether other types of firm strategic orientation influence the degree of discretion and consequently the pay system. Most former studies have argued that the strategic orientation most adopted by firms is analyzer (firms possessing an intermediate type with a unique combination of both prospector and defender characteristics) (e.g. Balkin and Gomez-Mejia, 1990; Boyd and Reuning-Elliott, 1998). Thus, the association between strategic orientation and executive discretion is limited only to defenders and prospectors.

The importance of understanding compensation systems comes from an agency perspective. From this standpoint, there are potential problems that might occur during the interaction process between the agent and the principal. These problems can be summarised as: objectives incongruence (e.g. Zajac and Westphal, 1994; Nilakant and Rao, 1994) and information asymmetry (e.g. Gomez-Mejia and Balkin, 1992; Rajagopalan and Finkelstein, 1992). The latter exists when agents possess better knowledge on task operations and implementation compared to principals and when those agents (managers) possess higher discretion. This creates multiple decision options, ambiguous causes and effects, and low task programmability (Rajagopalan and Finkelstein, 1992). Therefore, to avoid such agency problems, compensation strategies become increasingly important. Those problems basically expand as environmental differences and operation complexity increase, particularly when firms compete in global industries. To develop this notion further, academics have studied the international implications of organisational factors on compensation strategy for subsidiary firms. In the international context, firm headquarters delegate responsibilities and work to subsidiary units (Nohria and Ghoshal, 1994). Here, the information asymmetry comes mainly from two sources: cultural distance and the structure of operations or relationship between the headquarter and the subsidiary. In the first cause, cultural differences between the context of the headquarters and the subsidiaries make it difficult for principals to monitor the work of their agents, and as such the agency problem increases (Gomez-Mejia and Balkin, 1992). The second source ranges from lateral centralisation (decentralisation of decision making) and global rationalisation (centralisation of decision making) (Roth and Morrison, 1992). In this vein, when headquarters follow a global rationalisation relationship with their subsidiaries, the agency problem is low because the principals, which are mainly located at the headquarters, will be able to monitor closely the work of the subsidiary agent. This contrasts with a lateral centralisation structure where agents have greater autonomy in decision-making, which implies increased agency problems. However, goal incongruence occurs from the notion of parent commitment or the commitment of subsidiary managers to the headquarter; when there is high commitment, there will be fewer agency problems. Thus, one can assume that companies following global strategies in international contexts tend to provide lower discretion to subsidiary executives, but that companies adopting multi-domestic international strategies will provide more discretion to their subsidiary managers. Again, to overcome such agency problems, principals tend to establish a compensation or incentive system that aligns both interests.

To empirically test such assumptions, Roth and O'Donnell (1996) studied the design of compensation strategies in foreign subsidiaries based on agency theory from three perspectives: cultural distance, lateral centralisation and subsidiaries' senior management commitment to the headquarters. They found that with lateral centralisation, the level of incentive compensation for subsidiaries' senior executives' increases; their compensation incentive is higher relative to the market (other competitors) (Roth and O'Donnell, 1996). These results are due to the presence of high managerial discretion for subsidiary executives when firms adopt lateral centralisation. To avoid and/or reduce the agency problem, principals tend to increase incentive compensation to keep subsidiary managers' behaviour within the acceptable limits. Therefore, in a global context, the international structure of organisations (centralised vs. decentralised) plays an important role in shaping subsidiaries' managerial discretion. Similarly, but in a new context, Boyd and Salamin (2001) replicated previous studies that were mostly conducted in the US on the Swiss financial industry. They confirmed the previous findings (e.g. Rajagopalan, 1997; Rajagopalan and Finkelstein, 1992) in terms of the impact of firms' strategic orientation on executives' discretion and compensation system; however, they asserted that strategic orientation also affects the pay of all employees. The distinction is that executives will have higher bonus pay and incentive pay systems in firms adopting a change-orientation strategy. This is due to their organisational hierarchy, which has been acknowledged to affect managerial discretion (Hambrick and Finkelstein, 1987). The discretion generated from organisational hierarchy is associated with the coercive and legitimate power gained from formal positioning within the firm. Thus, Boyd and Salamin (2001) provided another important organisational force, firm hierarchy, which influences managerial discretion.

Apart from the focus on compensation and pay systems to identify the impact of organisational factors on managerial discretion, some authors have attempted to investigate and understand the importance of other executives' decision-making authority, particularly Chief Information Officers (CIO). In this vein, Preston *et al.* (2008) argued that CIOs are important strategic decision makers within organisations if they are provided with the appropriate discretion or authority to produce strategic technological contributions. They found discretion to play a mediating role between organisational factors, including the firm's climate, support for IT, CIO hierarchical power, CIO strategic effectiveness and CIO relationship with other TMT members (Preston *et al.,* 2008). Therefore, if organisations encourage assertive behaviour for their executives (Morrison and Phelps, 1999), pro-activeness (Parker *et al.,* 2006) and personal initiatives (Frese *et al.,* 1996), the degree of managerial discretion provided to these executives will increase (Preston *et al.,* 2008). Also, organisational support for certain firms' activities or functions, like IT, shapes the latitude of the executives who are responsible for those functions. Such support might be associated with providing enough resources to implement certain functions; by doing so, organisations will be supporting these activities and providing greater latitude to those who are on top of these functions (Hambrick and Finkelstein, 1987; Buchholtz *et al.,* 1999). Finkelstein and Peteraf (2007) raised a similar argument in which they suggested that executives' discretion is dependent on the complexity, uncertainty and observability of managerial activities. Additionally, the structural power gained from formal positioning within the firm (Daily and Johnson, 1997; Finkelstein, 1992) is another function that influences the degree of discretion. Thus, organisational climate influences the discretionary boundaries of its members (Neal *et al.,* 2005; Morrison and Phelps, 1999).

Staying within the boundaries of boards of directors, one important event that has a major role in influencing discretion is the retention of a former CEO as board chair. This wave has been noticed widely in North American firms, as claimed by Booz & Co., along with previous research findings (e.g. Brickley *et al.,* 1999). One can attribute the cause of such events to various factors, including the board perceiving the successor or new CEO as lacking the reasoning of the former incumbent, and the board trying to follow the trend elsewhere (Westphal and Fredrickson, 2001). Another important factor can be the former CEO's psychological unwillingness to depart and firms institutionalised practices (Goodstein and Boeker, 1991). Fitting within such a perspective, Brickley *et al.* (1999) found a significant relationship between pre-succession performance and the preservation of a former CEO on a board in which the highest performing CEOs will tend to remain on the board compared to their low-performing counterparts. However, such associations are controversial. In fact, some very successful CEOs have not remained on the boards of their former companies, such as Harvey Golub from American Express and Louis Gerstner from IBM (Quigley and Hambrick, 2012). In discretion terms, such retention has considerable implications on the leeway of the actions of the successor CEO.

However, regardless if the former CEO stays on board or not, successor CEOs based on his/her individual attributes would be able to enlarge the degree of discretion available to them. This has been illustrated in the concept of 'narcissistic CEOs' (Chatterjee and Hambrick, 2007). In this vein, Quigley and Hambrick (2012) claimed that examining discretion from this standpoint would contribute to the field by adding a new source of discretion, which they labelled as ‘powerful parties’. But, those powerful parties are in fact the board of directors who are indeed part of the internal organisation; therefore, looking at discretion from this angle would not add additional sources but would instead contribute to internal organisation factors, particularly board composition. Regardless of that, Quigley and Hambrick (2012) emphasised that former CEO retention significantly impacts new CEO discretion, including the range of possible options that act to influence corporate outcomes (Shen and Cho, 2005), particularly strategic change (Quigley and Hambrick, 2012). Executive turnover leads to surges in organisational change as new CEOs are under pressure to demonstrate their efficacy by spotting problems and introducing new initiatives; such events also provide an opportunity for firms to break out from their inertial bonds (e.g. Pfeffer, 1992). Executives in general are not open-minded (Henderson *et al.,* 2006); in other words, they believe that their previous paradigms, strategies and actions are appropriate regardless of any changes (Hambrick *et al.,* 1993). Additionally, due to their existence as board chair to monitor the work of the successor executives, former CEOs are still committed to their visions and previous decisions they took during their time in office (Quigley and Hambrick, 2012). This means that predecessor CEOs will place explicit and implicit constraints on the actions of the new CEO. Thus, former CEO retention as board chair diminishes successors’ discretion and will accordingly limit his/her ability to make strategic changes.

Recently, a study by Eun-Hee Kim (2013) looked at the impact of deregulation on the environmental and differentiation strategies that electric utility firms adopt along with the extent to which they are keen to enter the renewable green electricity market. Companies need to react appropriately to deregulation events to stay in the game. Thus, incumbents’ firms have focused on their own competencies gained from previous deregulated operations instead of pursuing a differentiation strategy. This is due to inertial organisational constraints, such as internal firm resources, previous experience of doing things and learning gained from earlier operations (Kim, 2013). Proactive executives look at deregulation as an opportunity to provide additional innovative actions (Anderson and Bateman, 2000; Murillo-Luna *et al.,* 2008) but do not get involved in renewable or green strategies if independent power producers exist. This is because power producers have long been established in the market and have a significant bank of electricity generated; hence, they are major suppliers for other firms. Thus, it can be posited that organisational integration and particularly vertical integration play an important role in affecting the degree of managerial discretion. However, weak empirical evidence has existed for such a proposition (Kim, 2013), which could be an interesting area for future research.

2.2.2.1. Managerial Characteristics and Internal Organisation

Apart from studying the dimensions of each type of discretion and looking at its impact on the level of leeway provided to firms' executives, some scholars have looked at combining various dimensions together and have tried to predict how such combinations could shape managerial discretion. Some have looked at variables of the task environment along with managerial characteristics (e.g. Adams *et al.,* 2005); others have gone on to study internal organisation and the task environment (e.g. Papadakis and Bourantas, 1998); and some have been interested in investigating the effect of combining internal organisation variables with managerial characteristics (e.g. Key, 2002). The first two combined sources will be explored in more detail in the sections below (3.3.1 and 3.3.2); here, the focus is on the latter dimension. In this vein, the only study found in the literature that incorporates both the organisation and managerial characteristics is Key's (2002) work. He reinforced the importance of locus of control as a critical variable in perceiving managerial discretion (Carpenter and Golden, 1997); however, more importantly he found firm ethical culture to have a positive relationship with perceived managerial discretion. Also, he examined the effect of other individual (age, gender, tenure, education) and organisational characteristics (size, type, industry, presence of ethical code) on perceived discretion. There was no support for the latter propositions. This contradicts earlier empirical results that emphasised the importance of the individual and organisational characteristics in shaping the level of managerial discretion (e.g. Hambrick and Finkelstein, 1987; Haleblian and Finkelstein, 1993; Finkelstein and Hambrick, 1990). Despite the inability to articulate additional organisational and individual characteristics, Key's (2002) work has introduced a new effect on managerial discretion – firm ethical culture.

2.2.3. Task Environment

In this section, the author reviews relevant studies that have investigated the antecedents of managerial discretion from an industry perspective. Task environment in the study of managerial discretion represents the organisation's domain characteristics and its effect on the degree of discretion attributed to organisations' executives who operate in such an atmosphere. The task environment might enhance/diminish discretion if, for example, there is a large variety in products and services between competitors (product differentiability), demand volatility/stability, industry concentration, structure, regulated/deregulated industry, powerful external forces, market growth and capital intensity (Hambrick and Finkelstein, 1987).

Correspondingly, some authors have categorised industry characteristics into the dimensions of munificence, complexity and dynamism (Dess and Beard, 1984). Based on that, much of the following work has concentrated on those dimensions and argued that each will have a distinct impact on managerial discretion. Lieberson and O'Connor (1972) were the first to examine the concept of leadership and the influence of leaders on organisational performance. They stated that "leader's ability to implement goals reflect not only his/her distinctive qualities, but also social and environmental limits" (Lieberson and O'Connor, 1972: 117). Thus, organisations are not only related to the individual characteristics of executives but also their actions are associated with the social milieu in which they manoeuver. Lieberson and O'Connor (1972) found that management or leaders of large organisations have an influence on their firm performance, particularly sales, when the industry is characterised by high concentration. However, executives influence profit margins when their industry is low in labour intensity (labour pay constitutes a small proportion of total employment cost) or in a growing phase with consumers representing a significant part of its market. In other words, due to the existence of the abovementioned industry topographies, executives will show greater influence (either bad or good) on their organisations' performance. Accordingly, it can be argued that industry concentration, labour intensity, industry growth and consumer demand differ in their constraints on executives' discretion. However, Hambrick and Abrahamson (1995), in their aim to assess the degree of discretion within industries, have developed an innovative measure of industry discretion based on scores gathered from a panel of academics and security analysts. Those scores were also matched with archival industry data including product differentiability, capital intensity and market growth. They only found that advertising and R&D intensity along with market growth are positively related to industries characterised by high levels of discretion but that capital intensity was negatively related because it induces more strategic rigidity and an inability to change in the short term (Hannan and Freeman, 1977; Ghemawat, 1991; Hambrick and Abrahamson, 1995).

From an information-processing perspective, the task environment provides various levels of information based on the task the firm faces. For example, turbulent environments provide a mass of information for firms' executives to consider. The more turbulent the environment is, the more the managerial work is varied and fragmented, and the more information processing is necessary for executives (Daft *et al.*, 1988). In contrast, in a steady or stable environment, the same bank of information and interpretation is not needed as stable industries provide more routine work and standardised activities. Consequently, some researchers have studied the impact of the industry nature (turbulent versus stable) on TMT characteristics, specifically CEO dominance and TMT size. Haleblian and Finkelstein (1993) found that CEO dominance leads to poor performance in turbulent industries (excluding the computer industry) as opposed to stable ones, and that the larger the TMT size, the greater the information-processing capabilities it has, which leads to better performance in turbulent industries. Apart from their findings that mainly relate to the TMT features, they argued that turbulent industries or environments and discretion operate in a complementary manner to each other (Haleblian and Finkelstein, 1993). In other words, volatile industries are characterised by being highly fluctuating in terms of advertising, R&D intensity, growth, demand, degree of regulations etc. (Hambrick and Finkelstein, 1987). Thus, such kinds of atmosphere give executives a wider array of actions to foresee, meaning higher discretion compared to stable environments in which actions are mainly restricted to a very limited range of activities. Additionally, Finkelstein and Hambrick (1990) noted that TMT attributes might not influence firms' outcomes in low-discretion contexts. Therefore, turbulent and stable environments as industry dimensions provide different levels of managerial discretion.

As previously discussed in an earlier sub-chapter (3.1), commitment to the status quo (CSQ) is one of the individual factors that executives possess that influence their discretion. CSQ has been found to have a negative relationship with managerial discretion. Particularly, scholars have focused on the organisational and individual determinants of the CSQ such as hierarchical position, long tenure and knowledge about alternatives etc. (e.g. Miller, 1991; Hambrick *et al.*, 1993). Few have looked at the industry determinants that affect CSQ, which in turn shape managerial discretion. Industry norms have a greater role in influencing managerial practices and their psychological base (Hambrick *et al.*, 1993). Spender (1989) argued that there exists an increased similarity across companies operating in the same industry and labelled such homogeneity as ‘industry recipes’. Those recipes are generally the common frames of knowledge (Hambrick, 1989), which most firms possess within an industry and accordingly follow. In other words, industries are described by shared or interlocking metaphors of how things work or should work; therefore, such industry knowledge has a significant impact on the individuals who lead firms in such environments and affect their way of interpretation. Following the industry recipes would therefore lead to higher convincement of organisations correctness. Thus, the greater the occupancy in such an environment, the higher the CSQ will be. In other words, industry norms or recipes or knowledge lead to lower managerial discretion. Such propositions have been empirically justified by Hambrick *et al.* (1993); they found industry tenure to be positively related to CSQ more than organisational tenure and that this relationship is more pronounced in high-discretion industries compared to low-discretion ones. In simple terms, being involved with industry norms or the social construction of reality for a long time increases the tendency of executives to foresee industry recipes. Higher-discretion industries boost such associations as opposed to low-discretion ones in which executives’ effect on their organisation is muted. However, one might argue that Hambrick *et al.*’s (1993) methodology of a mail questionnaire might not provide relevant and objective responses, as they asked executives – mainly CEOs – about various measures including company performance, perceived change and industry discretion. Although their main objective was to understand respondents’ (executives) perspective, it can be debated that when researchers are looking for a subjective reality, they need to take into consideration the cognitive and psychological base of the individual. For instance, locus of control, as one of the highly discussed and researched executive characteristics, was not considered in Hambrick *et al.*’s (1993) work, and was not even included in the list of control variables. The idea here is that internal individuals might evaluate firms in a positive manner in line with their beliefs, while externals might underestimate firms' performance, industry discretion and need for change. Therefore, within the field of managerial discretion, it is crucial to take on board various factors and employ the appropriate methodology to achieve relevant results.

From a distinct angle, managerial discretion is influenced by other industrial characteristics such as industry regulatory characteristics. Magnan and St-Onge (1997), to understand the moderating effect of managerial discretion on CEO compensation within the US commercial banking industry, found that the strategic domain of banks (service: wholesale vs. retail; geography: international/super-regional vs. domestic) along with the regulatory characteristics of the task environment impact CEO compensation. In other words, executive compensation will be linked to performance in high-discretion contexts rather than in low-discretion environments (Magnan and St-Onge, 1997). Similarly, Finkelstein and Boyd (1998) portrayed that the greater the level of managerial discretion, the more the CEO will be compensated, but this relationship will only be true when firm performance is high. Continuing in the same research vein, Finkelstein (2009) presented similar findings emphasising the importance of industry attributes in shaping managerial discretion. He used the same previous theoretical model and industry variables (advertising, R&D intensity, growth rate, demand instability, regulations, concentration and product differentiability) suggested by Hambrick and Finkelstein (1987), but the distinction is in the use of multiple industries. The findings again reinforce that the level of discretion within an industry shapes CEO compensation and contingent-performance pay, in which high-discretionary environments lead to greater CEO pay and the adoption of performance-contingent systems (Finkelstein, 2009). However, the remarkable result in this study is that market growth has been the most significant variable affecting the degree of industry discretion followed by R&D intensity (Finkelstein, 2009). This necessitates taking a closer look and identifying which industry factors mostly affect the level of discretion.

Most arguments presented in these studies are based on Hambrick and Finkelstein's (1987) industry determinants of discretion. The core concept is that industry regulations impose various constraints on organisations and thus executive (CEO) actions. Low-regulated environments provide executives with higher latitude of actions and therefore higher discretion; this in turn leads to greater CEO efficacy. Moreover, investment opportunities, which can be defined as the available opportunities within a certain industry, can also affect discretion. For instance, in industries with limited investment openings, executives will have a limited array of choices available to them to make a significant strategic contribution; this results in having lower uncertainty within the task environment. Hence, executives will be provided with low levels of discretion. On the other hand, industries with high investment opportunities are classified as having a higher growth rate and providing a wider range for market and product expansion (Hambrick and Lei, 1985). Frequent investment opportunities are classified as un-programmed decision-making (Hambrick and Abrahamson, 1995), and will result in the creation of an ample variety of actions to be taken. Identically, product differentiation enhances the latitude of actions available to business executives as in such industries the means-end linkages are not clear and are poorly understood (Hambrick and Finkelstein, 1987; Rajagopalan and Prescott, 1990). The executive job therefore becomes more complex and poses higher risks (Rajagopalan and Finkelstein, 1992).

Likewise, demand instability provides CEOs with an unpredictable atmosphere, which increases the information-processing demands and sophistication of CEOs' tasks. CEOs then have a wider array of actions to implement and subsequently greater discretion. Also, industries characterised by high capital intensity make it difficult for firms to foresee change (Ghemawat,

1991) due to the high cost associated with business processes and the focus on efficient behaviour. In such environments, executives encounter higher restraints, limiting their discretion as opposed to a more flexible industry structure in which the change is easier to execute. In fact, some have argued that in an oligopolistic market (few competitors), firms have limited strategic choices as they constrain themselves (Scherer and Ross, 1990). More competitive industries allow greater room for differentiation and provide additional options/opportunities (Hubbard and Palia, 1995), thus there is greater discretion in competitive industry structures. However, in a concentrated structure, the external forces of suppliers, buyers, etc. are limited, which allow firms to be more independent; thus, executive discretion is ambiguous. To conclude, and apart from the positive or negative effect of industry structure on discretion, the task environment structure acts as a predecessor that influences the level of managerial discretion.

Rajagopalan and Datta (1998) examined the impact of industry characteristics, particularly product differentiation, growth rate and capital intensity, on successor CEO attributes (age, tenure, functional background and education level), and assessed if such a fit is more pronounced in high-performance firms. This was carried out on a sample of US manufacturing non-diversified firms. They argued that in industries with greater product differentiation, there is clear evidence that CEO tenure is lower, their educational level is high, and that they mainly come from a non-throughput background; it was also found that the greater the industry growth, the lower the tenure and age of these executives (Rajagopalan and Datta, 1998). However, they did not find any support for their fit argument (CEO characteristics and firm performance). These findings might raise several issues and counter-arguments. For instance, their sample industry (manufacturing) is characterised by having a greater number of throughput executives due to the nature of such an industry, where core attention is on costs and having efficient business processes. Second, such industries are by default categorised as being capital-intensive due to the high fixed costs associated with establishing and running a manufacturing business. Third and most importantly, they have not adopted a managerial discretion framework, which is critical to understand the impact of CEOs on their companies' performance. If CEOs possess higher discretion, their individual characteristics will play a core role in boosting/diminishing firm performance. Also, one might argue that in their sample, the manufacturing industry is characterised by being a low-discretion context; looking to establish a relationship between CEO attributes and firm performance will therefore not be applicable due to the overall environment condition. Therefore, presenting such a discussion enhances the importance of managerial discretion in understanding various organisational business phenomena.

Datta *et al.* (2005) continued this research stream (industry impact) but took a different perspective – human resource management and work systems. Like Rajagopalan and Datta's (1998) industry characteristics and sampling (US non-diversified manufacturing firms), Datta *et al.* (2005) employed the same industry features in addition to industry dynamism (stable vs. changing). Datta *el al.* (2005) found that industry growth, capital intensity and product differentiability all play a moderating role between high performance work systems (HPWS) and productivity. This is due to the role of discretionary factors associated with each industry type, so in high capital-intensity industries that provide strategic rigidity, employing HPWS does not in fact enhance labour productivity due to the high cost associated with deviations from the core of the business. On the other hand, industries with a high growth rate and product differentiability allow more innovative activities, information processing and task complexity; therefore, adopting HPWS enhances productivity. Despite the major focus of most strategic management researchers on the upper echelons and managerial discretion, the discretion construct could be applied to employees or middle managers and would provide interesting insights. From this standpoint, high-discretion contexts (industries) provide greater task complexity, a wider range of actions, complex information processing, greater innovation and creativity. Therefore, one can argue that the adoption of HPWS, the focus of which is to enhance team information-sharing, lateral communication, skill building and broaden task roles (Datta *et al.*, 2005), will boost employees' or managers' discretion but may reduce executive discretion. Such an argument has no empirical justification but could be of interest to future researchers to consider. Regardless of the domain of analysis, it has been reaffirmed that industry characteristics have a significant influence on managerial discretion.

Moreover, within the vein of industry regulation but looking at a new industry (US airline industry), Peteraf and Reed (2007) studied the impact of industry changes – from a regulated industry to a deregulated task environment – on managerial discretion and internal fit. Their findings reconfirm the importance of industry regulations in shaping the level of managerial discretion. However, they used a sophisticated labour-economics technique to reaffirm the importance of fit and further support the contingency theory (Peteraf and Reed, 2007). In relation to managerial discretion, Peteraf and Reed (2007) looked at two managerial choices: 'operational' which relates to route, pricing, entry and exit and 'administrative' choices, which are mainly the transformation processes that shape/govern operational choices. The empirical results demonstrate that industry regulations have a significant direct effect on managerial operations choices, thus reducing managerial discretion, whereas for administrative practices the effect is not significant and shows indirect constraints (Peteraf and Reed, 2007). Such arguments are backed up by the idea that operational variables or choices are easy to be controlled by industry constraints because they are observable, whereas administrative practices are internal procedures and choices related to a firm, tacit in nature, complex and harder to imitate, which makes it harder for industry regulators to directly constrain such processes (Rivkin, 2000). Therefore, executives experiencing limited discretion in certain realms can still find a way to adapt and exercise their own latitude of actions in other less regulated arenas (Peteraf and Reed, 2007). This is consistent with Hambrick and Finkelstein's (1987) indirect suggestion that executives in limited discretion environments but higher discretion firms may discover the means to break out of their contextual constraints.

When deregulation took place, managers changed their practices; however, this was not due to the looseness of the constraints but was rather due to the emergence of new industry recipes that fit the new environmental condition (Peteraf and Reed, 2007). This again supports the contingency perspective. Likewise, another group of scholars (Goll *et al.*, 2008) studied the impact of industry transitions (regulated to deregulated) within the US airline industry. Goll *et al.* (2008) studied the impact of TMT characteristics on business strategy and firm performance in the US airline industry during the transition period between 1972-1995 and the moderating role of managerial discretion. By using Porter's (1980) strategy typology (differentiation, low cost and focus), they found that during the regulated period, TMT characteristics did not shape business strategies and consequently firm outcomes compared to the deregulated period (Goll *et al.*, 2008). During deregulation, TMT characteristics played an important role in shaping business strategy, which led to better performance. However, the drawback of their work is the ignorance of firm features in terms of size, culture, and financial capabilities along with asset intensity. They did not control for firm individual variables; thus, a counter-argument may be raised. For instance, during the transition stage from a regulated to a deregulated task environment, firms with extensive assets, large size, etc. are not easily amenable and cannot change and adjust instantly to the new industry norms. This provides lower discretion for executives and limits their innovative ability to change strategy. In other words, performance and business strategy will not be directly linked to TMT individualities. Overall, these findings re-emphasise the importance of the task environment in stimulating the degree of managerial discretion. Correspondingly, industry regulations play a core role in shaping executives discretion in which free-regulatory industries provide higher levels of discretion compared to highly regulated task environments. The idea of understanding industry characteristics is the core of the contingency theory. The internal arrangement (strategy and structure; strategy and organisation activities) and external alignment with the environment – the fit between organisational structure and environment along with matching strategy with the environmental (industry) needs (Donaldson, 2001) – are crucial for the success of a business and in accomplishing a sustainable competitive advantage (Rivkin, 2000).

As an extension of the previously discussed literature but with the employment of new types of measures (lexical commonality and lexical density via computer-assisted text analysis), Abrahamson and Hambrick (1997) studied the impact of industry characteristics, particularly ‘attentional homogeneity’ on executives’ discretion. However, before discussing their findings, it is important to understand what attentional homogeneity means. It is one of the three information-processing sequences (attention, interpretation and actions); it relates to the degree of similarity between the attention roots of executives across different firms (Abrahamson and Hambrick, 1997). Its relation to managerial discretion is seen from an attention angle. Managerial discretion itself is the latitude of action executives have and is the array of alternative options that a top manager can foresee (Hambrick and Finkelstein, 1987). That is, discretion discusses options, thus reasonably it also confers diversity in the options that managers attend to (Nelson, 1991). In other words, assuming discretion is high, it means a wider array of options. However, executives, due to their bounded rationality, only choose some options to pay attention to and ignore others. This is the importance of homogeneity in terms of which options are considered and which are discarded. As organisations within the same industry share similar norms and knowledge, the executives of these firms most probably share similar beliefs (Abrahamson and Fombrun, 1994). Thus, when industry conditions are low, executives tend to have lower homogeneity because they have the leeway to pay attention to a broader set of options; by contrast, in industries where conditions are high, executives will have higher homogeneity as they share similar beliefs with their rivals, which forces them to pay attention to the same choices as others. As an empirical support for such argument, Abrahamson and Hambrick (1997), in a study of fourteen different industries, found that industry discretion has a negative link with attentional homogeneity, i.e. when industry discretion increases, executives' attention will become less homogenous compared to their rivals within the same environment. This reinforces the above-conferred indication that industry norms, recipes, knowledge or interlocking metaphors all present significant pressure that shapes executives' discretion.

So far, the understanding of managerial discretion is based solely on Hambrick and Finkelstein's (1987) model of discretion and its determinants. Most scholars in this stream of research have focused on such a model without investigating and exploring the model itself (Boyd and Gove, 2006). Thus, there is a need to grasp how the determinants of discretion merge together and see what will happen if managerial discretion is studied independently. Accordingly, Keegan and Kabanoff (2008) worked on improving the measurement of attentional homogeneity in managerial discretion by exploring its obverse – attentional heterogeneity – as a measure of industry degree of discretion. This has been implemented by employing Abrahamson and Hambrick's (1997) lexical commonality and density measures in company letters of publicly listed firms as well as by adding a third improvement measure – the exploratory factor analysis – to produce one factor analysis (Keegan and Kabanoff, 2008).

They looked at new variables in industry debt usage and industry accounting standards and found that industry level of discretion is negatively linked to the former and that high discretion leads to adjustments in the latter (Keegan and Kabanoff, 2008). Based on the agency theory, unrestrained executives might expand the inappropriate usage of firms' cash flow for their personal benefit. Also, in constrained environments, firms tend to make intensive use of debt financing. This gives lenders more power, which in turn lowers managerial discretion. Furthermore, Spender (1989) argued that in industries where debt is crucial, industry recipes specify a suitable variety of debt structure. Hence, the deviation from industry debt usage affects the level of managerial discretion. In other words, discretion increases when firms' debt usage deviates from the industry mean (Keegan and Kabanoff, 2008). Then, it can be postulated that industry debt usage and variation in accounting standards contribute to changes in managerial discretion levels.

In the impression management research spectrum, recent studies using industry variables (market growth rate, demand instability, differentiation, R&D and advertising intensity and capital intensity) have been conducted in a new context related to the adoption of strategic noise (leaders releasing of information to influence stakeholders' reaction to manage their impression) during a material event such as CEO succession announcement (Graffin *et al.,* 2011). The findings show that strategic noise is employed when long-tenured outgoing CEOs were paid higher than other TMT members and when working in a firm with a strong share-price performance. Also, such strategic implementation takes place when the incoming CEO has not been in a CEO position previously and comes from a low-reputation company (Graffin *et al.,* 2011). In addition to that, previous analysis does not show any support for the firm level of managerial discretion as some can anticipate that high-discretion firms might employ strategic noise to lower the impact of CEO succession. This might not be attributed to internal organisation dimensions of managerial discretion. However, it might be related to industry sources. For instance, in low-discretion industries in which CEOs possess little influence on organisational outcomes, firms' outcomes are more predictable and stable, therefore announcing CEO succession will have a lesser impact on stakeholders and their reaction towards it, resulting in no adoption of strategic noise. However, there is no empirical evidence to support such a proposition; this may be an interesting area of investigation.

Moreover, additional industry characteristics have been considered to influence managerial discretion but in an inductive manner. Sener *et al.* (2011) looked at the board of directors' features and its impact on organisational performance for Turkish publicly traded companies. They found that industry characteristics – particularly munificence, dynamism and complexity (Dess and Beard, 1984) – play an important role in shaping board of director composition. In other words, in varying industries, mixed board compositions – especially outsiders and affiliated members as opposed to insiders – enhance organisational performance (Sener *et al.,* 2011). Having a mixed composition in boards of directors with a higher rate of affiliated members and outsiders brings advantages because they enrich the strategic options available to firms, help in outsourcing external resources, and bring innovative and additional choices that can be taken into consideration for better execution. Accordingly, it is possible to argue that while insiders are thought to have a negative influence on organisation outcomes in munificent and dynamic industries, and that they possess higher commitment to the status quo (low discretion) (e.g. McClelland *et al.,* 2010), munificent and dynamic industries interact in a way that limits discretion. Again, such a claim is subject to further empirical analysis to assess its relevance and applicability.

One of the topics in managerial discretion that remains understudied is the international context, particularly how managerial discretion based on industry characteristics can influence the international diversification of firms. International diversification is a complex and multi-dimensional phenomenon; however, it has only been studied from two main perspectives: international trade (e.g. Mudambi and Zahra, 2007) or organisational strategy (e.g. Chi and McGuire, 1996). As international operations or geographical expansion involves numerous risks, then executives of firms foreseeing such growth should possess an enhanced latitude of actions to execute such a strategy (Sanders and Carpenter, 1998). Thus, managerial discretion should also play an important role in the international context. Based on such a perspective, Sahaym *et al.* (2012) investigated how large and publicly traded US manufacturers implement export strategies through the lens of managerial discretion, industry innovations and uncertainty and the real options model. Real options are the source of investment opportunities that allow executives to respond in a contingent manner, in which they have the right but are not forced to take certain actions (Li and Rugman, 2007; McGrath and Nerkar, 2004). In other words, real options provide executives with flexibility in terms of strategy (Reuer and Tong, 2005), which is seen in exports. Exporting – the basis of international expansion – benefits executives through generating rent on a lower investment scale. It also gives them the opportunity to increase their scale of actions and move to an incremental level such as international joint ventures or foreign direct investment, etc. without forcing them to make huge upfront commitments. From a task environment perspective, innovative industries motivate geographical expansion since companies are persuaded to enter countries/markets in which their innovative offering can lead them to achieve competitive and comparative advantages (Anand *et al.*, 2010; Sahaym *et al.*, 2012). Similarly, industry uncertainty drives executives to adopt strategies that distribute risk outside the domestic boundaries, seek external opportunities and share investment activities (Kogut and Kulatilaka, 2001; Sahaym *et al.*, 2012). Accordingly, by combining these three perspectives, Sahaym *et al.* (2012) found that managerial discretion combined with high innovation and uncertainty motivate firms to pursue geographical expansion using export strategies. Managerial discretion has a moderating role in triggering export strategies when industries are characterised by innovation and uncertainty. Despite the absence of a causality relationship in Sahaym *et al.* (2012), one can anticipate that such industry characteristics provide greater leeway in terms of actions for executives, as most previous researchers have shown (e.g. Haleblian and Finkelstein, 1993; Finkelstein and Boyd, 1998; Datta *et al.,* 2005; Finkelstein, 2009). Therefore, innovation and uncertainty lead to greater discretion, which in turn results in pursuing geographical expansion, particularly export strategies.

Moving forward, Hambrick and Quigley (2014) introduced a new analytical method to study the overall effect of CEOs on firms' performance along with understanding/examining the latitude of this effect in a sub-sample of high-, medium- and low-discretion industries based on Hambrick and Abrahamson's (1995) industry classifications. They used industry variables (product differentiability, capital intensity, market growth, regulations and demand instability) but with a new method labelled 'CEO in Context (CiC)'. This new methodology redefines previously adopted measures from two perspectives: industry and firm. For industry, the amendments relate to the exclusion of the focal firm and the inclusion of all industry firms – not only the one in the data sample when calculating for industry performance (Hambrick and Quigley, 2014). For firm measurement, the CiC replaces the previous firms' dummies with controls for inherited profitability and health, as this has been shown to diminish successful individual CEO contribution e.g. IBM's CEO (Hambrick and Quigley, 2014). Following this innovative methodology, the results show that the CEO effect has been represented in higher percentages (contribution) compared to previous studies (e.g. Mackey, 2008; Lieberson and O'Connor, 1972). The new overall percentage equates to 38.5% for ROA, 46.4% for MTB and

35.5% for ROS (Hambrick and Quigley, 2014). Interestingly, Hambrick and Quigley (2014) found that the CEO effect increased as industry discretion increased. This confirms the previous findings that industry characteristics shape industry discretion but additionally illustrate that such factors lead to a higher CEO effect – in other words higher discretion.

As in the upper echelons and managerial discretion perspectives, the increased tenure of executives boosts their CSQ, leading to stable strategic moves, a lack of necessary innovative ideas, and an absence of innovation and change (e.g. Finkelstein and Hambrick, 1990; Cohen and Bailey, 1997). With increased tenure, executives become seen as 'stale in the saddle', thus emphasising the importance of occasional executive turnover, which would amplify firms' performance as they acquire new perspectives that enhance their innovative and changing actions (Miller, 1991). However, based on the human capital theory, increased and accumulated specific and valuable human capital in firms positively influences organisational effectiveness (Crook *et al.*, 2011). In simple words, increased organisation tenure among executives enhances the possibility of firms achieving competitive advantage, as those resources are viewed as intangible endowed assets with increased capability, knowledge, relationships, embedded culture, greater awareness, experience etc. where all aspects positively contribute to firm performance (Collins and Clark, 2003). However, to empirically assess the effect of TMT turnover on firm performance, Messersmith *et al.* (2013) found contradicting results. They examined and evaluated the role of industry discretion based on three task environment dimensions: munificence, instability and complexity. They found increased TMT turnover to result in lower firm performance, and that such relationships are curvilinear due to the nature of turnover (Messersmith *et al.*, 2013). Turnover is advantageous in the way that it provides better firm performance by promoting adaptability, flexibility and innovation (Hausknecht and Trevor, 2011). In contrast to the managerial discretion perspective, Messersmith *et al.* (2013) argued that industry characteristics (munificence, instability and complexity) have no moderating impact between TMT turnover and firm performance; more precisely, they found that industry munificence (growth) decreases the effect of TMT turnover on performance. Such an argument is misleading for many reasons. First, they only controlled for firm size, performance, year, CEO departure and TMT organisational tenure diversity (Messersmith *et al.,* 2013) without taking into consideration other crucial and very important factors like firm diversification, firm resources, firms' investment intensity, ownership structure and executives' individualities, which are very important enablers/restrictors of managerial discretion. Second and most importantly, they assured that TMT turnover has an impact on firm performance by proposing that they have proved, even if indirectly, that those TMTs had higher discretion levels because otherwise TMTs will have no impact on company performance (e.g. Hambrick and Finkelstein, 1987). Additionally, industry munificence and other characteristics provide greater discretion, as empirically tested by many scholars (e.g. Hambrick and Abrahamson, 1995; Finkelstein and Hambrick, 1996), therefore, the effect of TMT turnover on performance will be more pronounced in high-discretion task environments.

To summarise, this literature section has discussed and showed how industry characteristics significantly shape the degree of discretion provided to executives leading firms in these task environments.

2.2.3.1. Task Environment and Managerial Characteristics

As mentioned earlier, with the aim of broadening the scope of discretion research, some scholars have incorporated several sources of managerial discretion. Although this research stream has not provided any additional dimensions or sources of discretion, it has significantly contributed towards enhancing understanding of this phenomenon. In this section, the author discusses several studies' outcomes that were based on integrating two dimensions of discretion: task environment and executives' individualities. In this vein, Adams *et al*. (2005) worked on identifying how CEO power impacts firm performance variability and examined the role of industry discretion. They adopted Finkelstein's (1992) model of source of power (structural, ownership, expert and prestige power) and especially focused on structural power and, more precisely, CEO status of founder, CEO status as sole insider on the board, and CEO title concentration (Adams *et al.,* 2005). The results indicate that CEO power significantly impacts performance variability for both stock return and other accounting measures (ROA and Tobin's Q). However, it has been shown that not all three indicators of power possess the same effect; instead the most robust effect was the CEO status as firm founder (Adams *et al.,* 2005). Interestingly, when Adams *et al*. (2005) included industry characteristics based on Hambrick and Abrahamson's (1995) classification, they found that the effect of CEO power on performance variability is stronger in high-discretion industries as opposed to low-discretion task environments. Some might argue that high-discretion industries mechanically provide volatile performances; however, the findings emphasise that there is no significant relationship between performance variability and industry level of discretion (Adams *et al.,* 2005). This indicates that if the CEO possesses less power, then even in high-discretion industries he/she will not be able to influence firms' outcomes. Accordingly, discretion derived from the task environment characteristics and executives' characteristics has a stronger positive relationship between each other and both act to influence organisations' outcomes.

From a distinct angle, McClelland *et al*. (2010) investigated the impact of CEO CSQ on firm future performance. Despite reporting the findings of this study in one of the preceding sections (managerial characteristics and task environment), it is important to reintroduce it here in more depth as it integrates several dimensions that affect discretion. As noted earlier, older CEOs and CEOs with increased position tenure have a positive relationship with CSQ

(McClelland *et al.,* 2010). In other words, as they get older, executives become more risk-averse, inflexible, rigid and resistant to change (Wiersema and Bantel, 1992). Also, when CEOs stay in their position for a long time, they become more embedded within the organisational culture and strongly believe in the accuracy of past strategies and recipes (Hambrick *et al.,* 1993), which will result in low innovation (Wu *et al.,* 2005; Simsek, 2007) and decrease the propensity to strategic change (Henderson *et al.,* 2006; Miller, 1991). However, based on the classification of Hambrick and Abrahamson (1995), McClelland *et al.* (2010) found more interesting results. They argued that CSQ is negatively related to future firm performance in high-discretion industries but that it is positively associated with future firm performance in low-discretion industries. In other words, in high-discretion industries, firms run by older and long-tenured CEOs that have a high degree of CSQ suffer from decreasing or deteriorating performance. Firms run by CEOs with the same characteristics but in low-discretion industries enjoy a better performance. This is simply because in low-discretion industries, where the environment is stable and the change margin is very limited, CEOs cannot alter their firms' strategies and practices due to the high cost associated with such changes, which might lead to impaired performance (Hannan and Freeman, 1984; Henderson *et al.,* 2006). In contrast, in high-discretion industries where change can be rapid and products and services are developed continuously, CEOs who discard such events will miss the competitive wave and would struggle to recover easily, hence causing reduced performance. As a real-life illustration, Blackberry has failed to compete within the smartphone industry, which is considered a high discretionary type of task environment. After the launch of the first iPhone, Blackberry's CEO said in a statement: "it's kind of a new entrant into an already very busy space… but in terms of a sea-change for Blackberry, I would think that's overstating it" (Balsillie, 2007). After that, the company did not implement any strategic actions to respond to the external industry changes; hence from such standpoint, it clearly looks as if Blackberry's CEO had a high level of belief in the company's strategic correctness (high CSQ), which indeed resulted in 'killing' the company and removing it from the competition. Therefore, it can be concluded that having higher CSQ will stabilise/enhance firm performance based on the industry discretion levels. Overall, individual characteristics along with industry attributes shape the discretionary boundaries available to executives that lead to variations in organisations' outcomes.

2.2.3.2. Task Environment and Internal Organisation

Another combination of discretion dimensions is the examination of the characteristics of both the task environment and the internal organisation. In this vein, Finkelstein and Hambrick (1990) demonstrated the important moderating role of organisational and industry discretion levels on TMT individuality (tenure) and its influence on organisational outcomes. They focused on TMT tenure in the organisation, industry discretion as per Hambrick and Finkelstein's (1987) measures, organisational discretion based on resource slack and firm size, in addition to firms' outcomes as strategic persistence and conformity to industry average along with performance conformity (Finkelstein and Hambrick, 1990). The results show that TMT tenure has a positive relationship with firms' strategic persistence and conformity along with performance conformity with industry (Finkelstein and Hambrick, 1990). In other words, firms led by long-tenure TMT follow a persistent strategy that conforms to industry mainline strategies (imitating competitors), which results in having a performance very close to the industry average. This is simply because long tenure increases TMT CSQ and limits information processing, which reduces the tendency to adopt novel and innovative strategies, along with making executives more risk-averse and resistant to change. However, these findings are not generalisable to every context, neither organisations nor industries, as Finkelstein and Hambrick (1990) showed that TMT tenure has a significant impact on firms' outcomes in the computer industry (high discretion task environment) compared with gas distribution and chemical industries (more restricted/regulated industries). Also, TMT tenure has a larger effect on small-firms' outcomes and firms that have high slack as opposed to a lower effect on large firms with low resource slack (Finkelstein and Hambrick, 1990). Therefore, in high-discretion industries and organisations, TMT tenure has a larger influence on firms' outcomes, showing the crucial moderating role of industry and organisational discretion between TMT tenure and organisations' consequences.

In a distinct vein, Rajagopalan and Finkelstein (1992) looked at executives' – particularly CEOs' – compensation system and its relationship with two dimensions of discretion: internal organisation based on Miles and Snow (1978), strategic orientation classification (Prospectors, Defenders, Analysers and Reactors) and task environment based on regulatory factors. Their study examined how US electric utility firms reacted to industry regulation events. The findings show that the task environment and strategic orientation of firms play a critical role in defining executives' compensation system in terms of amount, type and proportion of cash compensation paid (Rajagopalan and Finkelstein, 1992). Correspondingly, organisations that adopt a more discretionary (prospector as opposed to defender; defender as opposed reactor) strategic orientation that operate in an uncertain changing environment offer higher compensation pay, which is mainly based on performance and in the form of incentives and option plans (Rajagopalan and Finkelstein, 1992). Accordingly, strategic orientation, as a characteristic of internal organisation, along with deregulated task environments (high multiple option, ambiguity of means-ends effect, outcome uncertainty and low behaviour programmability) create greater discretionary atmospheres that provide higher pay in CEO compensation plans that are more outcome-based and offer a larger proportion of cash.

Furthermore, in a study related to the impact of CEOs on technological innovation (TI) in Greek publicly listed companies, Papadakis and Bourantas (1998) found that CEO characteristics impact firms' TI; however, the organisational and industry factors were more pronounced as opposed to those individualities in all the innovative strategies except for new product innovations. The results suggest that environmental dynamism (industry factor), firm structure, particularly organic structure (organisational factor), low formalisation and centralisation (organisational factor), professional knowledge or the use of external consultants (organisational factor), firms' information-processing capabilities (organisational factor) and companies' analytical/rational decision-making processes (organisational factor) all have a significant and positive impact on firms' technological innovation (Papadakis and Bourantas, 1998). In contrast, CEO characteristics are mainly personality factors, which include: CEO need for achievement and CEO tendency to support/enhance their organisation's goals for reputation and power; these factors have a positive impact on firms' adoption of innovative strategies (Papadakis and Bourantas, 1998). However, surprisingly there was no support for the demographic aspects of CEOs (tenure and formal education). This might be due to sampling issues where in their sample, CEOs worked in their organisations on average for around 17 years, which is a long tenure. Leading to increased commitment to the status quo and a lower ability to change, the findings might be mixed. Apart from that, Papadakis and Bourantas' (1998) study strengthens the importance of the internal organisational and industry in shaping the level of discretion provided to CEOs.

Moreover, in organisations where slack is high and they do not suffer from increased debt structure, CEOs will have a greater impact on their firms' outcomes (Wasserman *et al.*, 2010). Wasserman *et al.* (2010) debated that in industries with numerous opportunities, CEOs are not time-constrained in terms of selecting a relevant opportunity. That means that CEOs can take advantage of another opportunity afterwards, as there exists an abundant set of choices. However, in industries where opportunities are scarce, CEOs are time-constrained and should select an opportunity instantly to avoid losing it to rivals. This argument is related to the industry growth rate, as Wasserman *et al*. (2010) suggested that growing industries provide a larger array of available opportunities, so missing an opportunity will have a lower impact on firm performance. Hence, scarcity of opportunities leads to a higher CEO effect, meaning higher discretion. However, the drawback of Wasserman *et al*.'s (2010) study may be related to the ignorance of other factors (e.g. CEO individualities), which could influence the CEO effect as well. Although these findings could be imperfect, it should be clarified that discretion is not only about the effect of executives on company performance but is also related to the range of actions available that are indeed considered acceptable by other stakeholders (Hambrick and Finkelstein, 1987). Therefore, in industries with scarce opportunities or those labelled by Wasserman *et al*. (2010) as "Impact Industries", CEOs will only have a limited number of actions to execute, which might not fall within the "zone of acceptance" of stakeholders. Such task environments provide CEOs with low discretion levels.

In a distinct investigation of industry and organisational characteristics and their effect on managerial discretion, Hambrick *et al*. (2005) looked at the determinants of managerial discretion based on DiMaggio and Powell's (1983) isomorphic pressures. DiMaggio and Powell (1983) identified six dimensions (goal ambiguity, industry structure, role of the state, organisational resource dependency, legitimate models and managerial backgrounds) that increase isomorphism within an industry. Organisations operating in similar environments are subject to isomorphic pressures – either coercive (forced), mimetic (copying others) or normative (professionalism of decision makers) – that make them homogenous in their strategy and structure (DiMaggio and Powell, 1983). They viewed isomorphic pressures and the homogenisation of operations as having similar positive directions. That means that when isomorphism increases, homogenisation across firms increases as well. Although, Hambrick *et al*. (2005) departed from the same perspective, they argued that isomorphism and homogenisation/heterogeneity do not share a similar direction. Instead, if isomorphic pressures diminish, then heterogeneity among firms operating in the same industry increases. This has been backed up by the observation of the changes that had happened in the American steel industry between 1980 and 2000. Hambrick *et al*. (2005) adopted the same dimensions and found that during this period the steel industry has seen: a decrease in goal ambiguity, the industry becoming less structured (more players), a decrease in the role of the state (deregulation), organisations broadening their resource dependence (engaging in international JVs), alternative legitimate models being created and managerial background becoming more diverse. These changes have contributed to an increased intra-industry variety and heterogeneity among firms operating in the steel industry. Also, to make things clearer, Hambrick *et al*. (2005) enlarged that sample of observations to an additional 18 industries and found a similar variety and heterogeneity. Therefore, increased industry heterogeneity and intra-industry variety result in greater discretion. Similarly, organisations facing low isomorphic pressures – those that are not dependent on a small number of entities as resources and with a more diverse structure – will provide greater discretion to their executives. Despite providing such theoretical opinions on isomorphism as a determinant of managerial discretion (Hambrick *et al.*, 2005), those arguments still need to be empirically tested and proven to be sufficient.

2.2.4. National Institutional Environment: The Research Gap

As discussed in the preceding sections, most research into managerial discretion has focused on the three dimensions (individual, internal organisation and task environment or industry) that were initially proposed by Hambrick and Finkelstein (1987), apart from several studies combining some of these dimensions. It has been almost four decades since the seminal work of Hambrick and Finkelstein (1987) without any efforts to develop a new dimension or substantially develop the theory. No studies had looked at the institutional national factors that represent the macro level of the environment and its impact on managerial discretion until Crossland and Hambrick's (2007) notable work on how the CEO effect differs across countries. Moreover, there are a few other studies that have incorporated the institutional environment within the discretion framework (e.g. Gedajlovic and Shapiro, 1998; Makhija and Stewart, 2002) but that was not a straightforward investigation, as will be shown in the discussion below. In general, the core role of institutions within a certain environment is to establish a stable, consistent and accepted structure for human interactions (North, 1990; Williamson, 2000). In doing so, depending on the degree of these institutions, some actions might be acceptable and others as not. Therefore, the latitude of executives' actions along with their array of available choices might be weakened or strengthened based on the institutional environment characteristics.

Earlier studies in relation to corporate governance have shown that countries differ significantly between each other in terms of their institutional contexts (e.g. Roe, 1993; Charkham, 1994; Rao and Lee-Sing, 1996). However, this literature has concentrated on specific contexts – mainly the US, UK, France, Germany, Canada, Japan, etc. which fall under the developed countries umbrella. This has generated two divisions: Anglo American, which includes the US and the UK, and non-Anglo American clusters. The first division is characterised by: passive shareholders, active markets emphasising corporate control, and boards of directors that are not independent from management (some TMT members participate in corporate boards). The latter category, which includes Continental Europe and

Japan, is more connected with shareholders that constantly interfere in major decision-making, independent boards of directors and limited markets for corporate control (Gedajlovic and Shapiro, 1998). The manifestation of managerial discretion is related to two agency problems that affect the effectiveness of corporate governance. Initially, executives may engage in short-term cost-intensification activities to enhance their perk incomes or to provide other sources of compensation (e.g. Jensen and Meckling, 1976). Another manifestation is associated with executives who pamper their needs for status, prestige and power. In such cases, executives will work in a long-term fashion to increase organisation size and growth but not to enhance shareholder profit, which is the core of corporate governance. These two managerial discretion appearances can be labelled as cost-augmentation and self-strategising (Gedajlovic and Shapiro, 1998). Therefore, when corporate governance limits corporate control as per its structure, emphasises shareholder profit maximization and works to accomplish such objectives, it exerts strong control over TMTs, which effectively reduces their latitude of action. Such reasoning is echoed in the work of Koufopoulos *et al.*, (2010), where they demonstrated based on a sample of Greek shipping companies, that due to the corporate governance structure CEOs have greater/lower influence on most strategic decision-making processes. On the other hand, a diverse ownership structure provides more corporate control (less governance), which leads to augmented levels of discretion (Gedajlovic and Shapiro, 1998). However, some argue that even when ownership is diverged, executives are not able to pursue discretionary behaviour (Oviatt, 1988). There are other constraints that take place and act as a barrier to managers' discretionary actions (Finkelstein, 1992). Accordingly, corporate governance is one of the key factors that have a crucial role in shaping managerial discretion. Its relation to the institutional environment is that it differs between countries, so in some countries corporate governance practices might enhance discretion whereas in other countries the same practices might act in a contrary fashion. In this vein, Gedajlovic and Shapiro (1998) looked at the differences in corporate governance structure as a mediator between firms' ownership concentration and companies' profitability. They took such an angle because it has been believed that ownership concentration provides more control over executives' actions, and due to the independence of board of directors, the agency problem does not exist. In such governance structures, a function of management is to maximise shareholder profit and not follow cost-augmentation or self-strategising goals. Thus, logically ownership concentration should provide better profit levels. Empirical findings suggest that even if shareholders are dominant, internal (originated from firms' stakeholders) and external (originated from markets) constraints exert strong limitations on executives' discretion (Gedajlovic and Shapiro, 1998). Hence, institutional contexts do matter regarding the degree of discretion provided to executives. Hence, it is not only related to the task environment, internal organisational characteristics or the executive individualities. Despite Gedajlovic and Shapiro's (1998) contribution, the results do not illustrate the micro-processes that cause institutional differences between national contexts.

From another angle, Makhija and Stewart (2002) have investigated the impact of the institutional environment on managers' risk-taking behaviour. The study has been conducted on two different institutional environments that differ particularly in their government economic orientation: a free-market economy (United States) versus a centrally planned economy (Czech Republic in 1992). The findings show that in free-market economies, managers are more suited to grasp ambiguous situations, absorb uncertainty in outcomes, have the capability to process information to establish appropriate actions and seek entrepreneurial behaviour (Reed, 2001). In contrast, in centrally planned economies, outcomes are predictable or programmable by the government, uncertainty is very low, ambiguous situations do not exist and government bureaucracies are the only means of resource allocation (Kornai, 1992). Therefore, in such institutional environments, managers do not possess enough latitude of action to influence organisational outcomes. The only influence they have is procedural as opposed to their rivals in free-market economies where their accountability towards outcomes is more pronounced. In other words, the degree of managerial discretion decreases as decisions are pushed towards more formal levels, such as the state. Moreover, Makhija and Stewart (2002) found that executives in free-market economies have a greater sense of power towards decision outcomes, are more comfortable with uncertainty and ambiguity and perceive more outcome accountability compared with their rivals in centrally planned economies. Such characteristics (except organisational accountability) lead to greater risk-taking behaviour. Accordingly, executives operating within national contexts that are featured by a free-market economy enjoy greater discretionary levels.

Crossland (2007) developed a taxonomy based on three formal (legal tradition, ownership structure and labour flexibility) institutions and one informal (culture) based on the classifications presented by North (1990) to assess the level of discretion provided by the institutional environment. Such a taxonomy presented four groups: low-discretion (e.g. Japan, Sweden), rule-discretion (e.g. France, Germany), norm-constrained (e.g. Canada, Ireland) and high-discretion countries (e.g. the UK, the US and Australia) (Crossland, 2007). Obviously, low-discretion and high-discretion countries both represent the opposite extremes of institutional environmental constraints in which the low-discretion countries exert formal and informal constraints on executives, whereas the high-discretion environments enjoy more flexibility. Remarkably, rule-constrained countries have higher formal institutional constraints but lower informal barriers, which allows greater discretion on this part. This contrasts with norm-constrained countries, which possess higher informal institutional constraints but provide weaker formal institutions, giving executives greater flexibility in terms of foreseeing their preferred actions. Such a classification clearly demonstrates that the institutional environment differs across nation-states. To reinforce such a perspective, Crossland and Hambrick (2007) studied how CEO effects (triggered by managerial discretion) vary across three countries – the US, Germany and Japan – using variance component analysis. Similarly, they adopted North's (1990) classification of informal and formal institutions and investigated the impact of national values including individualism and uncertainty avoidance, which represent culture (informal institutions), along with corporate ownership structure and board governance, which represent the legal corporate system of public companies (formal institutions). Cultural values impose strong effects on individuals' behaviour and perspectives (Huang and Van De Vliert, 2003). Thus, executives operating in national environments with different cultural values are subject to fluctuating influences (Davis *et al.,* 1997). Here, there is a distinction between individualism (countries encouraging idiosyncratic behaviour) and collectivism (countries encouraging consensus behaviour). In an individualistic environment, stakeholders tolerate idiosyncratic behaviour from executives (Crossland and Hambrick, 2007). However, collective societies exert strong constraints on executives' actions, and only allow for consensus-based behaviour or decisions (Smith *et al.,* 1996; Hofstede, 2001). Based on Hofstede's (1980) original data classification of cultural values, Crossland and Hambrick (2007) argued that the US is ranked first on the individualism scale and last on the uncertainty avoidance scale compared to Germany and Japan. Thus, executives operating in the US have more discretion compared to their rivals in Germany and Japan (Crossland and Hambrick, 2007).

Moreover, when it comes to corporate ownership, most publicly owned US firms do not have a sole shareholder with a high stake in the company (Useem, 1993; Lee and O'Neill, 2003). By contrast, firms in Germany have more concentrated ownership in which major banks hold much of companies' stakes (Roe, 1993; Dore, 2005). In a similar fashion, Japanese firms' ownership structure is heavily reliant on business groups ('*Keiretsu'*) which exert significant constraints on executives' actions, including choice of products, suppliers, customers, resources, market entry, etc. in addition to the existence of sole shareholders owning the largest stake in the organisation (La Porta *et al.*, 1999; Kim *et al.*, 2004). Hence, when ownership is dispersed, executives tend to have greater discretion and owners have a lower influence on them (Jensen and Meckling, 1976), leading to a higher CEO effect (Crossland and Hambrick, 2007).

In terms of the board of governance, CEOs in the US enjoy a strong influence on board nomination (Lorsch and MacIver, 1989). Majority of them have dual status (also being chair of the board), which means exerting more power on board decisions (Finkelstein and D'Aveni, 1994). In contrast, Japanese boards have a ceremonial role (Ahmadjian, 2003); however, due to the existence of strong business groups and a collectivistic orientation, which force executives to take consensus-based outcomes, executives have less leeway over organisational outcomes (Charkham, 1994). Conversely in Germany, board composition is very intense. There are two types of board in the country: managerial, including executives, and supervisory (Gorton and Schmid, 1996). The first has nothing to do with major decisions but the latter is comprised of bank agents, debt holders, shareholders and employee representatives possessing greater power and exercising stronger constraints, limiting executives' actions (Dore, 2005). Accordingly, and based on the arguments mentioned above, Crossland and Hambrick (2007) found that executives' discretion varies between the US, Germany and Japan whereby in the US executives enjoy more discretion than their peers in Germany and Japan. This argument has been shown through CEOs' effects on performance variance using two accounting measures (ROA and ROS) and two market-based measures (sales growth and MTB).

Crossland (2009) empirically demonstrated the validity of the managerial discretion construct previously presented in Crossland and Hambrick (2007). He argued that country norms such as unpredictability and autonomous actions along with the flexibility of a country's employer relationships and legal origins have a strong impact on shaping CEOs' discretion (Crossland, 2009). When countries or societies promote individualistic values, and encourage unilateral behaviour, CEOs will be able and encouraged to use their idiosyncrasy to affect organisational outcomes. Similarly, norms that tolerate unpredictability in terms of uncertainty associated with certain actions provide executives with a wider array of accepted options, hence greater discretion (Crossland, 2009). The legal tradition (common vs. civil law tradition) has demonstrated itself as a major formal institution that affects executives' discretion as well. More precisely, the civil law legal origin, which promotes collective behaviour, helps to reduce executives' latitude of actions as opposed to the common law which emphasises ends-based orientation (Shen and Cho, 2005) (achieving shareholders' objectives without focusing on the means implemented in doing so), which gives greater leeway to CEOs (Crossland, 2009; Crossland, 2007). In relation to employer flexibility, if non-economic factors (legislation, contracts etc.) dictate employee-employer relationships, then less employer flexibility results in low managerial discretion (Crossland, 2009). The findings re-emphasise the prominence of national institutions, which differs between countries in restraining or empowering CEOs' discretion. Another illustration of 15 countries showed how the US provides a greater discretionary environment as opposed to South Korea and Japan (Crossland, 2009).

Despite the influential attempt presented in Crossland and Hambrick (2007), the study has identified the influence of national institutions on CEO discretion through the lens of the antecedents of managerial discretion (CEO effect). However, they have not taken into consideration a direct assessment of the discretion levels, which meant that the findings were not empirically valid. Accordingly, these authors in a recent and more developed study covering the same concept enlarged their sample of countries to 15 (European, North American, Australia, Asian countries), used a direct measure of discretion through international equity fund managers scores in which they have been validated using a panel of cross-cultural and international management scholars, and included additional national institutional (informal) factors (cultural looseness, power distance) (Crossland and Hambrick, 2011). The findings reinforce the importance of national institutions in shaping executives' discretion. In countries where there is more individualism, uncertainty tolerance, cultural looseness, dispersed firm ownership, common-law origin, and employer flexibility, CEOs enjoy higher levels of discretion, by which they strongly affect their firms' performance (Crossland and Hambrick, 2011). However, power distance, as an informal institution, did not exhibit a positive relation with discretion (Crossland and Hambrick, 2011). This might be the case, since in some countries, even if they have low discretion, leaders might be given an elevated status, which widens the distance between members of society. Such a proposition is supported by Rose and Kavanagh's (1976) example that in constitutional monarchies, people closely working with this class are given very little freedom in terms of their actions but are afforded great respect. Although the findings did not support power distance, the remaining national institutions were strongly evident (Crossland and Hambrick, 2011). The remarkable contribution that Crossland and Hambrick (2011) made was departing from informal and formal institutional classifications to a broader societal orientation. Due to the high correlation between those national institutions along with the interconnectedness of institutions (Scott, 2001) and their complementarity (Hall and Soskice, 2001), Crossland and Hambrick (2011) developed two categories: 'risk orientation', which includes uncertainty tolerance, legal origin, and ownership dispersion and employer flexibility; and 'autonomy orientation', which includes individualism and cultural looseness. Therefore, the full array of institutions, which form a coherent whole, along with other organisational phenomena, influence executives' discretion (Crossland and Hambrick, 2011; Peng *et al.*, 2008). Therefore, risk and autonomy-oriented countries provide an appropriate field for executives to take idiosyncratic and bold actions (greater discretion).

The national level of managerial discretion – an under-discovered field of research in strategic management in terms of its implications on firms' outcomes and executives' actions – continues to attract researchers to investigate various organisational phenomena in depth. In their attempt to do so, some researchers have looked at the impact of national discretion levels on CEO dismissal in several countries (15 countries based on Crossland and Hambrick's (2011) sample) (Crossland and Chen, 2013). Although previous research has found a negative relationship between poor firm performance (stock price decrease) and CEO dismissal (e.g. Martin and McConnell, 1991; Brickley, 2003), no researchers have yet looked at comprehensive, cross-cultural or multi-country CEO dismissal (Crossland and Chen, 2013). By combining agency theory, which views weak or poor company performance as being respectively associated with poor executive (CEOs) performance (Dahya *et al.*, 2002), and the corporate governance perspective, which sees poor firm performance as related to ownership structure – particularly concentrated structures and the existence of outside directors – Crossland and Chen (2013) argue that CEO dismissal is more related to the national level of managerial discretion provided by each country. Additionally, they found that CEO-board power asymmetry, differences in countries in terms of firm performance measures (the information implications of those measures) and the availability of a developed executive labour market also have a strong relationship with CEO dismissal. The executive labour market is a distinct type of market compared to the normal labour force. It is less globalised and consists of national talent pools. In a strongly selective executive labour market, the number of available qualified and skilled executives is an important element to take into consideration when boards decide to dismiss an incumbent CEO. This provides a restricted range of replacements available to the board, thus it is crucial that the board is aware of the existence of equivalently skilled alternative executives (DiNardo *et al.,* 1996). Hence, poor firm performance would be less negatively related to CEO dismissal in countries where the executive labour market is under-developed (Crossland and Chen, 2013). In terms of firm performance measures and its fluctuation from one country to another, Crossland and Chen (2013) divided the focus into two different types of measures: market-based and accounting-based. Market-based measures, mainly stock returns, function in line with new market information (external) and new firm information (internal) (Morck *et al.,* 2000). When a group of stock movements changes in the same direction, such market-based measures are less a function of firm-specific information and more so reflect the market information. Therefore, when such phenomena occur, the changes in stock return are not informative indicators of companies' internal performance (Lel and Miller, 2008). In this case, a board would be reluctant to dismiss the incumbent CEO; therefore, the association between market-based performance and CEO dismissal will be more negatively related in countries where the stock price information is high (Crossland and Chen, 2013). On the other hand, in terms of accounting-based measures, CEOs can alter financial reports (Dechow *et al.,* 1995; Healy and Wahlen, 1999), particularly in countries where standardised financial reporting policies are absent. This is what Crossland and Chen (2013) labelled as 'earnings management'; they found that when earnings management is exercised in some national contexts, CEO dismissal would be less negatively related to poor firm performance.

Furthermore, ownership structure, based on agency theory, is a crucial prediction of power distribution among corporate decision-makers (Jensen and Meckling, 1976). As claimed by Crossland and Hambrick (2007), they expect dispersed ownership to provide CEOs with greater power over the board and concentrated ownership to act oppositely. Recalling previous studies' findings that countries differ in their formal institutions – particularly ownership structure whereby some are concentrated like Germany and Japan and others are more dispersed like the UK and the US (La Porta *et al.,* 1999; Gedajlovic and Shapiro, 1998; Aguilera and Jackson, 2003; Crossland and Hambrick, 2007) – CEOs in a dispersed ownership structure possess greater power over boards, which leads to lower CEO dismissal. However, Crossland and Chen's (2013) findings suggest the opposite. CEO dismissal is not negatively related to poor firm performance in countries where ownership is dispersed. This might be explained by the greater discretion available to CEOs in such contexts, which gives them more accountability and responsibility over their actions and consequently their firm performance. In that case, stakeholders observe CEOs as being personally responsible for good or bad firm performance. The interaction between those two discretion mechanisms – 'power-enhancing' and 'non-power enhancing', demand volatility and national culture (Finkelstein and Boyd, 1998; Crossland and Hambrick, 2011) – have reduced the relationship between CEO dismissal and poor firm performance. Apart from that, an important result shown in Crossland and Chen (2013) is that different countries, due to changes in the level of discretion provided to CEOs, will behave differently when it comes to CEO dismissal in relation to poor firm performance. In other words, CEO dismissal would be more pronounced and negatively related to poor firm performance in countries where managerial discretion is high (Crossland and Chen, 2013). Again, these findings show the importance of managerial discretion, particularly at the national level, in explaining various strategic management and organisational phenomena.

Apart from the effect of national culture and managerial discretion on firms' outcomes in the strategic management field, researchers have used national culture along with managerial discretion to explain other management phenomena such as strategic humane resources. Rabl *et al*. (2014) investigated the relationship between High Performance Work Systems (HPWS) and business performance through the lens of national culture and managerial discretion. Before discussing their findings, it is important to understand the concept of HPWS in strategic HR. High performance work systems are mainly HR practices that are designed to enhance business performance through the use of motivation, employees' contribution to and engagement in business processes, enhancing employees' abilities, performance pay, selective staffing, investing in training and development programmes and employee participation in decisions (e.g. Boxall and Purcell, 2003; Combs *et al.*, 2006). The importance of HPWS is that it enhances firms' performance (e.g. Datta *et al.*, 2005; Combs *et al.*, 2006; Jiang *et al.*, 2012). However, these findings were uncovered using single-country analysis without taking into consideration the differences between national cultures across countries, which might otherwise lead to different results as the fit of such HR strategies is not common to all national contexts (e.g. Aycan *et al.*, 2000; Stavrou *et al.*, 2010).

An unanswered question that remains the key focus of scholars in the field of management is whether national culture moderates the effectiveness of management practices (Kirkman *et al.*, 2006), in this case the HPWS. As noted by Hofstede (1993), management practices and theories do not work internationally and stop at national borders. He reinforces his view as a response to the debate around standardised and localised practices by saying that "for best results, a multinational's management practices should fit the local culture" (Hofstede, 2001: 441-442). Keeping this argument in mind, Rabl *et al*. (2014) adopted the national culture difference framework based on House *et al*. (2004) along with two aspects of managerial discretion: cultural looseness-tightness (Gelfand *et al.*, 2006) and institutional flexibility in terms of legal origin and labour market flexibility, based on Crossland and Hambrick (2011). They found a positive relationship between HPWS and business performance regardless of the constraints associated with national cultures, and a more positive association when countries are characterised by tight culture (Rabl *et al.*, 2014). These findings can be related to the lower impact of informal institutions compared to formal ones, which are crucial for firm legitimacy. Therefore, companies can sometimes deviate from informal institutions, particularly in HR practices, because if they conform to the formal constraints then their behaviour will continue to be legal and legitimate. Interestingly, Rabl *et al*. (2014) argue that in tight cultures, the link between HPWS and business performance is positive. Such a link is more positive in countries with low power distance, low collectivism and high performance orientation. This is reasonably true as high performance orientation will lead to the employment of practices that enhance performance. In low power distance nations, hierarchy and seniority are not regarded as important and selection is based on skills and performance (Aycan, 2005). However, such societies do not tolerate differentiation between individuals as the HPWS does when it comes to performing selective staffing. In terms of low collectivism countries, as stated in Crossland and Hambrick (2007, 2011), countries with low collective behaviour (high individualism) provide higher discretion to executives, therefore implementing idiosyncratic strategies. Hence, the adoption and implementation of HPWS is not seen as objectionable and in this sense, there are no constraints exerted by the institutional environment. To conclude, managerial discretion is not only effective, and moderate organisational outcomes in the pure strategic management field but also in terms of HR practices and other business-related activities as well.

From the above review, several important shortcomings exist in relation to the literature on discretion. These gaps are not only found in one area (dimension) but are dispersed throughout this field. Very little research has focused on individual characteristics as antecedents of discretion. Out of the seven individual-level predecessors proposed by Hambrick and Finkelstein (1987), only locus of control (Carpenter and Golden, 1997) has received considerable attention in the literature. Other psychological micro-foundations of executives could play an important role in enhancing or constraining executives' latitude of actions. For instance, self-efficacy, which indicates executives' confidence in carrying out different tasks within their leadership roles, could also affect managerial discretion. Increased self-efficacy has been linked to improved and sustained firm performance (Gist and Mitchell, 1992; Judge *et al.*, 2002). Also, increased firm performance leads to enhanced executive self-efficacy (Lindsley *et al.*, 1995). Therefore, such a construct could play a crucial role in enhancing executives perceived discretion. Other individual-level antecedents are anticipated to have a significant effect on discretion, such as CEO confidence. Confident executives tend to venture into a greater variety of projects (Malmendier and Tate, 2005), hence such individuality will likely increase executives' awareness of a greater array of actions, leading to enhanced discretion. Accordingly, this failure to address other important individual-level antecedents has resulted in development and understanding of managerial discretion being constrained.

Second, the organisational-level antecedents of discretion lack new discoveries. In this vein, several internal composites were operationalised as having an important effect on discretion such as: resources, slack, organisational culture and powerful inside forces. However, the extensive application of firm performance as an outcome of discretion has dominated the organisational dimension. However, an alternative causal relationship would also be applicable. For instance, poor firm performance might increase shareholders' or boards' monitoring and control, which will constrain CEO actions. Thus, such an inverse relationship could also lead to lower levels of discretion. It is important for researchers to reconsider the organisational dimension and to try to establish causal relationships between various organisational factors that may play an important role in shaping executives' latitude of actions.

Third and most importantly, task environment, which constitutes the most extensive enquiry within the discretion literature, has only been covered from the industry paradigm. Industrial factors (e.g. market growth, regulations, demand instability, etc.) are not the sole antecedents present in the task environment. The environment in which firms operate also covers the institutional or national sphere. Despite Crossland and Hambrick's (2007, 2011) attempts, which added an important new line of enquiry, considerable opportunities still exist to investigate the country-level characters that could affect executives' discretion. As previously mentioned, this specific gap in the research is the core focus of this thesis and the area most relevant to it. National environments possess various factors that could play a significant role in shaping executives' discretion. Very little work has studied the relationship between a confined domain of leadership (e.g. CEO discretion) and other national-level factors. This study incorporates such considerations by empirically integrating the effect of broader informal institutions and cultural practices on CEO discretion. Such an attempt helps to compensate for the dearth of research and would likely broaden our understanding in relation to the national environment of discretion. It is also important to note that discretion research has strongly focused on US and Western contexts; however, following the cross-cultural logic, culturally distant countries/collectives might not recognise, appreciate or validate the effect of national institutions on executives' discretion. Thus, by studying an extended set of countries, the researcher is enhancing the development of the field of discretion by assessing its applicability and validity in other countries and more essentially discovering new insights. The following chapter offers answers to the questions related to why and how managerial discretion differ across countries (inter-cultural variations) by incorporating the other aspect of culture – its practices.

2.3. Consequences of Managerial Discretion

If executives do indeed matter, then their latitude of actions would significantly affect several organisational and national level outcomes. The core concept of the discretion model argues that if executives, particularly CEOs, have a greater array of alternatives and their influence on decision making is high, their effect on organisational outcomes (strategy and performance) becomes greater (Wangrow *et al.*, 2015). Using an innovative technique to capture individual CEO effects on firm performance, Hambrick and Quigley (2014) find that CEOs in high-discretion industries possess a greater effect on firm performance compared to their counterparts in moderate- and low-discretion industries. Similarly, Quigley and Hambrick (2015) assert an increased effect of CEOs on firm performance in the US – a high-discretion context (Crossland and Hambrick, 2011). However, a recent study by Fitza (2014) shows that the actual CEO effect is smaller than previous studies' estimates and that such effects are conflated with events that are outside the CEO's control, mainly related to random chance. The difference is seen in the methodology employed by scholars to estimate the CEO effect. Despite this variance, Quigley and Graffin (2016) reaffirm the significant importance of CEOs and their greater effect on firm performance. This is consistent with earlier studies that link managerial discretion to CEO power and performance variability, in which greater discretion is positively related to greater performance variability (e.g. Adams *et al.*, 2005). CEO effect has not only been examined in a single context but also across countries. Crossland and Hambrick (2007) using institutional theory find that greater CEO effect is experienced in countries where national-level constraints are absent or low. In the same vein, countries with more managerial discretion allow CEOs to have a greater effect on firm performance (Crossland and Hambrick, 2011). As such, these earlier studies provide considerable support for the notion that managerial discretion is positively related to greater CEO effect on firm performance and that discretion is the main driver for this increased effect.

Another important outcome of managerial discretion is executive compensation. Using a variety of external (task environment) and internal proxies, several studies demonstrate that more managerial discretion is positively associated with greater CEO compensation (e.g. Boyd and Salamin, 2001; Finkelstein, 2009; Finkelstein and Boyd, 1998; Rajagopalan and Finkelstein, 1992). Equally important is the discretion outcome related to firm strategic behaviour. For instance, Kim (2013) finds that discretion, derived from CEO duality, is an important driver for the likelihood of market entry. Also, discretion has been directly correlated with the degree of commitment to the status quo, in the sense that greater discretion weakens such commitment and increases the likelihood of strategic change (McClelland *et al.*, 2010). Staying in the stream of strategic change, Quigley and Hambrick (2012) empirically find that internal constraints (e.g. retention of a prior CEO on the board) reduce the degree of managerial discretion, which in turn limits the scale of strategic change. From a broader perspective, executives operating in a free-market economy, which drives higher degree of managerial discretion, engage in more risk-taking behaviour (Makhija and Stewart, 2002). Despite, these previous attempts to understand the consequences of managerial discretion, few other studies have considered and examined alternative outcomes (Wangrow *et al.*, 2015).

The author discussed in the preceding sections of the literature the various antecedents of managerial discretion, which are the factors that shape the degree of executives' latitude of actions. In this section, using the same dimensions, the author reports on studies that looked at managerial discretion's impact on various individual, firm, industry and national level outcomes. These studies used managerial discretion as an independent variable, and utilised different external and internal characteristics to assess its impact. While managerial discretion is theoretically conceptualised to directly affect several outcomes, the literature includes studies that focused on discretion as an important mediator or moderator between various independent and dependent variables. These studies will also be reported in the discussion below.

2.3.1. Individual-level Consequences

As previously stated, locus of control was found to be an important driver/hindrance of managerial discretion, with more internal executives possessing more managerial discretion as opposed to their external counterparts (Wangrow *et al.,* 2015). Such discretion antecedent leads to considerable changes in firms' strategy, environment and structure. From early work on locus of control (e.g. Shapero, 1975) to more recent conceptualisations (e.g. Dollinger *et al.,* 1997), firms led by internal executives have been found to show a greater tendency towards adopting entrepreneurial qualities and engaging in greater innovation, which makes it more likely for a firm to implement an organic organisational climate. This results in more frequent introduction of new products and services along with increased product development. The environmental and structural links with internal locus of control lies in the premises that innovative and organic firms are more likely to be attracted to and be in dynamic and heterogeneous environments (Miller *et al.,* 1982).

Miller *et al.* (1982), in a sample of Canadian firms, find that executives with internal locus of control (an important discretion driver) are more innovative and proactive. Also, internal executives, due to their perception of high discretion, engage and proceed with alliances even in mixed or negative reputation scenarios (Dollinger *et al.,* 1997). As such, discretion moderates the relationship between reputation and establishing an alliance with a less reputable partner by suppressing the negative information related to the partner's reputation. Equally important is the decision-making characteristic and propensity of executives to be open and take risky actions. Roth (1992) argues that the fit between greater risk-taking and openness in the decision making, which enhances executives' discretion, would enable firms implementing an international strategy to perform better in the global context.

On another crucial perspective, strategic conformity is an important outcome of executive ability to influence firm strategy to adhere to or deviate from the central tendency of the task environment. If executives develop a narrow repertoire of strategic alternatives, they become embedded in a strategic approach, which significantly limits their latitude of strategic actions (Finkelstein and Hambrick, 1990). Similarly, Geletkanycz and Hambrick (1997) find that executives have more intra-industry ties (within the same industry) and possess a lower degree of managerial discretion, which in turn leads to greater strategic conformity and better performance in uncertain industries. In contrast, executives with more extra-industry ties (ties outside the main organisational domain) are associated with more discretion, which results in the adoption of deviant strategies.

In a separate vein, studies show that greater levels of managerial discretion force CEOs, to a certain extent, to become more personally responsible for philanthropic activities (Wood, 1991). These philanthropic actions provide executives with the opportunity to influence their image and advance their own interests to core stakeholders (Haley, 1991). However, if firms' resources are limited, executives are not able to engage in philanthropic activities. Following such reasoning, Buchholtz *et al.* (1999) show that managerial discretion related to charitable or philanthropic contribution is an important mediator between firm resources and corporate philanthropy.

Lastly, CEO commitment to the status quo plays an important role in defining the latitude of executives' actions and its consequent outcomes. Despite being a predictor of the level of strategic change in an organisation (Hambrick *et al.*, 1993), commitment to the status quo is also suggestive of other organisational outcomes. McClelland *et al.* (2010) examined CEOs' commitment to the status quo in several industries (high, moderate and low) and found that such a cognitive construct is particularly important in high-discretion task environments (e.g. computer equipment). The relationship between commitment to the status quo and firm performance is more pronounced in high-discretion industries (McClelland *et al.*, 2010). Therefore, in high-discretion contexts, firms led by CEOs who are committed to the status quo suffer from weak future firm performance as opposed to firms operating in low-discretion domains.

2.3.2. Organisation-level Consequences

CEO compensation is another frequently studied outcome of managerial discretion. Werner and Tosi (1995) studied the effect of managerial discretion on the incentive plans and the compensation packages of managers, and found that companies with higher managerial discretion pay premium compensation packages through greater bonuses, higher salaries and long-term incentives compared to low-discretion firms. However, high-discretion companies that paid such premiums did not perform better than their counterparts, which may be related to less monitoring of the compensation process (Tosi and Gomez-Mejia, 1994). Other studies (e.g. Rajagopalan, 1996) show that to benefit from a better economic performance, firms need to align the compensation packages provided to top executives with their strategic orientation. Rajagopalan (1996) argues that firms with a prospector strategy, which provide a greater level of discretion, would perform better if the incentive plans adopted were stock-based as opposed to defender firms, which perform better when implementing cash-based incentives. This is in line with Rajagopalan and Finkelstein's (1992) findings, which assert that a company's strategic orientation has a considerable influence on executives, particularly in terms of CEO compensation. Additional support for the impact of firm strategic orientation comes from the findings of Boyd and Salamin (2001), who identify that strategic orientation affects the pay of all employees but most importantly top executives whose base pay is higher if their firms implement a change-orientation strategy, which afford greater discretion.

Also, hierarchical positions have a significant impact on tailoring reward systems for the upper echelons, where executives leading firms with greater change-orientation strategies are rewarded with higher bonuses (Boyd and Salamin, 2001). Likewise, companies with a concentrated ownership structure in non-management hands, which constrains discretion, significantly reduces the likelihood of boards adopting a golden parachute (Singh and Harianto, 1989). However, the ability of firms to make strategic change based on greater discretion is also related to the organisational structure, particularly predecessor-retention on the board. Retaining a former CEO on the board of directors is found to significantly dampen the successor CEO's discretion, which makes it harder for them to initiate more strategic change and deliver a better performance (Quigley and Hambrick, 2012).

Even in the international context, subsidiaries differ in their compensation packages for executives to the parent company. In a study of 100 subsidiaries in five countries, Roth and O'Donnell (1996) demonstrate that the lateral decentralisation of subsidiaries, which allows greater discretion, provides higher levels of incentive-based compensation plans to its executives.

Moreover, Preston and Chen (2008), by studying the discretion of important top executives in contemporary firms, found the discretion afforded to chief information officers (CIOs) to be strongly and positively related to greater IT contribution to firm performance.

Similarly, Smaltz *et al.* (2006) argue that the latitude of actions provided to executives, particularly those responsible for the IT department within an organisation, adds value to the organisation and improves its performance. From a resource-based view, the CIO is an important asset, which can be used to create business values (Karahanna and Chen, 2006). Providing more latitude of actions for such executives will therefore lead to positive performance outcomes. From the same standpoint of the resource-based view, firms with abundant resources would provide greater levels of managerial discretion, which helps to enhance firm performance (Wasserman *et al.*, 2010). Also, resources – specifically those which are intangible, such as free cash flow – would allow for greater latitude of actions and result in greater shareholder control (Campbell *et al.*, 2012). This is due to the greater information asymmetry (Harris and Raviv, 1991) and the greater challenges from a governance perspective to control and monitor these assets (Durnev and Kim, 2005), which increases the agency cost. As such, this will have an important implication on the director nomination and may signal negative market reaction (Campbell *et al.*, 2012).

Several other studies have looked at different sets of outcomes of managerial discretion. For instance, Kim (2013), in a study of US firms in the electric utilities industry, shows how managerial discretion could be an important predictor of market penetration and development. CEO duality, as an organisational proxy of managerial discretion, has a core role in increasing the likelihood of firms entering the green renewable market (Kim, 2013). This likelihood of investing in green technologies or entering the green energy market is directly associated with managerial discretion, because discretion allows executives to deal with the uncertainties and risks that result from the use of unfamiliar green technology (Murillo-Luna *et al.*, 2008).

2.3.3. Industry-level Consequences

The industry antecedent of discretion has led to several important consequences as well, which has attracted a considerable amount of scholarly attention. Like the organisational antecedent of managerial discretion, the task environment is an important determinant of executive compensation. In a sample of companies from the Fortune 1,000 list, Finkelstein and Boyd (1998) examined the main effect of industry managerial discretion on CEO pay. They find that managerial discretion – triggered by higher market growth, advertising intensity, and less regulation – has a strong positive relationship with CEO compensation. This relationship is more significant for high performers (Finkelstein and Boyd, 1998). However, due to the high industry discretion, boards of firms operating in such domains tend to construct compensation plans that reflect the possible ability of CEOs to impact firm performance; as such, the proportion of performance-contingent CEO compensation will be greater (Finkelstein, 2009). Also, the association between performance and executive compensation is stronger when discretion mediates this relationship (Magnan and St. Onge, 1997).

Another studied consequence of industry discretion is its direct effect on company performance. Hambrick and Quigley (2014) found that CEO effect on firm performance is much larger in high-discretion industries as opposed to low-discretion ones. Further support is derived from Adams *et al.* (2005) and Haleblian and Finkelstein (1993), who also empirically show that the CEO effect on firm performance is much larger in high-discretion industries. However, not all industry characteristics that drive discretion have the same positive effect on firm performance. In a study of the impact of TMT turnover on firm performance, Messersmith *et al.* (2013) argue that environmental munificence weakened the negative effect of TMT turnover on firm performance and that industry complexity and instability were found to have no relationship with performance. Contrary to the discretion literature, these findings may indicate that such high-discretionary task environments may soften the association between

TMT turnover and firm performance. Additionally, Wasserman *et al.* (2010) show that industry concentration provides companies with fewer opportunities to act, which leads to CEOs having a greater effect on firm performance measured by Tobin's Q. Likewise, CEOs operating in industries with low growth, which limits the range of opportunities available, would have a greater impact on firm performance. Despite these equivocal results, it should be taken into consideration that discretion is context-dependent (Hambrick and Finkelstein, 1987), and that this research stream focused mainly on the direct effect of the industry discretion and neglected the impact of other intervening factors or variables.

Furthermore, industry discretion has played an important signalling role for top executives, whereby executives of firms with poor performance that operate in high-discretion task environments interpret such a performance as a signal for change, which results in departing from the status quo (Hambrick *et al.,* 1993). However, this is dependent on the executive tenure, as high-tenured executives were found to be more inclined towards strategic conformity (Finkelstein and Hambrick, 1990). In contrast, Goll *et al.* (2008) show that less tenured and young executives were more lenient towards differentiation strategies which involve a greater latitude of actions. This is due to the increased innovation in firms' offerings (Papadakis and Bourantas, 1998). These findings are observed in high-discretion industries. Therefore, industry discretion was found to mediate the relationship between executive and TMT characteristics and organisations' business-level strategies.

Only a small number of studies have examined alternative industry discretion consequences. For instance, Datta *et al.* (2005) argue that industry capital intensity, product differentiation and industry growth, all of which provide more discretion, positively affect labour productivity and mediate the relationship between high-performance work systems and labour productivity. Other studies such as Datta and Rajagopalan (1998) examined the impact of industry discretion on the individualities of CEO successors and find that greater industry product differentiation leads to a higher educational level, lower organisation tenure, and greater likelihood of a non-throughput background of the successor. Greater industry growth also increases the likely age of the successor. In contrast to the normative perspective, these findings indicate that matching successor characteristics would not realise better performance.

Other industry discretion outcome that is related to executive individualities is attentional homogeneity. Abrahamson and Hambrick (1997) demonstrate that industries with greater discretion negatively affect executives' attentional homogeneity. As such, the greater the industry discretion, the higher the heterogeneity in executives' cognitions. This helps executives to pay attention to external challenges and broadens their array of actions. Also, industry discretion has important implications on executive behaviour. For instance, when industry regulations are lifted, allowing more discretion, executives become more efficient in their selection of appropriate strategies, which helps them to acquire more dynamic capabilities to achieve better adaptation to organisational change (Peteraf and Reed, 2007). Furthermore, industry level discretion was associated with less debt usage and greater accounting adjustments by firms operating in such domains (Keegan and Kabanoff, 2008). Also, the influence of industry discretion driven by innovation and uncertainty plays a crucial role in shaping the geographical diversification of sales. In this vein, Sahaym *et al.* (2012) find that industry discretion is positively related to export-driven internationalisation, which means that executives in industries that provide them with a greater latitude of actions can pursue geographic diversification via export strategies. As such, along with firm resources (e.g. innovative products) the internationalisation process is significantly influenced by managerial discretion.

2.3.4. National-level Consequences: The Research Gap

As mentioned earlier, there is a dearth of research in managerial discretion at the national level (e.g. Wangrow *et al.,* 2015). From the national-level antecedents to the consequences, studies have failed to provide deep insights into this important but under-researched dimension. This dearth of research is a surprising void giving abundant indications that the national-level framework has important implications on various business phenomena. For instance, CEO compensation, which is an important outcome of discretion (as stated in the preceding discussion), is clearly evidenced as varying across countries based on the cultural profile of a country, where some CEOs receive higher compensation packages (e.g. in the US) as opposed to others that receive less (e.g. in Japan) (Tosi and Greckhamer, 2004). Also, executive departure rates (Lucier *et al.,* 2005), board composition (Li and Harrison, 2008), stock market responses to executive actions (Lee, 1997) and CEO strategic rationales (Witt and Redding, 2009) all suggest that the national-level framework is an important dimension that can shed light not only on heterogeneity in managerial practices but also on the transferability of such practices.

As previously stated, the only consideration given to the national context in the discretion literature was Crossland and Hambrick's (2011) work on CEO discretion across countries. In addition to the national-level antecedents, managerial discretion at the national level showed important implications. Crossland and Hambrick (2011) argue that CEOs of public firms headquartered in countries with greater discretion have a greater effect on company performance compared to their counterparts in low-discretion countries. Also, discretion plays an important mediating role between national-level antecedents (cultural values) and the effect of CEOs on firm performance (Crossland and Hambrick, 2011). As such, the greater the discretion at the national level, the higher the effect of CEOs on firm performance.

Another study by Crossland and Chen (2013) presents new insights into the national level framework of managerial discretion. The findings suggest that CEO accountability is dependent on the national level of managerial discretion, in which CEOs in high-discretion countries are more accountable for poor firm performance than those in low-discretion countries (Crossland and Chen, 2013). Therefore, CEO accountability, or dismissal-performance sensitivity, is another outcome of national-level managerial discretion.

So far, these are the only studied outcomes (CEO accountability for poor firm performance and CEO effect on firm performance) of managerial discretion at the national level. The national-level framework provides a great opportunity for researchers to discover new insights and develop the theory further. Furthermore, while managerial discretion has long been related to performance, there seems to be stark controversy regarding whether greater degrees of managerial discretion are always desirable (Crossland and Hambrick, 2011). In other words, is more managerial discretion beneficial? Some theoretical propositions suggest that greater discretion may lead executives to develop managerial objectives, which is executives foreseeing actions that provide self-returns (Shen and Cho, 2005). However, that would be dependent on the individualities of each executive and their own values, which may not be generalisable across all contexts.

One of the most notable inferences of managerial discretion is its ability to determine whether executives have much leeway in terms of their organisations' outcomes. As such, discretion has long been related to explaining variance in firm performance attributable to individual CEOs (Quigley and Hambrick, 2015; Quigley and Graffin, 2016). Yet. Earlier research failed to show whether the discretion construct has a positive or negative effect on performance in general (Crossland and Hambrick, 2011). Crossland and Hambrick (2011: 815) argued that "it is important to emphasise that managerial discretion is not *per se,* necessarily good or bad, but simply refers to the latitude of actions available to executives”. Notwithstanding its implication for strategy, managerial discretion could also have other important national-level implications. As such, studies are called for to assess its implication on the national-level (Wangrow *et al.*, 2015).

The following chapter starts by establishing a theoretical model to propose several relationships between managerial discretion and its antecedents from the national-level and then discusses its implication for national-competitiveness. Along with that, the author also discusses for the mediating role that discretion could play between its national-level antecedents and consequences.

3. Antecedents and Consequences of Managerial Discretion: Research Theories and Hypotheses Development

Firms are not only subject to internal (organisation) and external (industry) constraints but also restrictions relating to their macro-environment. Organizations are faced with several macro forces that influence their operations directly or indirectly. These forces are known as institutions. Institutional concepts in general, which emerged in the 1970s, have received considerable attention in the broader management literature. Such theories suggest that firms are dependent on the environment in which they operate. Meyer (2008) classified institutional concepts into two categories: old and new institutionalism. The first deals with the idiosyncrasy of formations and sees society as a creature of bounded, purposive, and rational and rather free actors. In this category, individuals are unrestricted and rationalised social life as being delegated by the state. On the other hand, new institutionalism creates a new system in which the notion of an 'actor', which includes individuals, nation-states or organisations, symbolizes the powerful entities that have an influence on society. Apart from this distinction, different authors have defined institutions in various ways. For example, North (1991) states that institutions are humanly invented restrictions that rule or arrange political, social interaction and economic activities. In simpler words, "institutions are the rules of the game in a society" (North, 1992: 477). On the other hand, Scott (2001: 49) defines institutions as "multifaceted, durable social structures made up of symbolic elements, social activities and material recourses". Regardless of that, almost any definition portrays institutions as robust social assemblies.

Apart from the contradictory exterior position in the field of strategic management, research into institutions has been ongoing for some time in the social sciences. In political science (Wilson, 1889), sociology (Weber, 1924) and economics (Veblen, 1909), institutional research is viewed as an opposing argument favouring the universal over the local (particular), and the abstract over the concrete (Scott, 2001). The core argument of this research emphasises the importance of assessing human behaviour in terms of values, structures, relations, constraints, social beliefs and expectations. As per the distinction presented in Meyer (2008), new institutionalism – particularly that which deals with institutional economics – is the most widely used and studied domain of institutional research. It argues that the major purpose of institutions, in addition to directing human behaviour, is to reduce uncertainty (North, 1990; Coase, 1998). Social interactions between 'actors' – either individuals or organisations – within society produces complexity, which in turn ignores the expectations of those actors that do not fall within the aim of reducing uncertainty. To keep those expectations steady and reduce uncertainty, institutions exert constraints on the interactions between these entities (Nelson and Nelson, 2002). As such, organisations or individuals within a certain institutional environment are simultaneously enabled and restricted by institutions.

To give a concrete example of why institutions matter and how they differ from one country to another, even in terms of their impact on economic performance, North (1991) used the example of England's 'Golden Revolution' in 1688, as well as the Netherlands and Spain. He showed from economic history that in England, the 1688 revolution brought significant developments to the institutional framework of the country, where society moved from being controlled by the coercive power of the Crown to a parliamentary supremacy that protected property rights and wealth and eliminated government confiscation (North, 1991). Similarly, in the Netherlands, actions taken to diversify risk through techniques that avoid uncertainty, the development of a flexible government that is open to negotiation and external advice, and more structured exchange activities (North, 1991) all led to successful economic growth. By contrast, Spain, which was the greatest European power in the 16th century, has suffered a decline in its economic activities due to the focus on 'personalistic' links as being vital for economic and political activities (North, 1991). In the same vein, Coase (1998) stated that the cost of exchange, or transaction cost, is not only dependent on specialisation (division of labour) as Adam Smith argued but also on the institutional environment, which includes: social, legal and political systems, culture, education system, etc. Institutions therefore govern the performance of an economy (Coase, 1998). This historic perspective enforces the important function of institutions in lowering uncertainty. This is supported by the fact that even in previous centuries, institutions diverged from one country to another. The institutional environment also promotes economic growth along with technological advancement as it shapes transaction and production costs (North, 1991, 1992). Despite being a facilitator or supporter of economic growth, institutions can also be seen from an opposing stance. The interactions between entities within a certain society, particularly economic interactions, can be dizzyingly complex. Hence, institutions, which provide guidelines for interaction, also exert some constraints. Nelson and Nelson (2002: 269) stated that institutions are like "a paved road across a swamp" but during the process of getting across, some constraints naturally take place. In simpler words, since institutions govern socio-economic interactions, they impose constraints on entities' behaviour.

Institutional contexts vary drastically across countries, whereby national cultures are the most important institutional constraints that exert a strong influence on organisations in various ways, all falling within conforming to the national cultural model (Rabl *et al.*, 2014). Hofstede (1980: 25) defined national cultures as the "collective programing of the mind which distinguishes the members of one human group from another". National culture, through normative and institutional pressures, significantly shapes organisational actions, and acts as a moderator for management practices (Hofstede, 1993). Similarly, Huang and Van De Vliert

(2003) argue that national culture exerts significant pressure on individuals' perspectives and actions. The actions of individuals working in organisations are subject to such influence. In other words, the executives of firms operating in a country are subject to the pressures exerted by that country's national culture. As countries differ in their national culture (Hofstede, 2001; House *et al.,* 2004) so too does the degree of constraints, which vary from one country to another (Davis *et al.,* 1997). In this vein, influential cross-cultural value systems or models (e.g. Schwartz, 1994; Trompenaars and Hampden-Turner, 1998; Hofstede, 1980, 2001; House *et al.,* 2004) have emerged, each using a different methodological approach to rate cultural values in several countries. Despite the establishment of various cultural constructs, they all reinforce that those values are distinct from one place to another. Out of these, Hofstede's (1980, 2001) typology is the most seminal work within organisational science (Kirkman *et al.,* 2006). However, more recently, House *et al.* (2004) developed a new cross-cultural study that differentiates from Hofstede's work in methodological and analytical aspects. For this study, House *et al.*'s (2004) GLOBE model is employed for various reasons, which will be explained in more detail in the below methodology sub-chapter.

Moreover, theory and practice both suggest that some cultures are more distant than others (House *et al.,* 2004). Institutions play a crucial role when dealing with international business, particularly when entering a new market. Institutional theory and differences in culture between the home country of the foreign business and the new country are highly appreciated. Such a research stream is mainly seen in strategic management literature when implementing market-entry modes or strategies (e.g. Tihanyi *et al.,* 2005; Meyer *et al.,* 2009; York and Lenox, 2014; Handley and Angst, 2014). However, the important question to ask is: do such institutions also affect domestic businesses? Culture in its core meaning is the general homogeneity that characterises some groups and differentiates between them; it is a combination of institutions, norms and values that govern how societies interact or manage exchanges (Trompenaars and Hampden-Turner, 1998). Even within the same country, various groups possess distinct cultural characteristics; this means that they face different institutions (e.g. different rules in various US states). The idea of the new institutional theory, which is linked to DiMaggio and Powell (1983), focuses on the ‘taken-for-granted’ feature of institutions, which create behaviour patterns. However, such behaviours may not always have economic effectiveness (DiMaggio and Powell, 1983; Scott, 2001). Consequently, external institutions exert a meaningful influence on organisations’ actions or decision-making to the extent that they sometimes limit the range of operations available (Oliver, 1991). DiMaggio and Powell (1983), along with Scott (2001), emphasised that organisations operating in a similar institutional environment are subject to isomorphic pressures that in turn will limit their activities and make them more homogenous in terms of their structure and available actions. This is due to the coercive, normative and regulatory pressures imposed by institutions (Scott, 2001). Such isomorphic pressures are not only seen in international business but are also applicable to local businesses as well. Despite the variation in the degree of pressures, institutions are also viable when studying domestic business phenomena.

Before proceeding forward, it is important to understand the classification of institutions. North (1990) classified them into two categories: formal and informal. Informal institutions are the implicit form of institutions that are unwritten and exist outside the legal framework (Helmke and Levitsky, 2006). They provide informal constraints related to taboos, traditions, customs, sanctions and codes of conduct (North, 1991). Thus, they represent codes of behaviour, which include values and norms that shape the interactions between entities within a certain society. By contrast, formal institutions are written based on legal systems and consist of political, judicial and economic rules and contracts (North, 1990: 47). Hence, countries' governmental rules and regulations, legal systems and constitutions are all considered the fundamentals of formal institutions/constraints. The major difference between these two types of institution is that informal ones are internal and endogenous to society (Lipford and Yandle, 1997), whereas formal institutions are externally exercised on society and are hence exogenous (Mantzavinos *et al.*, 2004). Accordingly, it is difficult to measure and analyse informal institutions due to their abstract nature as opposed to formal ones; however, they are more inertial and deeply seated compared to formal institutions (Keefer and Knack, 2005). This is because in the early history of economic trade, formal institutions were not present and the 'rules of the game' were based on informal codes, as North (1991) illustrates in his example of small-scale villages, where trade was mainly governed by one's religion and social network. Therefore, informal and formal institutions are considered complementary in their relationship. In this PhD, the focus will be on informal institutions, particularly national culture as measured through a set of practices, and the type of constraints it exerts on corporate executives as per the below discussion.

3.1. Inter-Cultural Variations: Heterogeneity Across Countries

Within societies, either primitive or advanced, people have structured their relations and interactions with others based on various constraints, which they have exerted upon themselves (North, 1990). In other words, to provide structure to social interactions, people have restrained their behaviours (Colson, 1974). Taking the example of stateless societies, like the 'Nuer' or 'Tonga' tribes, order within these societies has been created through social network (Colson, 1974) despite the lack of formal rules and regulations. Not only in crude societies but also in more developed contexts have people followed informal constraints to solve any conflicts arising within their societies without resorting to legal redress (e.g. Shasta Country, California) (Ellickson, 1986). Due to a shortage of information and computational ability, those constraints play an important role in lowering human interaction costs compared to an environment without such institutions (North, 1990). Thus, these institutions are crucial constraints that shape human interactions.

Informal institutions, as stated earlier, are the “socially shared rules, usually unwritten, that are created, communicated and enforced outside official sanctioned channels” (Helmke and Levitsky, 2006: 5). Informal constraints are also considered as: elaborations, extensions and modifications of formal institutions (e.g. power of congressional committees) (Shepsle and Weingast, 1987); socially sanctioned norms of behaviour (e.g. duelling as a socially accepted means of resolving dispute between gentlemen) (Axelrod, 1986); and internally enforced codes of conducts (North, 1990). Whether within families, business activities, social relations or daily interactions with others, the supervising structure is the informal institutions (constraints) that are based on codes of conduct, conventions and norms of behaviour (North, 1990). The origins of informal institutions can be traced back to the information-spreading processes between generations and the heritage of those individuals/groups which is labelled culture, as culture is the transmission of information from one generation to the another (successor) via the imitation and teaching of values, knowledge, behaviour, etc. (Boyd and Richerson, 1985; North, 1990). The importance of informal institutions is seen in their influence on major sociological processes, including conflict-resolution mechanisms (e.g. Ellickson, 1986), risk management and manners of information exchange (North, 1990). These social constraints have been of interest to several scholars in various disciplines, such as trust (Knack and Keefer, 1997), social capital (Stiglitz, 2000; Keefer and Knack, 2005), dispute resolution (Ellickson, 1986), efficiency maximisation (Posner, 1980) and culture (DiMaggio, 1997). Although there are diversified interests in studying informal institutions, the scope and boundaries of those constraints are still somehow vague (Margolis, 1983; North, 1990). Informal institutions are also seen as an influence on various phenomena within a certain society. For instance, some economists have looked at the impact of trust on transaction cost (low trust, high transaction cost), which in turn impacts the degree of economic growth achieved (Knack and Keefer, 1997; Keefer and Knack, 2005). Scholars working in other academic fields like politics have examined the effect of corruption as a feature of low informal constraints on the formal political structure (Lauth, 2000).

Clearly, informal institutions exert considerable influence on a society's mechanisms, but what's important is in what way informal constraints affect individual behaviour. Barry *et al*. (1959) show that there is a significant relationship between social practices and subsistence economy type. Similarly, Berry (1967) reinforced these findings by using the Temne society of Sierra Leone and the Eskimos; he found that in low food-accumulation societies (Eskimo), people tend to be more individualistic, assertive and adventurous in their behaviour compared to high food-accumulation societies (Temne) where individuals rely on consensus and collective behaviour. Hence, social structure significantly impacts people's behaviour. Culture, as the basic origin of informal institutions, involves the transmission of information from one generation to another, which includes knowledge transmission to and learning by successive generations (North, 1990), along with the idea that individuals' interpretation of environmental stimuli is based on a schema or rule-based mental models (Walsh, 1995). Therefore, those institutions impact individuals' behaviour through a problem-based process, which is established upon learning, path-dependence and bounded rationality (Crossland and Hambrick, 2011). In other words, individuals' interpretation and classification of environmental stimuli using their path-dependent knowledge base act as a problem-solving function that deals with any upcoming external events (Mantzavinos *et al.,* 2004). Simply, when faced with environmental events, people rely on these mental models that have been acquired through learning to overcome or deal with the ambiguity associated with such events. This is known as ‘representational redescription’ (Clark and Karmiloff-Smith, 1993), which relates to the idea that knowledge is stored as a solution for a specific problem (Mantzavinos *et al.,* 2004). With time, because individuals have created this form of predefined and rational response, in societies those responses are the acceptable behaviour when dealing with external stimuli. Thus, responses to certain actions are positively reinforced and become schematic (Crossland and Hambrick, 2011). Since informal institutions represent codes of conduct, they also signify powerful influencers affecting individuals’ behaviour (Geletkanycz, 1997). Accordingly, due to these social codes of conduct and rules along with respective norms, social order emerges (Mantzavinos *et al.,* 2004). These social norms, which are the “shared perception of appropriate behaviour” (Miller, 1999: 1056), hold significant power that prompts people to act in a way that is acceptable to others and diverges from their personal inclinations (Miller, 1999). Evidently, informal institutions affect individuals’ behaviour.

3.1.1. Inter-Cultural Variations: Cultural Practices as Antecedents of Managerial Discretion

How do informal institutions (national culture) influence organisations and executives? “Societal cultural values and practices affect what leaders do” (House *et al.,* 2002). Since individuals form organisations, and working forces are embedded in certain societies, then informal institutions have a direct impact on organisational behaviour as well. Like normal people, executives possess an array of religious, theoretical, political, social and other values. National culture plays a crucial role in influencing managerial views, which in turn lead to different organisational responses. In other words, strategic formulation processes and outcomes are a result of cultural-value pressures (Hambrick and Brandon, 1988; Schneider, 1989). As previously stated, knowledge and beliefs are the filters through which individuals interpret environmental events; likewise, executives interpret environmental stimuli using their idiosyncratic lenses of knowledge, values, perceptions and assumptions to respond to an incident. Since “firms reflect their top managers” (Hambrick and Mason, 1984), through ‘behaviour channelling’, executives’ strategic mind-sets reside in their own socially inherited values (Hambrick and Brandon, 1988). As such, informal institutions exert social pressures on managers to align their behaviour appropriately with the environment (Van Maanen and Laurent, 1993). In their findings, Schneider and De Meyer (1991) suggested that the cultural heritage of Latin European executives exhibited a significant influence on their orientation towards environmental adjustment. In the same vein, a study of executive commitment to the status quo (CSQ) by Hambrick *et al.* (1993) illustrated that executives’ CSQ is strongly influenced and related to their own social contexts and backgrounds, which in turn significantly affects their behaviour in relation to change. By focusing solely on the national culture, using Hofstede’s (1980, 1991) typology, Geletkanycz (1997) argued that cultural values have an important impact on executives’ mentalities and act as a stronger influence compared to industrial factors (industry tenure). Precisely, he found that executives’ openness toward changing organisational strategy and leadership profiles is strongly associated with their cultural values (Geletkanycz, 1997). Therefore, the argument that societal values shape executives and organisational behaviour has been reinforced.

Moving forward, *how do informal institutions shape discretion?* Going back to the routes of managerial discretion, Hambrick and Finkelstein (1987) argued that for executives to have discretion, alternative actions available for those executives should fall within the ‘zone of acceptance’ of powerful stakeholders. This does of course depend on the relative power of these stakeholders; even if they perceive a CEO’s actions as objectionable, they may not have the power to stop them. The latter has been discussed and empirically tested by Crossland and

Hambrick (2011), who introduced a wider set of formal institutions and investigated their impact on managerial discretion. However, future studies could also consider how additional formal institutions, such as corporate governance systems of legitimacy, can impact managerial discretion across countries. One area of interest that is missing from the literature and merits more attention is national culture, which is the core of this PhD.

The first condition of Hambrick and Finkelstein (1987), which relates to actions falling within the accepted zone of powerful stakeholders, is associated with informal institutions. As formerly deliberated, institutions in general exert constraints on individual behaviour, thus when individuals' actions do not comply or fall within the usual accepted behaviour in a society, then those actions will be considered intolerable. Similarly, if executives' actions do not comply with the normal business practices used within a certain institutional environment, their behaviour will be judged as inappropriate. More than that, if executives take a course of action that does not conform to the societal norms available in the society, societal members as part of the organisation's stakeholders might interpret such behaviour as offensive and try to sanction it by exerting informal institutional constraints. However, what makes an action radical is the perceived view of radicalism that is profoundly associated with the culture that exists in each society (Crossland and Hambrick, 2011). Consequently, due to the differences in societies and their constraints, the degree of influence on executives' behaviour fluctuates. In other words, in certain societies, actions might not be considered objectionable whereas in others that have distinct informal constraints, such behaviour would be rejected. Crossland and Hambrick (2011) employed dimensions of cultural values (uncertainty avoidance, individualism vs. collectivism, power distance, cultural looseness vs. tightness) in their seminal work, based on Hofstede's (1980, 2001) framework. Building on the same logic, the present author is investigating the impact of cultural practices rather than values on CEO discretion operating in various national contexts. In doing so, the researcher discusses in detail the mechanisms through which cultural practices influence the degree of managerial discretion provided to CEOs headquartered in several countries. The study is not a replication of what Crossland and Hambrick (2011) did; rather it is an extension of their work in this research vein and tackles the concept of cultural influence from a distinct angle (practices). It is true that the author is assessing some dimensions already used in Crossland and Hambrick (2011); however, the rationale behind that assessment is to reinforce the context dependency of the discretion construct and more importantly corroborate extant research on the national construct of discretion (Wangrow *et al.,* 2015). By using a more sophisticated cross-cultural model (GLOBE by House et al, 2004), the researcher is enhancing the understanding of managerial discretion and more importantly uncovering new national-level antecedents or sources that play a crucial role in shaping the degree of executives' discretion. Therefore, in the next part, the researcher provides specific hypotheses concerning the impact of several cultural practices (institutional collectivism, uncertainty avoidance, power distance, future orientation, humane orientation, performance orientation, gender egalitarianism, assertiveness and cultural looseness) on managerial discretion.

3.1.1.1. Cultural Practices Vis-à-vis Institutional Collectivism

Individualism and collectivism as cultural dimensions have been strongly surveyed in the literature of national culture and cross-cultural studies (Segall and Kagitcibasi, 1997; House *et al.,* 2004). Several scholars have argued that such a cultural dimension is considered the most fundamental and above all others (Triandis, 1994; Aguinis and Henle, 2003; Gelfand *et al.,* 2004). Managerial discretion seems to closely pertain to such a construct. Individuals within a certain society experience discretion (high latitude of actions) if their society encourages and accepts unilateral, autonomous and idiosyncratic behaviour. Individualism and collectivism can be traced back to the rise of legal and religious institutions (House *et al.,* 2004). People in individualistic societies tend to favour personal goals, autonomous actions, personal needs, rational behaviour, etc. as opposed to their counterparts in collectivistic environments, who tend to be more integrated within certain groups, favour collective behaviour to benefit the majority, act interdependently of others, and follow consensus-based decision-making (Smith *et al.,* 1996; Hofstede, 2001; House *et al.*, 2004). Accordingly, such behaviour reflects organisational conduct in terms of human resource practices, motivation, job satisfaction, accountability, job attitudes, etc. (House *et al.*, 2004). More important is its implication in relation to leadership. Smith *et al.* (1989) found that in individualistic cultures, respondents showed a clearer distinction between maintenance performance and task performance compared to collectivistic cultures where individuals interpret in-group harmony as being closely related to task accomplishment. In other words, people favour team harmony and work to accomplish specific tasks in collective environments.

Moreover, in the United States, a highly individualistic culture (Hofstede, 2001), leaders' cognitive base reflects their cultural values in terms of being independent, forceful and strong-willed as opposed to their rivals in Japan – a highly collectivistic society (Hofstede, 2001) where leaders tend to show more collaboration, self-effacement and interdependence (Dorfman, 1998). Jung *et al.* (1995) showed that transformational leaders are more acceptable in a collective society than in individualistic ones due to the emphasis on group orientation, respect for authority and work centrality. Thus, in individualistic cultures, leaders act in an autonomous way, accomplish tasks without relying on group harmony, and emphasise individual discretion (Hofstede and Bond, 1988; Triandis, 1993; Erez and Earley, 1993). Such societies provide a wider 'zone of acceptance' for executives to idiosyncratically take unilateral decisions, and executives have greater leeway in deciding the future of their organisations

(Crossland and Hambrick, 2007). Collectivistic cultures do not tolerate individual initiatives; instead consensus-based decisions are favoured. For that reason, executives are more accountable for firms' failures in such cultures (Krull *et al.,* 1999). Crossland and Hambrick (2007, 2011) empirically exhibited that discretion differs from one national culture to another, in which executives enjoy greater discretion in individualistic societies (based on cultural values), while others operating in collective cultures possess lower discretion levels. Similarly, the author posits that collectivist societies (based on cultural practices) impose greater constraints on executives to take consensus-based decisions in which their own interpretation and choices would not be deemed important. Thus, the author hypothesises:

Hypothesis 1: Greater levels of institutional collectivism decrease managerial discretion.

3.1.1.2. Cultural Practices vis-à-vis Uncertainty Avoidance

Uncertainty avoidance is another dimension of culture that has been studied, interpreted and operationalised in several contexts (Hofstede, 2001). Initially used as an organisational phenomenon, this norm relates to the extent to which ambiguity is tolerated within a society (House *et al.,* 2004). In other words, some environments consider ambiguous events or unpredictable actions as a threat and thus prefer rules and orders to uncontrolled situations. By employing conventions, rituals, rules and orders, people in high uncertainty-avoidance societies will try to minimise unpredictability (House *et al.,* 1997; Hofstede, 2001). As Hofstede (2001) argued, individuals in certain cultures establish coping mechanisms (technology, laws and religion) to tackle the anxiety generated from uncertainty. On the other hand, low uncertain societies are more malleable to accept radical, uncertain, dramatic and means-end ambiguity actions (Crossland and Hambrick, 2011). In such an atmosphere, people are more tolerant to change and are characterised as being less risk-averse, meaning there are more risk-takers. Hence, lower uncertainty avoidance behaviour tends to provide a wider 'zone of acceptance' for executives' actions (Crossland and Hambrick, 2007). As such, it allows them to have a greater latitude of actions, and thus better discretion. Conversely, in high uncertainty avoidance societies, and due to the creation of orders, rituals and rules, such environments constrain executives' behaviour and interpret any radical action as objectionable, providing lower discretion. Therefore, when faced with unpredictable situations, executives will have wider array of actions to choose from to face such ambiguity (Crossland and Hambrick, 2007).

For instance, a considerable alteration of the business might be considered unobjectionable in low uncertainty avoidance cultures. Crossland and Hambrick (2011) empirically found that CEOs of firms headquartered in low uncertainty avoidance (high uncertainty tolerance) countries possess higher levels of discretion as opposed to CEOs operating in high uncertainty avoidance cultures. This is because in low uncertainty tolerance countries, executives are supposed to follow past behaviour and not take any actions that deviate from the central tendencies of the firm, industry, sector, etc. in terms of normal business behaviour. This means that even in turbulent and depressed situations, executives cannot take radical actions (Crossland and Hambrick, 2011). Another explanation could be correlated to the individual aspect of uncertainty avoidance and the feedback-seeking behaviour. House *et al*. (2004) posited that uncertainty is a notable element of feedback-seeking behaviour. Individuals in high uncertainty avoidance environments behave in a way that looks for feedback to gather information to build appropriate actions (Morrison, 2002). In such behaviours, individuals' decision-making bases would be significantly related and influenced by others' feedback; in other words, it is a form of collective reasoning. Thus, executives in these cultures will take collective decisions instead of individualistic and idiosyncratic decisions. Accordingly:

Hypothesis 2: Greater levels of uncertainty avoidance decrease managerial discretion.

3.1.1.3. *Cultural Practices vis-à-vis Power Distance*

Some cultural values indicate society's tolerance for inequality or power distribution (Carl *et al.,* 2004). These values include hierarchy (Schwartz, 1994), achievement aspiration (Trompenaars and Hampden-Turner, 1998), moral discipline (Chinese Culture Connection, 1987) and power distance (Hofstede, 2001; House *et al.*, 2004). In the context of this research, the author is interested in the latter norm concerning power distance, which is another fundamental cultural dimension. Despite being more reflective of the acceptance of inequality in a certain society (Hofstede, 2001), it is also suggestive of the status and role of leaders within societies (Crossland and Hambrick, 2011). Power distance is the norm that relates to the social dimension that ratifies and acknowledges power distinction, status, honours and authority (House *et al.,* 2004). Meindl *et al.* (1985) tackled the concept of "Romance of Leadership" in which they argued that the attribution perspective that views leadership as a symbol and associates positive and negative outcomes to it results in giving greater status and profile to leaders. Similarly, Meindl and Ehrlich (1987) showed that performance evaluation is stronger when outcomes are attributed to leadership factors, which reinforces the phenomenological value of leadership. In other words, society itself provides different lenses through which leaders are viewed; in some societies, people romanticise leaders and in others they do not. Overall, this research stream (e.g. Meindl *et al.*, 1985; Meindl and Ehrlich, 1987; Chen and Meindl, 1991) emphasises that some societies strongly attribute outcomes (either positive or negative) to leaders. In this sense, and because of the culturally contingent base of attribution (Krull *et al.,* 1999), leaders in those countries are having higher power distance and a greater profile.

In general, leadership has been considered widely influential across countries where some of the leadership characteristics are deemed universal. For instance, charismatic leadership is a universal feature of successful leadership (Den Hartog *et al.*, 1999). However, despite such universalism of characteristics, leaders and their status are viewed distinctly across countries. Particularly, leaders' status, role or powers within certain societies vary significantly from one country to another (House and Javidan, 2004). In some societies, leaders are privileged and highly respected for their power and status, which leads them to have a greater influence on their followers and provides them with a wider array of available actions (Crossland and Hambrick, 2011; House *et al.,* 2004). For instance, Adsit *et al.* (1997) found that in high power distance countries, employees are reluctant to challenge their managers and are more likely to follow them, even in the case of disagreement. In other words, in these societies, leaders are considered to possess more discretion. In contrast, in countries that do not promote such privileges, leaders' actions can come under scrutiny and they are faced with higher constraints (Crossland and Hambrick, 2011). In these environments, leaders tend to have low levels of discretion and are figureheads or facilitators rather than as empowered decision makers (Crossland and Hambrick, 2011).

However, Crossland and Hambrick (2011) did not find any significant positive relationship between power distance and CEO discretion; in contrast, they found a negative relationship. This means that low discretion countries could stress the symbolic role of leaders, which provides them with some degree of elevated status (Crossland and Hambrick, 2011). However, there is no empirical support for such an argument despite some scholars considering a constitutional monarch as a real illustration of this relationship (Rose and Kavanagh, 1976). Also, due to the sampling and countries being studied in Crossland and Hambrick's (2011) work, the relationship between discretion and power distance was not salient; this might not be the case if the sample of countries was extended. Accordingly, the author reinforces the positive relationship between power distance and discretion. Therefore, the researcher argues that in societies characterised by higher power distance, leaders are more romanticised, have greater acceptance from stakeholders and as such possess greater degree of discretion as opposed to leaders in low power distance societies.

Hypothesis 3: Greater levels of power distance increase managerial discretion.

3.1.1.4. Cultural Practices Vis-à-vis Future Orientation

Future orientation has been associated with time (Seijts, 1998) and is considered a rudimentary value orientation that distinguishes most societies and cultures (House *et al.,* 2004). House *et al*. (1999) defined future orientation as: the cultural dimension that is encouraged and appreciated by a society in which individuals tend to plan for future events and delay current gratification. Put simply, it is the norm, which emphasises future-oriented behaviour. The association between future orientation and time is not a recent phenomenon. The Ancient Greeks used to identify time as '*Chronus'* – a point in time from which to reference all other less significant events (Leach, 1961). Recently, time has become a significant factor representing the orientation towards accomplishing specific objectives, innovation and progression (Teather and Chow, 2000). Such a philosophical view reinforces the idea of future orientation as a crucial cultural dimension that is associated with future-oriented behaviour. In this vein, several cross-cultural scholars (e.g. Hofstede and Bond 1988; Trompenaars and Hampden-Turner, 1998; Hofstede, 2001) have argued the variation of future orientation across countries. Despite the contradicting findings in previous works (House *et al.,* 2004), the core argument is that future orientation is positively related to time urgency (Schneider, 1989). In other words, societies characterised with high future orientation tend to have a greater sense of time urgency, and time is a crucial parameter for various events. Time offers differentiated temporal frames that give order, meaning and coherence to objects, events and experiences within a certain societal environment. Having a sense of time urgency is very important as it helps individuals to prioritise events in their life. If people do not value time as a crucial element, they look more at their current situation and do not develop plans for their future. Societies with low future-orientated behaviour are more lenient towards enjoying current moments or solving current problems without having the willingness to plan for long-term goals (House *et al.*, 2004). This behaviour results in individuals avoiding future anxiety and not taking into consideration the impact of current events on pursuing future objectives (Keough *et al.*, 1999). In here, people rely on their past experiences. By doing so, they will be maintaining their status quo (Keough *et al.*, 1999; House *et al.*, 2004). Earlier discretion literature shows that commitment to the status quo in relation to executives (also as individuals within a societal culture) diminishes their level of discretion (e.g. Hambrick *et al.*, 1993; McClelland *et al.*, 2010). Executives operating in countries with low future orientation are more constrained in their strategic actions, meaning that they possess low discretion. On the other hand, countries with high future orientation are more interested in planning for long-term goals and willing to foresee those goals. Such a cultural foundation allows greater tolerance for innovation (House *et al.*, 2004) and provides a greater array of actions to be implemented because it is having an open-ended and not time-limited orientation (Lang and Carstensen, 2002). Therefore, future orientation tends to be positively related to discretion.

Moreover, the future involves uncertainty, challenges, unpredictable events, unclear situations and vague understanding. Individuals who are more tolerant of ambiguity and uncertainty tend to plan for their future and demonstrate future orientation because they seek broader options and set various goals to achieve. Interestingly, House *et al*. (2004) showed a positive correlation between future orientation practices and uncertainty tolerance. This indicates that societies tolerating uncertainty have greater future oriented behaviour. For instance, Horovitz (1980) argued that French firms that operate in a low uncertainty tolerance environment (based on Hofstede, (2001) score) tend to have low future orientation compared to their British rivals. France also scored low in terms of its national level of discretion in Crossland and Hambrick's (2011) work. Thus, future-oriented behaviour, which involves high uncertainty tolerance, enhances CEO discretion. In such societies, shareholders tend to embrace future returns on their investment and interests regardless of the means that have been adopted to reach those results. Here, CEOs can formulate strategies from a variety of options where time does not act as a constraint facing executives' actions. Therefore:

Hypothesis 4: Greater levels of future orientation increase managerial discretion.

3.1.1.5. Cultural Practices Vis-à-vis Humane Orientation

Humane orientation is another cultural norm that characterises societies from one another. Such a cultural dimension is manifested in the way individuals within a certain society treat each other, or in simple words care about each other. It relates to how much a society promotes unselfish, caring, generous, friendly, kind and fair features of individuals (House *et al.*, 1999). These individual norms represent salient motivational factors that lead people's behaviour, where the more benevolence, love, kindness, etc. they show to each other, the more they are considered as humane-oriented (Triandis, 1995). Additionally, in this type of environment, paternalism, which is a form of benevolence, plays a crucial role in determining people's behaviour (James *et al.,* 1996; Kanungo and Aycan, 1997). Here, people in possession of power tend to act as parents for their subordinates, where they care about their personal problems, offer help and have an informal relationship with them (House *et al.,* 2004). In other words, leaders in general and executives tend to be more lenient with their employees and care about their own personal problems. Thus, any decisions that negatively impact them or any of their relatives (as part of the community) would be discarded. For instance, Gebert and Steinkamp (1991) showed that in Nigeria, which is a highly humane-oriented society (House *et al.*, 2004), organisational leaders tend to have a paternalistic relationship with their employees and in some cases companies hire employees' family members just to help, even though such recruits might not possess any of the relevant skills for the post. This illustrates that in such societies, executives are constrained by the humane orientation cultural norm, which exerts pressure on them to act in favour of the whole community. Thus, in relation to managerial discretion, executives' latitude of actions is limited and they are unable to foresee unilateral decisions due to their potential impact on the society.

On the other hand, some societies encourage self-fulfilment, material possessions, self-interest, pleasure and power as the dominating factors that motivate individuals' behaviour (House *et al.*, 2004). These cultures are classified as low in terms of humane orientation. House *et al.*'s (2004) findings illustrate that when the humane orientation norm increases, society overall tends to be more collectivistic. In other words, solidarity, benevolence, altruism, etc. go hand in hand with promoting collectivism. Similarly, to individualistic societies, low humane orientation environments provide greater acceptance for a greater array of actions, tolerate bold decisions and permit an individual edge, and therefore provide greater managerial discretion.

An example of such enhanced discretion can be seen in the case of Procter and Gamble (P&G) in 2012. P&G is a US public firm that operates in the fast-moving consumer goods (FMCG) industry. In 2012, it adopted a turnaround strategy to cut 5,700 jobs in a four-year plan to enhance performance (FT, 2012). As P&G was operating in the US – a country considered to have low humane orientation (House *et al.*, 2004) and where executives enjoy more discretion (Crossland and Hambrick, 2011) – the public backlash to this proposal was not strong enough to convince the company's executives to change their mind. Accordingly, societies characterised by low humane orientation provide greater discretion to CEOs of companies headquartered in such environments.

Hypothesis 5: Greater levels of humane orientation decrease managerial discretion.

3.1.1.6. Cultural Practices vis-à-vis Performance Orientation

Performance orientation is another cultural norm that characterises societies. It refers to the reward for innovation, performance improvement and high standards (House *et al.,* 2004). Despite not receiving much attention in the literature (House *et al.,* 2004), performance orientation appeals to the ways in which people are oriented in a certain society. In this vein, McClelland *et al.* (1958) were the first scholars to tackle the concept of performance orientation using a similar label: need for achievement, which relates to people's need to continuously perform better, have progressive improvements, conduct challenging tasks with low probabilities of success and have a passion for innovation. In line with other norms, performance orientation varies according to the variance in the national culture. It is a crucial force that shapes and impacts people's economic and social behaviour (e.g. Hofstede and Bond, 1988). Likewise, Schwartz and Bilsky (1987, 1990) supported that achievement as a cultural norm, which refers to the individual success, impacts individuals' behaviour in societies. Some researchers (e.g. Bigoness and Hofstede, 1989) argued that 'achievement', or what House *et al*. (2004) labelled as 'performance orientation', is a universal norm where most societies seek to perform better. These findings were based on managers' perceptions when asked to rank their most important goals. Overall, there is a universal voice that emphasises the importance of controlling one's own future and working hard to achieve it. On the other hand, a group of scholars (e.g. Schneider and Barsoux, 1997) debated that achievement is not a universal feature because societies differ in their cultural norms, values and practices that influence the universality of such norms. For instance, 88% of American managers consider reaching results the most important goal for success as opposed to their French counterparts, who deem the possession of high potential as the most important aspect (Laurant, 1986). Such a differentiation illustrates the variation in people's performance orientation across countries. Parsons and Shils (1951) proposed two significant differences between societies: achievement and ascription. Achievement-oriented countries accord status based on accomplishment, whereas ascription-oriented countries assess people on who they are individually. In achievement-oriented societies, judgment or evaluation is purely based on results or performance (House *et al.,* 2004).

In relation to discretion, Hambrick and Finkelstein (1987) stated that CEOs' effects on their companies' performance go hand in hand with the degree of discretion they are afforded. In other words, to properly judge a certain CEO's performance and dismiss them for poor performance, there should first be an assessment of the degree of discretion provided to that CEO as CEO dismissal and poor performance relationships have been empirically tested to be negative (e.g. Brickley, 2003, Crossland and Chen, 2013). Thus, dismissal is respectively a result of poor executive (CEO) performance (Murphy, 1999; Dahya *et al.,* 2002). Most importantly, Crossland and Chen (2013) asserted the important mediating role of managerial discretion between poor firm performance and CEO dismissal. In that sense, it can be posited that performance-oriented societies tend to provide greater leeway of actions and accordingly dismiss CEOs for poor performance.

Moreover, societies that appreciate seniority and older age lean towards an ascription feature and are less performance-oriented (Schneider and Barsoux, 1997). In some societies (e.g. Japan), higher positions tend to be mostly occupied by senior (older) individuals (e.g. House *et al.,* 2004). In other countries that are characterised by greater discretion, CEO entry age is low (e.g. US). Hence, it might be argued that performance-oriented environments that do not judge individuals on their seniority and attribution tend to provide executives with a broader zone of acceptance.

Another characteristic of a performance-oriented society is the belief that individuals are in control of the events happening in their lives (locus of control). Locus of control represents individuals' ambitions, higher standards for performance, thirst for betterment, etc. (Rotter, 1966; Hofstede and Bond, 1988). Trompenaars and Hampden-Turner (1998) argued that individuals from the US tend to be in control of their lives whereas people in Venezuela are not. Such a distinction represents the variance of the degree of locus of control across societies. Locus of control has been covered in significant depth in the field of managerial discretion. Internal CEOs (in control) tend to demonstrate risk taking and innovative strategies (Miller *et al.*, 1982), improve performance (Anderson and Schneier, 1978), be more task-oriented (Miles and Snow, 1978) and perceive greater discretion (Carpenter and Golden, 1997), all of which describes individual characteristics in a high performance-oriented society. Additionally, societies with high performance orientation greatly appreciate financial rewards and bonuses (House *et al.*, 2004). In the discretion vein, CEO performance-based compensation has been significantly and positively associated with greater discretion (e.g. Rajagopalan and Finkelstein, 1992; Rajagopalan, 1997; Boyd and Salamin, 2001). This (financial reward) also represents an important norm appreciated in high performance countries. Thus, in such societies, CEOs possess a wider array of strategic actions to choose from. Accordingly, the author hypothesises:

Hypothesis 6: Greater levels of performance orientation increase managerial discretion.

3.1.1.7. Cultural Practices vis-à-vis Gender Egalitarianism

"Societies that are relatively unconcerned with demarcating men from women are less common than those concerned with affirming men's' masculinity" (Coltrane, 1992: 88). One of the most obvious ways in which societies differ is through their acceptance of gender equality. Each society prescribes and proscribes various roles for men and women (Hofstede, 1998). Societies appreciating gender equality try to minimise gender-role differences, whereas others try to increase the gap between genders (House *et al.,* 1999). Like Hofstede's (1980) masculinity/femininity cultural dimension, House *et al.* (2004) developed a new cultural norm labelled gender egalitarianism. As the name suggests, it relates to the equality between men and women in a society. Societies high on gender egalitarianism tend to have more women in positions of authority, have more women participating in the labour force, accord women a higher status and afford women a greater role in the society. In contrast, societies low on gender egalitarianism tend to have fewer women in positions of power, offer less status to women and afford women no/smaller decision-making authority (House *et al.,* 2004). These core differences in relation to gender equality have a significant influence on societal behaviour. Masculine countries show greater achievement motivation and tend to follow a bolder style of management (Triandis, 1994). Such societies appreciate independent behaviour over honouring moral obligations and encourage success and competition over nurturance and solidarity (Doney, Canoon and Mullen, 1998). Organisations operating in such cultural environments provide unequal opportunities for men and women, particularly in the upper echelons, and encourage results over processes and more importantly adversarial decision-making over negotiation and consensus (Erez, 1994). When societies value results over processes, they provide a wider array of actions for top managers to choose from. In this sense, executives will have greater leeway over the methods and strategy adopted to pursue a specific goal. In organisational terms, executives will have more 'technical discretion' (Caza, 2012). In countries where the means-end ambiguity is high, executives will have greater freedom in taking quantum rather than incremental initiatives (Crossland and Hambrick, 2011), thus providing them with greater discretion. Furthermore, House *et al*. (2004) empirically found that gender egalitarianism is strongly associated with participative leadership style/attributes. In other words, the more that a society values gender equality and accords women similar importance to men, the more the leaders in such cultural environments are expected to have a participative leadership style that encourages input from others in decision making. Contrary to the autocratic style, participative leadership is based on a consensus-based decision-making style and does not value leaders' autonomous behaviour (House *et al.*, 2004). When executives are surrounded by such cultural norms, they are not able to pursue idiosyncratic bold actions because stakeholders would see such behaviour as objectionable. Accordingly, managerial discretion is likely to be less pronounced in countries that encourage gender egalitarianism.

Moreover, one of the core elements of discretion is that executives should tolerate risk in relation to taking any strategic initiatives. Executives with high discretion are characterised as being risk takers (Roth, 1992). Also, environments that encourage risk-taking behaviour tend to provide more managerial discretion (Makhija and Stewart, 2002). Taking that into consideration, women or female CEOs are shown as taking strategic actions that do not pose any risk (Bernasek and Shwiff, 2001). In a study of CEO gender effect on firm performance, Khan and Vieito (2013) found that CEO gender matters in terms of firm performance, where male CEOs tend to have a greater effect on firm performance compared to their female counterparts. Additionally, they found that when a female CEO leads a firm, the risk levels are much smaller than when companies are headed by a male CEO (Khan and Vieito, 2013). For instance, female board representation and participation in firms' upper echelons results in a lower number and size of acquisitions – a strategy that is associated with greater risk – that a firm engages in (Chen *et al.*, 2015). In relation to discretion, it has been clearly articulated within the literature that discretion leads to greater CEO effect on firm performance; therefore, it could be argued that female CEOs have lower discretion levels compared to their male counterparts.

Risk-taking behaviour is not the only characteristic that differs between male from female CEOs; power is another example. In comparison to male CEOs, female executives are given less power in their hierarchical position (Muller-Kahle and Schiehll, 2013). As such, power, which is a fundamental element that enhances managerial discretion, is lacking when females achieve CEO positions. Thus, it can be concluded that women CEOs, due to their lack of power, have lower discretion levels than male CEOs.

Another key difference between male and female executives is compensation packages. Female CEOs receive a lower compensation package compared to male executives (Mohan and Ruggiero, 2007), and these packages are more performance-based for male CEOs as opposed to their female equivalents (Kulich *et al.,* 2011). CEO compensation packages are positively associated with the degree of managerial discretion (e.g. Finkelstein and Boyd, 1998; Finkelstein, 2009). The more discretion a CEO possesses, the higher their compensation package would be. Female CEOs who receive lower compensation packages may experience lower discretion levels as opposed to male executives.

Although these arguments may hold true, they only refer to the individual stereotype where differences in the individual levels of discretion based on gender may not be aggregated to the national level. This is because culture is a contextual characteristic that shapes the proscription of gender roles (Abdullah *et al.*, 2015). Women leaders are perceived as lacking the traits of successful leadership (Eagly *et al.*, 1992); theories on leaders' influence on organisation performance may not be applicable to female executives (Kulich *et al.*, 2007). This is due to the taboo placed on women's behaviour, especially in masculine societies that do not appreciate gender equality (Hofstede, 1998). In these societies, women rarely break the glass ceiling to reach higher corporate positions. However, even if they succeed in breaking the glass ceiling, their behaviour will be highly constrained and they are expected to take predefined actions (Cook and Glass, 2014). As such, CEOs' latitude of actions will be tight. In contrast, when societies appreciate gender equality and assign more roles to women, they exert less taboo on women's behaviour and see women as being as competent as their male counterparts. These societies provide a wider zone of acceptance for CEOs actions and enable them to take unexpected movements that could alter the firm outcomes. Accordingly, the author hypothesises that:

Hypothesis 7: Greater levels of gender egalitarianism increase managerial discretion.

3.1.1.8. Cultural Practices vis-à-vis Assertiveness

Assertiveness represents another important informal institution that characterises a society. Despite not being tackled directly (as a separate societal norm) by previous cross-cultural scholars, it represents a crucial societal norm that has an influence on people's behaviour. Assertiveness, along with other societal norms (performance orientation and gender egalitarianism) used in the GLOBE construct, has been generated from Hofstede's (1980, 2001) MAS (masculinity and femininity) index (House *et al.*, 2004). However, the correlation between these two was not significant due to the differences in the construct (House *et al.*, 2004). Assertiveness relates to the MAS index, which states that people in masculine cultures tend to be more challenging, dominant, and place greater emphasis on recognition, advancement and earnings than those in feminine societies where caring and cooperation are central features (Hofstede, 1980, 2001). However, it differs from the assertiveness norm. Assertiveness is the level to which people within a certain society tend to be dominant or forthright in their relationships with others (House *et al.*, 1999). Here it is important to note the difference between assertiveness and aggressiveness. Negative aggressive behaviour relates to the form of behaviour that involves physical harm, hostility, threat, etc. (e.g. Crawford, 1995; Loeber and Hay, 1997), whereas assertiveness is more of a mid-point between being meek or shy and being aggressive (Rakos, 1991). At the same time, assertiveness resembles positive aggressive behaviour, which involves individuals taking the initiative and being enterprising, challenging, confident, fast, forceful etc. (House *et al.*, 2004).

This dimension emphasises the importance of expressing the self or one's own desires and opinions and expressing them explicitly (Booream and Flowers, 1978). It also relates to a set of communicative skills, individual self-interest (House *et al.*, 2004) and individual pragmatism and rationality (Rakos, 1991). When talking about assertiveness, it is important to state that such a norm is situational and dependent on the current surrounding status (House *et al.*, 2004). For instance, according to Kelly *et al*. (1980) and Crawford (1988), assertive behaviour varies according to gender (men versus women). Likewise, assertiveness varies depending on culture (e.g. Rakos, 1991). In these classifications, assertiveness is seen through the psychological lens. However, another group of scholar's views assertiveness as a set of personality qualities. Goldberg (1990), in his 'Big Five' personality model, talked about extraversion (people who tend to be dominant, assertive, adventurous, etc.), which strongly looks like assertiveness, and stated that agreeableness is more in line with a non-assertive personality (House *et al.*, 2004). Watson and Clark (1997) argued that extroverts or people with an extroverted personality are more often seen in leadership roles. Similarly, Judge *et al*. (1999) found that an individual being non-assertive does not predict career success and leads people to stay in low positions. A non-assertive personality therefore negatively impacts the individual in relation to their management potential (Howard and Bray, 1988). In other words, individuals that are assertive tend to achieve higher hierarchical positions compared to their non-assertive counterparts. CEOs are more assertive than other individuals within the organisation that have low hierarchical position because individuals in the upper echelons show more assertive behaviour, forcefulness and self-confidence (Fagenson, 1990; House *et al.,* 2004). But, how could such a cultural norm refer to managerial discretion? The view of dominance that is taken from assertive behaviour reflects the way people aim to be in control of their lives, influence nature and not surrender to external pressures (Schein, 1992). House *et al*. (2004) argued that the 'doing' orientation, which is more related to people overseeing their environment, tends to have and value greater assertiveness compared to 'being' societies that surrender to external forces. Additionally, Trompenaars and Hampden-Turner (1998) linked the orientation of societies that conduct business to Rotter's (1966) locus of control work. They argued that societies with a greater internal focus (like Rotter's internal locus of control) are in control of their environment and have a dominating attitude. This means that assertive behaviour reflects an internal orientation of a society (House *et al.,* 2004). As previously mentioned, 'internal' CEOs tend to have and perceive a greater level of discretion (e.g. Dollinger *et al.,* 1997; Carpenter and Golden, 1997; Key, 2002). Therefore, assertive behaviour would be positively linked to managerial discretion in the sense that dominant and in-control behaviour provide a wider latitude of actions and allow individuals in higher positions (like CEOs) to implement their own decisions.

Moreover, assertive countries tend to appreciate competition and competitive behaviour over cooperation (House *et al.,* 2004). Competitiveness exists in countries that implement a free-market economy in which the support is for firms' competition and individual decisions (North, 1990; Reed, 2001). In this stream, Makhija and Stewart (2002) found that executives in free-market economies (e.g. the US) have a greater sense of power towards decision outcomes, are more comfortable with uncertainty and perceive further outcome accountability. In other words, in free-market economies, executives tend to possess a greater level of discretion. Additionally, in the US, a high-discretion country (Crossland and Hambrick, 2011), people believe in competition (Kohn, 1986), which is the crucial feature of human nature (Bonta, 1997). Hence, societies that appreciate competition allow greater discretion, and as assertive behaviour appreciate competition, thus assertiveness reflects greater CEO discretion.

Furthermore, assertiveness is also seen as a means of communication. Here, scholars have argued that there exists a negative relationship between non-assertive behaviour and indirect language (Holtgraves, 1997). In assertive cultures, people tend to use ‘low-context’ language, which refers to the use of explicit, clear and direct speech (Schneider and Barsoux, 1997). From such a perspective, a variety of scholars in the discretion field have looked at CEO letters to shareholders and conducted a content analysis of those letters to measure various variables such as attentional homogeneity (e.g. Abrahamson and Hambrick, 1997; Cho and Hambrick, 2006), risk-taking behaviour (e.g. Bowman, 1982, 1984), and many others. The way that individuals interpret and see their world is reflected in the language they use (Whorf, 1956). When individuals use direct language, they create impressions to others of their own opinion and how powerful they perceive their logic to be. In this context, by using ‘impression management’, executives perceive more discretion, and by doing so they will enlarge their latitude of action (Carpenter and Golden, 1997). Thus, it could be argued that in assertive countries, executives tend to perceive greater discretion.

As a result, assertiveness as a cultural norm is related to competition, individual accomplishment, performance judgment, a can-do attitude, the valuing of results over relationships, rewarding performance, internal individuals and foreseeing challenging targets, etc. (House *et al.*, 2004), all of which act as appropriate foundations for greater discretion. Therefore, the author hypothesises that:

Hypothesis 8: Greater levels of assertiveness increase managerial discretion.

3.1.1.9. Cultural Practices Vis-à-vis Cultural Looseness

The presence of cultural norms or informal institutions alone is not sufficient if they are not enforced within a certain society (Ingram and Clay, 2000). Countries vary in terms of the degree to which they sanction deviant behaviour that does not comply with their societal norms (e.g. Strauss and Quinn, 1997; Gelfand *et al.*, 2006). Put simply, every culture has its own norms that people tend to follow but the degree to which these are enforced within society is a crucial element showing their importance. If norms are not enforced, any deviation and behaviour not complying with those informal institutions would be acceptable, thus cultural norms would no longer be important. This leads on to the concept of cultural tightness-looseness, which refers to the strength of applying social norms and the degree of sanctioning in an environment (Gelfand *et al.*, 2006). The strength of social norms refers to the clearness and pervasiveness of these norms, whereas the degree of sanctioning reflects the level of tolerance for deviation from these norms (Gelfand *et al.*, 2006). Several scholars (Pelto, 1968; Triandis, 1989; Carpenter, 2000; Gelfand *et al.*, 2006, 2011; Uz, 2015) have looked at this cultural characteristic that differs between countries. Cultural tightness-looseness is distinct from the previously discussed social norms because it looks at the overall enforcement of other cultural norms (e.g. individualism, uncertainty avoidance, etc.). Thus, it is unique but at the same time complementary to other cultural dimensions (Gelfand *et al.*, 2006). Cultural tightness-looseness has several antecedents that play a prerequisite role in having a tight or loose society, such as socialisation processes, media, freedom and criminal justice system, individual psychological attributes, etc. (Gelfand *et al.*, 2006). Kirton (1976) distinguished between two types of decision-making styles: adaptors, who are more cautious, reliable and disciplined; and innovators, who are more creative and challenge the constraints of the prevailing paradigms by deriving new ideas from outside the system. Also, innovators tend to take risk in their actions and ignore procedures and customs (Kirton *et al.,* 1991).

Moreover, cultures that tend to have stronger norms (tight societies) exert greater isomorphic pressures (DiMaggio and Powell, 1991), making members of such a society more homogenous. The link between homogeneity and tight culture and heterogeneity and loose culture has been tackled by Triandis (1989) and later reinforced by Carpenter (2000). If a culture is heterogeneous, then its standards, norms and acceptable behaviour are not ubiquitous (Uz, 2015), thus implying a low degree of sanctioning. Loose cultures, which tolerate and appreciate deviant and innovative behaviour, should provide greater latitude of action for executives. Simply, this is because in loose societies, not abiding by the overall norms is not seen as objectionable by other societal members. Also, innovation, which introduces a tendency towards changing the status quo, is appreciated in loose societies as opposed to in tight ones (Uz, 2015). Empirically, Crossland and Hambrick (2011) tested this proposition based on subjective measures derived from Gelfand *et al.*, (2011) on a sample of developed countries (e.g. US, UK, etc.) and found a significant and positive relationship between loose culture and CEO discretion. Consistent with Crossland and Hambrick's (2011) findings, the author reinforces such relationship and argues that, loose culture provides greater latitude of actions to executives as opposed to a tight society that restrains the array of activities available. Thus:

Hypothesis 9: Greater levels of cultural looseness increase managerial discretion.

3.2. Intra-Cultural Variations: Heterogeneity within countries

Up to this point, the author has focused on the direct relationship and effects of an array of cultural practices representing the inter-cultural variations, operationalised as the central tendency of a given society/country, on managerial discretion. The author now moves to discuss an important but under-researched construct of intra-cultural variation and how it may affect the degree of discretion accorded to CEOs in a national environment. While most research around national-level managerial discretion adopts the assumption that societal members in each country are homogenous (Crossland and Hambrick, 2011), the researcher argues that CEO discretion is also dependent on the degree of variation within countries, whereby more variation (heterogeneity) negatively affects the level of managerial discretion afforded to CEOs.

To many scholars, the variations between members of a society/country are commonly referred to as cultural differences (Hofstede, 1991). However, members of a culture ought not to be like others, where in some cultural environments, there exists a degree of homogeneity/heterogeneity (variation) in behaviour innate to that society (Carpenter, 2000; Uz, 2015). Most the research focuses on the 'central tendency' of societal members, which denotes the typical members of a country. Quantitatively, the central tendency of societal members on a specific characteristic is mainly represented by the cultural means of such attributes (Au, 1999). The essence of cross-cultural research is to offer scientific interpretation of cultural differences rather than simply presenting the differences between countries (e.g. Mullen, 1995). Not considering within-country variance or diversity may well lead to missing an opportunity for a more nuanced, holistic and comprehensive approach to studying national culture. As such, intra-cultural variation, which has been ignored by cross-cultural researchers, is an important construct to further understand cultural implications.

Au (1997, 1999, 2000; Au and Cheung, 2004) is among the main allies of the intra-cultural variation construct and perhaps the only scholar who makes the most explicit and strongest argument for the integration of the intra-cultural variation construct in cross-cultural studies. He argues that several factors could play an important role in determining intra-cultural variation. Amid these factors are individual demographics, moral discipline, government and organisation policy along with other variables (e.g. ethno-linguistic (Puia and Ofori-Dankwa, 2013)). However, Au (1999) emphasised that societal members' behaviour within a given country may well be regarded as the prominent antecedent of intra-cultural variation. Therefore, in this chapter the author incorporates this cultural construct on the previously studied cultural dimensions (cultural practices derived from House *et al.* (2004)) to assess its effect on managerial discretion.

This is particularly important in the context of managerial discretion as it helps to define the boundaries of executive actions. In other words, it may be perceived that a CEO operating in a homogenous culture would be faced with established practices, limiting any attempt to deviate from the 'central tendency' of the society. In such cases, the array of actions would be narrow. On the other hand, a CEO in a heterogeneous society would have a wider array of actions to choose from, as the boundaries of the central tendencies are wider. However, this is not necessarily the case as will be seen in the below discussion. This chapter complements the rising number of studies that criticise the consideration of cultural homogeneity within a given country (e.g. Beugelsdijk *et al.*, 2014; Shenkar, 2012). The author's attempt is to go one step further in arguing that intra-cultural variation, even if some cultural practices are shared, leads to a negative effect on managerial discretion. The author relaxes the homogeneity assumption of national culture and, like other scholars (e.g. Venaik and Midgley, 2015), believes that there would be significant heterogeneity within and across countries, which will play a role in changing the degree of discretion an executive can have.

Before developing this line of reasoning, it is important to highlight the current discussion on intra-cultural variation and put the concept into its proper context, which is present in the next section. Following that, the author describes the theoretical building blocks for the proposed relationship between intra-cultural variation and managerial discretion, which are used to develop the hypothesis. This is followed by a discussion on the methodology and the statistical analysis used to test the proposed relationship; finally, the author concludes with the contributions and implications of this chapter.

3.2.1. Intra-cultural variation as antecedent of managerial discretion

Culture is an important concept to many scholars in a wide range of disciplines. Influenced by the work of Hofstede (1980, 2001) and more recently House *et al.* (2004), the scholarly community, particularly the cross-cultural business party, has constantly represented culture based on national scores. Notwithstanding the acceptance and importance of these national scores, studies have been criticised from various angles, such as construct validity (e.g. Brewer and Venaik, 2014), ideological basis (e.g. Ailon, 2008), and homogeneity assumption (e.g. Dheer *et al.*, 2015). Particularly relevant is the latter assumption that most earlier works have taken for granted. As argued by some academics, such a supposition may be acceptable if the cross-cultural variance is greater than the within-country variance (Hanges and Dickson, 2008; Ronen and Shenkar, 2013), which is not always the case in cross-cultural research (Venaik and Midgley, 2015).

Recent discussion in the cross-cultural and international management literatures showed the importance and appropriateness of within-country variance (intra-cultural variation) to uncover various cultural implications (e.g. Au and Cheung, 2004; Peterson *et al.*, 2012; Tung and Verbeke, 2010). A typology presented by Klein and Kozlowski (2000) argue that the conceptualisation of a group has three main properties: global, shared and configurational. The global aspect relates to the encompassing properties that are mostly dominant and recognisable, such as political system, economic growth, etc. Although the shared and configurational properties both emerge from the characteristics of a group (in this case a country), the shared properties are common amongst all the group members that embrace such a particularity. By contrast, the configurational property is not shared and is unique to each group member (Ralston *et al.*, 2014). These differences are mainly due to either meso-level (e.g. religion, region) or individual-level attributes (e.g. age or gender). While most the works in the cross-cultural literature have relied on the first two properties of Klein and Kozlowski's (2000) typology, some have incorporated the within-country differences to provide a better understanding of the impact of culture. Recently, Venaik and Midgley (2015) incorporated the configurational perspective and reconciled it with the national averages theoretical construct to develop cultural archetypes. Similarly, Richter *et al.* (2016) argue that the configurational perspective allows for a more holistic understanding of cultural dimensions and their consequent effects.

Moreover, Tsui *et al.* (2007) argue that culture scholars rely heavily on the consideration of the global and shared properties of national culture and assume that shared property, using mean scores, is the main characteristic of a nation. Similarly, the observations of Au and Cheung (2004) explicitly indicate the lack of consideration of the dispersion of behaviour or practices within a country. In their review of cross-cultural studies, Kirkman *et al.* (2006) pointed to this gap and encouraged researchers to employ the intra-country variation construct. Such importance is also reflected in Kirkman *et al.*'s (2009) study of Chinese and US employee-manager relations, in which they concluded that to understand culture, one needs to know the within-country variance and not only the shared attributes of a society. In the same vein, Steel and Taras (2011) described in their meta-analysis study that almost 90% of variance in cultural attributes can be found within countries. Therefore, the adoption of the configurational perspective, which has been recognised by some scholars (e.g. Fisher *et al.*, 2011; Gurven *et al.*, 2008; Lenartowicz and Roth, 2001), is crucial to provide new insights and develop the cross-cultural field.

The idea of intra-cultural variation can be dated back to early research on ecological fallacy, which states that individuals in a group do not necessarily possess the average attribute(s) of that group (Robinson, 1950). Such an argument has been also present in anthropological studies, such as Pelto (1975) who offers a thorough discussion on the factors that have made the homogeneity assumption so popular and attractive and the implications that intra-cultural variation has on the advancement of such theory. Early works (e.g. Au, 1999; Chan *et al.*, 1999; Schwartz and Sagie, 2000) show that intra-cultural variation exhibits inconsistent correlations with cultural means and provide differing findings. Au and Cheung (2004) empirically demonstrated that intra-cultural variation and cultural mean are not substitutes, which provides supporting argument for the importance of studying the implications of both constructs. The fundamental importance of intra-cultural variation is to show the extent to which the shared practices within a society are widely and deeply shared amongst its members (Puia and Ofori-Dankwa, 2013). Drawing on the multi-layered construct of culture (Leung *et al.*, 2005), Tung (2008a) argued for the necessity to account for intra-national variation when conducting cross-cultural research. Despite these calls, studies have continued to adopt the global and shared perspective when conducting cross-cultural research (Ralston *et al.*, 2014), which has led to fallacious assumptions of cultural homogeneity within a country (Tung and Verbeke, 2010). The answer for this could be multi-faced, in part due to methodological issues (i.e. the unavailability of published large-scale data on within-country variation) (Fisher, 2009) and in part to a lack of appreciation of the contribution that such a construct could bring to our understanding (e.g. Buchholz *et al.*, 2009).

As previously stated, to the extent to which cross-cultural variation is greater than within-country variation, the use of national scores would be justifiable (Hanges and Dickson, 2006). This represents the main argument of the proponents of the national culture perspective who believe that individual norms (i.e. behaviour, values, beliefs, etc.) constitute the dominant thrust of shared enculturation (Schwartz, 1999: 26). While acknowledging this fact, the homogeneity of a given culture (country) is not universal and some researchers have already shown that. In the field of international marketing, appreciation of intra-country variation or heterogeneity in attitudes, practices and even values are considered essential for various marketing strategies, such as customer segmentation and positioning (e.g. Broderick *et al.*, 2007; Ter Hofstede *et al.*, 2002; Wedel *et al.*, 1998). In other disciplines, intra-cultural variation has been shown to influence organisational and social outcomes, particularly Au and Cheung (2004), who empirically illustrate that intra-cultural variation has a negative effect on job and life satisfaction as opposed to the cultural mean. Au and Cheung (2004) were not the only scholars that investigated the role of within-country variation and work-related issues; likewise, Hoorn (2015) discovered that intra-cultural variation explains, by far, the difference in work values within a country. Also, the salient effect of within-country variance has been uncovered by Tung and Baumann (2009), who compared individuals' behaviour towards material possession and savings among a sample of countries (e.g. Canada, Australia, China). Their findings strongly suggest that there were more similarities across countries than within countries based on the individual background of a group. Others established a strong link between intra-country variation and technological innovations. Puia and Ofori-Dankwa (2013) employed the within-country diversity framework to explore the relationship between cultural diversity (within a given country) and national innovativeness. Their findings suggest that intra-cultural variation is independently and positively related to national innovativeness.

Within business ethics, Ralston *et al.* (2014) tested the utility of intra-cultural variation on two cultural dimensions (individualism and collectivism) to predict the ethical behaviour of managers. In their study of 48 societies, they found that variation within countries make a more suggestive contribution to explain the perception of ethical behaviour. Another example of the use of intra-cultural variation in international business and cross-cultural studies is Beugelsdijk *et al.*'s (2014) work on foreign affiliates' sales. The study's findings suggest that the overestimation of foreign affiliates' sales is significantly and positively related to the intra-cultural variations of the host country.

With the progression of cross-cultural research, scholars have further developed a somewhat old construct (dated back to Pelto, 1968) to gauge the extent of the clarity and pervasiveness of norms in each country and how much tolerance exists there for deviant behaviour (Gelfand et al, 2006). Cultural tightness and looseness is a related construct to intra-cultural variation based on within-country variance. In loose cultures, norms are expressed within a broad range of alternative means and there exists a lack of regularity, discipline and regimentation. Such cultures tend to tolerate divergent practices. In contrast, cultures that are tight have established strong and clear norms by developing order and sanctioning systems for governing deviant behaviour.

Given these characteristics, it is expected that intra-cultural variation in tight cultures is smaller than in loose societies. As previously discussed, cultural tightness-looseness has its roots in various academic disciplines, including sociology (e.g. Boldt, 1978b), anthropology (Pelto, 1968), psychology (Berry, 1966) and of course international business and cross-cultural research (Gelfand *et al.*, 2011; Ross *et al.*, 2015). Research has discovered that national contexts of tightness and looseness vary widely between countries and that such a construct is distinct from the actual cultural dimensions (Aktas *et al.*, 2016; Gelfand *et al.*, 2011). This construct has been linked to several organisational, managerial and national outcomes (Taras *et al.*, 2010), such as negotiation (Gunia *et al.*, 2011), stock-price synchronicity (Eun *et al.*, 2015), job satisfaction for expatriate manpower (Peltokorpi and Froese, 2014), organisational creativity (Chua *et al.*, 2015) and even terrorism (Gelfand *et al.*, 2013). Recently, cultural-tightness and looseness have been linked to managerial discretion (Crossland and Hambrick, 2011), which is empirically validated in the first empirical chapter of this thesis. However, cultural tightness-looseness and intra-cultural variation are not the same construct (as can be seen in the empirical explanation below and in the following theoretical section); both may well be related to each other particularly in the sense of greater variety of behaviour but differ in quantitative and theoretical terms.

From a theoretical perspective, cultural tightness-looseness has two main dimensions; the first relates to the strength and clarity of social norms – in other words the pervasiveness of these norms within a given society; and the second relates to the strength of sanctioning, which means the degree of tolerance that a society has towards deviant behaviour (Gelfand *et al.*, 2006). Whereas, intra-cultural variation refers to the actual distribution of behaviour of the population in given culture (Au, 1999). Its key component is the heterogeneity in a society's practices and values (Venaik and Midgley, 2015) and the extent to which societal members do not follow the central tendency of the society (variance of attributes) (Au, 1999). Also, the antecedents of intra-cultural variation mainly lie within the actual members of the society as opposed to cultural tightness-looseness, where the proxies are mainly related to exogenous factors. From a quantitative standpoint, the operationalisation of these constructs is completely different. Intra-cultural variation is mainly operationalised using the standard deviation of behaviours (Au, 1999; Au and Cheung, 2004) or using proxy measures such as ethno-linguistic diversity (Beugelsdijk *et al.*, 2014). On the other hand, cultural tightness is measured through a set of variables that relates to historical, ecological and societal factors. The main measure developed by Gelfand *et al.* (2011) considers ecological and historical threats, socio-political institutions, legal system, etc. Even recent operationalisation techniques (Uz, 2015) have incorporated socio-political, threat to survival, psychological and behavioural-inhibition factors. The distinction between these two constructs has been illustrated by extant research. For instance, the Netherlands, a relatively loose culture (Gelfand *et al.*, 2011), has small variation, whereas, India, which scored very high on Gelfand *et al.*'s (2011) scale, is characterised as having high intra-cultural variation (Au, 1999).

Therefore, it important to note that these two constructs are different and that the empirical examination in this chapter is neither a replication nor a different measure of the previously tested construct of cultural looseness (please refer to chapter 5); this is a new investigation into the effect of intra-cultural variation on managerial discretion. To achieve the desired conclusion, which illustrates whether intra-cultural variation adds to our understanding of managerial discretion on a national level, the author takes a conservative approach and controls for the construct of cultural tightness-looseness.

How might intra-cultural variation affect managerial discretion?

Like Crossland and Hambrick (2011), the author found that cultural looseness is positively related to managerial discretion. This is because in loose societies, standards of behaviour are more ambiguous, which leads to less restrictiveness, whereas tight cultures provide clear expectations on how entities (including executives) should behave in that culture. If intra-cultural variation is like tightness-looseness, which is not the case, as discussed earlier, then we may expect it to have a positive relationship with managerial discretion. In contrast, the author speculates that intra-cultural variation would negatively affect managerial discretion. The logic can be linked to various management and non-management theories.

Starting with the latter, in the discipline of international marketing, studies find that intra-cultural heterogeneity is an important construct for marketing managers as they need to understand the behaviour, attitudes and values of a distinct set of customer segments, which is indeed important for positioning purposes (Broderick *et al.*, 2007). When managers are faced with such a diverse set of customer groups, decisions become tougher and little latitude exists in their decision making. The same argument is echoed in the management literature, particularly the upper echelons theory. Executives have restricted information-processing abilities and must be selective in where they focus their attention (Abrahamson and Hambrick, 1997). Because discretion confers options and the diversity associated with the selection of these options (Nelson, 1991), the greater the uncertainty in each environment (in this case society), the more executives will consider a wider variety of means to diverse ends (Abrahamson and Hambrick, 1997). Countries that scored high on uncertainty avoidance have been characterised as being low on intra-cultural variation (Au, 1999). This means that the array of options available to executives in these environments is less diverse, implying low managerial discretion.

Furthermore, existing work in the stakeholder realm argues the importance of treating various stakeholder groups well, as it contributes to organisational performance (e.g. Donaldson and Peterson, 1995; Harrison *et al.*, 2010), which is the focal objective of executives. Stakeholders are categorised into two main types: self-regarding, who only care about themselves (Fehr and Falk, 2002); and reciprocal, who care about others and try to punish unfair treatment even if that punishment is costly (Engelmann and Strobel, 2004). Philips *et al.* (2011) argue that executives, and by extension their firms, have the latitude to choose actions in response to existing internal or external events. However, it is well documented in the discretion literature that this latitude is limited and subject to various internal (e.g. firm characteristics, executive individualities) (Wangrow *et al.*, 2015) and external (e.g. industry and country characteristics) (Crossland and Hambrick, 2007) factors. Proponents of stakeholder research have emphasised the important role of external factors in influencing executives' behaviour. The argument lies in the premises that firms function within a collection of constituencies that have a varying degree of power (Mitchell *et al.*, 1997), which ultimately leads to constraints on executives' actions. Thus, it would be almost impossible to explain the viability of stakeholder influence as an external factor affecting firms' outcomes without acknowledging the condition of this influence, which is the degree of managerial discretion. If executives are not accorded enough discretion, then it is unreasonable to hold them accountable for mistreating stakeholders.

Research shows that the heterogeneity of stakeholders is well observed across cultures and even within an environment (country or industry) (e.g. Gardberg and Fombrun, 2006). These stakeholder groups impose strong normative and coercive pressures on organisations (Delmas and Toffel, 2004), which consequently lead to pressures on executives' actions (institutional argument based on Di Maggio and Powell, 1983). Top managers are exposed to and face a population of distinct stakeholder groups, each with different motives and heterogeneous behaviour (Bridoux and Stoelhorst, 2014). In their own words, Hambrick and Finkelstein (1987: 374) state that: "To us, constraint exists whenever an action lies outside the 'zone of acceptance' of powerful parties who hold a stake in the organisation… Extending the concept to other types of stakeholders, one can think of board members, bankers, regulators, employees, customers as well as other parties, as all having their own zones of acceptance". Hence, actions that are acceptable by a given stakeholder group may well be objectionable to others. In such an instance, executives exposed to a diverse set of stakeholder groups are strongly challenged to take actions that are in line with the acceptance scale of these stakeholders. Bear in mind that discretion exists to the extent to which actions fall within the zone of acceptance of stakeholders (Crossland and Hambrick, 2011). In this case, there will be more than one zone of acceptance, with each related to a stakeholder group, because of the development of cultural archetypes due to greater heterogeneity (Venaik and Midgley, 2015). Stakeholder theory distinguishes between the various stakeholders a manager is exposed to and recognises that interests differ both between and across these stakeholder groups (Wolfe and Putler, 2002). Executives' discretion in this case is a function of both the holder-specific discretion, particularly to each stakeholder group, and the aggregate discretion, which is common across all stakeholder groups. In the cultural realm, managerial discretion was considered from the latter dimension – the aggregation of stakeholders' zones of acceptance using cultural values (Crossland and Hambrick, 2011) or practices, as seen in the previous chapter. However, the particularity of each stakeholder group's zone of acceptance is of great importance. This is because increasing the heterogeneity within a given context would lead to the creation of several cultural archetypes, which in turn increases the institutional constraints that are imposed on executives operating in such a context. Any actions that do not conform with the zone/s of acceptance of most stakeholder groups would be perceived as objectionable and as such will lead to cultural misfit, illegitimacy and inefficiency (Roth *et al.*, 2011). Therefore, the latitude of available options or actions would be limited.

In contrast, in societies with low intra-cultural variation, executives need to adapt to few stakeholder groups, which allows them to foresee a broader set of actions. It is easier for individuals to attend to a homogenous culture as opposed to a heterogeneous one (Au, 1999), because the contact with a divergent set of exemplars may become confusing, and thus provide further constraints on the information-processing ability of executives (Abrahamson and Hambrick, 1997). According to cognitive theorists, executives encounter more information than their cognitive capability can integrate (Surroca *et al.*, 2016); for that reason, they focus (pay attention to) on domains that they perceive as being critical. This attention pattern will therefore determine their strategic agenda (Nadkarni and Barr, 2008). In the absence of the pressure generated from a variety of stakeholder groups, executives would not be tended to adhere to a diverse set of societal expectations (Campbell, 2007). It becomes easier for an executive in this situation to make greater strides to interpret and comprehend a smaller set of information, which will ultimately be reflected in more strategic change (Cho and Hambrick, 2006) and the generation of new choices (Cohen and Levinthal, 1990). Consequently, the latitude of actions increases. An executive focusing on one stakeholder group may well be in a position of high discretion vis-à-vis that individual group, but at the cost of added constraints from other stakeholder groups. In societies with a limited number of stakeholder groups (low intra-cultural variation), the opportunity cost to attend to the powerful stakeholder groups decreases and executives can attend to the needs of a concentrated set of individual stakeholder groups, which ultimately generates higher discretion.

Accordingly, the author hypothesises that:

Hypothesis 10: Greater intra-cultural variation reduces the degree of managerial discretion.

3.3. National Competitiveness as Consequence of Managerial Discretion

National competitiveness is the relative position of a country among others in the international market (Cho and Moon, 1998), and refers to the establishment of an environment that sustains more value creation for its businesses (Garelli, 2003). National competitiveness is a matter of considerable importance for both business and national economy leaders (Thompson, 2004). In today's globalised world, executives and policy makers need to assess the extent to which the external environment is competitive and could attract more competition. For the economics school, national competitiveness is a straightforward issue mainly related to the factor costs and largely determined by the relative exchange rate, labour and land costs (e.g. Fagerberg, 1996; Reinert, 1995).

On the other hand, for scholars in the management field, this concept is more broadly conceived, where national competitiveness tends to be more related to complex institutional and systematic factors of the macro-political economy which affect the micro-economic activities of firms within competitive environments (countries) (e.g. Strange, 1998; Krugman, 1996). This complexity brings more uncertainty through which top executives need to steer their firms via appropriate strategies (Luo, 2001). As such, national competitiveness is a function of the efficiency of domestic institutional environments in fostering competitive activity within its territory (Thompson, 2004). In other words, to achieve national competitiveness, countries should create institutional environments that are consonant with business needs. From this standpoint, executives of firms operating in an environment would prefer policy makers to establish policies that aim at providing a domestic institutional environment that would enable those executives to draw on a broader array of actions.

Earlier research has emphasised that countries vary in their competitiveness levels and their attitudes towards competitiveness (e.g. French and Jarrett, 1994; Ho, 2005). This difference is mainly triggered by the varied cultures that each country is characterised by. From early treaties of cultural variables (Weber, 1904), culture has played a critical role in advancing nations, particularly enhancing overall country performance. The differences in national culture do not only explain human or organisation behaviour but also national performance (Franke *et al.*, 1991). From Hofstede's (1980) study to the most recent cultural model of House *et al.* (2004), the results have shown a significant positive effect of culture on national performance and economic development.

Despite the direct link between national culture and economic growth, scholars have debated that other important external factors exist (e.g. economic factors) which affect economic performance (Yeh and Lawrence, 1995). Economic freedom was found to mediate the relationship between national culture and economic growth (Johnson and Lenartowicz, 1998). Economic freedom or economies that are more open tend to grow faster and perform better than other economies which are strained by regulations (e.g. Dollar, 1992; Sachs and Warner, 1995). This is since open economies help to protect private property, allow freedom of choice and most importantly encourage individual autonomy and entrepreneurial behaviour (Gwartney *et al.*, 1996; Reed, 2001). Since market demand is constantly changing, which causes great uncertainty (Aoki, 1995), in such economies or countries, executives can foresee a broader range of actions and are not constrained in terms of the type or scale of strategy that they could implement. This is consistent with the tenets of task-environment discretion (Finkelstein, 2009). These countries are more innovative, value competition and promote specialisation (Johnson and Lenartowicz, 1998), all of which provide executives with greater freedom to choose which products and services to produce, how to compete, and afford them greater freedom in terms of their decision making (North, 1990). Similar findings are echoed in Makhija and Stewart (2002) who argue that differences in the national context and free market versus centrally planned economies have an important role in determining the risk orientation of executives. They find that managers in free-market economies are equipped with more tolerance for ambiguity and are more accountable for organisational outcomes, which in turn increases their propensity to take risky actions (Makhija and Stewart, 2002). This is consistent with Crossland and Chen (2013), who demonstrate that executives across countries based on that country national characteristics are more accountable for poor firm performance and their dismissal rate is higher. They also show that a country's level of managerial discretion plays a crucial role in determining the accountability of its executives regarding poor firm performance.

Since the nature of firms is strongly determined and influenced through responses to the constraints and opportunities available in their specific environment (Child, 1981), organisations tend to be configured in a way to match or comply with their given institutional environment (Khanna and Palepu, 2000). For instance, Kwok and Tadesse (2006) find that national culture has a positive and significant effect on the financial systems adopted in a country. This is because financial systems are a function of the controllability of the environment (Rajan and Zingales, 2003), in the sense that the broader national environment dictates the type of financial systems that can be implemented in a country. In countries with a flexible institutional environment (e.g. free-market), the decision-making processes are vague and cannot be easily predicted. As such, the executives of firms operating in such environments should be allowed more managerial discretion (Sharpman and Dean, 1997). In contrast, countries with a rigid institutional environment constrain executives' behaviour and limit their latitude of actions. Countries with more national-level discretion provide executives with a wider array of behaviours, which may in turn allow faster firm action, more innovation and heterogeneous strategies. By aggregating the competitive success of firms to the national level, it seems that the overall national-level competitiveness increases (Thompson, 2004). This happens because national performance is not inherited but rather depends on the capacity of a nation's industry to innovate and upgrade (Davies and Ellis, 2000; Porter, 1990; Snowdon and Stonehouse, 2006). This is the case for both the industries and the actual firms that can drive national performance. Zahra (1999) argues that societies with greater entrepreneurial orientation are more competitive than others. The greater the entrepreneurial orientation in a country, the higher the latitude of executive actions. This is because such characteristics allow more innovation and tolerance of uncertainty, which in turn drives global competitiveness (Lee and Peterson, 2000). Thus, country-level managerial discretion should act as an important trigger for enhanced national competitiveness.

The way firms contribute to the overall performance of a country is based on their strategic behaviour (Francis, 1992). Generally, national competitiveness does not equate directly to the relative international market price of factor inputs but rather stems from the free and undistorted competitive activity within the domestic institutional environment (Thompson, 2004). As such, when an executive has a greater latitude of actions and can choose strategic initiatives without any environmental constraints, the overall competitive scale of the domestic market increases, leading to greater national competitiveness. There has been much evidence that firms in different countries tend to foresee different strategies due to the institutional context of the countries in which they operate (e.g. Thomas and Waring, 1999). Firms that innovate and seek growth opportunities through innovation and the development of products and markets tend to provide executives with more discretion (Rajagopalan and Finkelstein, 1992). By following this orientation, they tend to bear high ambiguity and uncertainty in cause-effect relationships. Countries that are the home of such firms should be more competitive than others. In contrast, countries with low discretion seem to limit executives' array of actions. In this case, firms operating in these environments tend to foster strategies that are like competitors and focus on building stable strategies. For instance, Japan, a low-discretion country, is the home of firms with homogenous strategies (Porter *et al.,* 2000). When companies follow stable strategies, and are more constrained in their behaviour, they will in turn have a reduced latitude of executives' actions (Rajagopalan, 1997).

As such, the author argues that national-level managerial discretion plays an important role in driving the competitiveness of countries.

Hypothesis 11: Managerial discretion has a significant positive relationship with national-level competitiveness.

3.4. Managerial discretion as a Mediator Between Culture and National Competitiveness

Furthermore, national competitiveness is closely related to the ability of a society to tolerate changes and adapt to the uncertainty surrounding future development opportunities (Mackic *et al.*, 2014). Societies' outcomes and efforts to adapt to external changes and internal integration are important contributors to national competitiveness (Javidan and Hauser, 2004). In the same vein, Lee and Peterson (2000) argue that a society's propensity to generate autonomous, risk-taking, innovative, competitively aggressive and proactive behaviour depends on that society's cultural attributes. These societal characteristics trigger more managerial discretion. Additionally, as argued in the preceding sections, earlier research has highlighted the importance of national culture in driving a country's performance. In this vein, Petrakis *et al.* (2015) show that culture is a long-term strategic instrument that drives national competitiveness. Particularly, House *et al.* (2004) empirically demonstrate that cultural practices are positively related to national competitiveness. The author argued in an earlier chapter (chapter 5) that cultural practices have a direct relationship with managerial discretion, and in turn the author suggests here that discretion also drives national competitiveness. Logically, this implies that managerial discretion inhabits a mediating role between cultural practices and national competitiveness. Constraints derived from the institutional environment (national culture) will significantly affect the degree of managerial discretion available to CEOs in that environment, which in turn will influence the competitiveness of that national context.

Accordingly, the author hypothesises that:

Hypothesis 12: Managerial discretion mediates the relationship between national cultural and competitiveness.

For clarity, a summary of all research hypotheses is provided in Table 1, this includes the anticipated effect of each hypothesis.

Table 1: Summary of Research Hypotheses

	Hypothesis	**Effect**
Institutional Collectivism (IC)	Greater levels of institutional collectivism decrease managerial discretion.	Negative (-)
Uncertainty Avoidance (UA)	Greater levels of uncertainty avoidance decrease managerial discretion.	Negative (-)
Power Distance (PD)	Greater levels of power distance increase managerial discretion.	Positive (+)
Future Orientation (FO)	Greater levels of future orientation increase managerial discretion.	Positive (+)
Humane Orientation (HO)	Greater levels of humane orientation decrease managerial discretion.	Negative (-)
Performance Orientation (PO)	Greater levels of performance orientation increase managerial discretion.	Positive (+)
Gender Egalitarianism (GE)	Greater levels of gender egalitarianism increase managerial discretion.	Positive (+)
Assertiveness (AA)	Greater levels of assertiveness increase managerial discretion.	Positive (+)
Cultural Looseness (CL)	Greater levels of cultural looseness increase managerial discretion.	Positive (+)
Intra-Cultural Variation	Greater intra-cultural variation reduces the degree of managerial discretion.	Negative (-)
National Competitiveness	Managerial discretion has a significant positive relationship with national-level competitiveness.	Positive (+)
Mediation Role	Managerial discretion mediates the relationship between national cultural and competitiveness.	Positive (+)

4. Research Design and Methodology

4.1. Introduction

The preceding chapters discussed the main research aims and objectives along with providing a background to the relevant literature by emphasizing on the national-level construct of managerial discretion, and demonstrated the development of the theoretical model. The following tackles the different methodological approaches currently employed in the broader strategic management field and provides an overview of the adopted methodological approach in this thesis.

Research projects, regardless of the academic field, should follow certain methodological criteria to be accomplished. Research in general helps to solve a problem by answering related questions. However, research methodologies are chosen in accordance with the research topic in question and the problem itself. Also, researchers are strongly advised to follow and look at the various research methods used literature, which is related to their topic, and build on it to have a complete model for answering their research question(s). Basically, the process of research should take into consideration the following (Malhotra, 2000; Bryman and Bell, 2011):

- Type of research (descriptive, exploratory, causal, etc.)
- Type of data to be used in the analysis, which forms the research paradigm (quantitative (numeric) or qualitative (words), etc.)
- Finally, the direction of reasoning, which is mainly associated with the identification of research paradigm. This includes: deductive, inductive, abductive, etc.

Once the research type has been identified, researchers investigate what kind of data should be used and how to collect it. In this vein, numerous data-collection techniques are available. These should be selected according to the research needs. In other words, the core criterion to select the data collection method is how it could help in answering the research question (de Vaus, 2001). Such decisions should not only take into consideration the strengths and weaknesses of the selected method but also, as previously mentioned, how it could contribute to reaching an appropriate answer for the research question.

The core focus of this thesis is to understand and examine a theoretical framework that enables further development of the field of managerial discretion, and to empirically asses the focused components of the model, particularly, the relationship between cultural practices, intra-cultural variation and managerial discretion and the implication for the competitiveness of countries. Any attempt to test or develop a theory puts a great pressure on the researcher to carefully account for the ontological and epistemological position. This chapter and particularly the below sections describe the nature of knowledge and the tools that would be employed to access that knowledge within the context of this research. The following sub-sections are organised as follows: first, the researcher starts with an overview of the different philosophical underpinnings to business research in general and the strategic management and discretion research followed by a discussion on the theory development and the research paradigm adopted in this thesis. Second, the author discusses in depth the different constructs and variables used in this research and provides and overview of the research design, operationalisation techniques, survey design, sample and finishes by discussing the statistical techniques implemented to test the proposed relationships between the variables.

4.2. Philosophical Underpinnings to Business Research

It is well acknowledged that there isn't a universal best approach for researchers to adopt when looking to discover a reality, researchers have enough discretion to choose the appropriate research approach for their specific study. Blaikie (1993) argues that there are strengths and weakness associated with adoption of a particularly research strategy or approach, these pros or cons should be carefully evaluated to make appropriate judgment. However, research strategies are subject to a range of influences, which were categorised by Blaikie (1993) as: pragmatism, worldview, personality, professional socialisation and social context. Pragmatism simply refers to matching the research methodology with the nature of the research itself, such influences present the research strategy as a mean to an end. Worldview influences are factors that shape the research methodology in a way that is compatible with the individual ideological views, beliefs, religion and values. However, the Worldview may well be described as a narrow perspective, whereby it limits the range of approaches that could be selected to do the research. Personality influences are also subjective in nature and focuses on the preference for ambiguous approaches, whereby researchers would either go for a linear positivist approach or choose to engage with a more complex and ambiguous interpretivist approach. Lastly, the social context would also influence the research methodology by emphasizing the importance of meeting funders or consumers' expectations and most importantly that the methodology should be acceptable by these entities.

Blaikie (1993) asserts that these influences are not exclusive and the choice of a research methodology may well be dependent on a combination of all these factors. However, this equivocal assumption would confuse researchers and offer little guidelines on how to use information to make an appropriate choice. Despite that and due to the lack of cogent foundation for investigating knowledge, it is crucial for researchers particularly social researchers to explicitly discuss their perspective of ontology (meaning what constitute social reality) and epistemology (how researcher came to access that reality) (Johnson and Duberley, 2000). Additionally, researchers should recognise the influences and biases that led to the adoption of a specific research approach. By following such strategy, researchers would be able to evaluate the different options and present the most appropriate option to recognise the strengths, weaknesses and the limitations of their research strategy.

The philosophical position usually determines the way reasoning and observations are connected to each other and guides the path in which the researcher understands and approaches the study and the search for reality which will clarify the research design as well (Blumberg *et al.,* 2008). Such philosophical orientation or position is well connected with Kuhn (1962) definition of a paradigm. In his argument, Kuhn (1962) relates paradigms to models of observation and understanding that direct or shape how researchers see and assess reality. These sources of guidance, paradigms, are required to identify the research problem, select appropriate methods and define the ontology, epistemology and the nature of the enquiry (Benton and Craib, 2010). Ontology deals with what researchers think is the reality and how they view the world, whereas epistemology explores the representation of knowledge of social reality under question and what is considered as evidence for such a reality and finally the methodology is about the process in which we get to the knowledge (Mason, 2002; Bryman and Bell, 2011; Hennink *et al.,* 2011). Therefore, these paradigms play an important role in influencing the investigation of the researcher and the methods that he/she employs in their search for answers (Doyle *et al.,* 2009).

According to Creswell (2009), there are two main research philosophes, which were generated from the Western scientific tradition as appropriate for research in the social sciences, positivist and interpretivist. Starting with the latter, interpretivist (social constructivist) deals with the complexity in views rather than focusing on meanings of variables, rely on the researchers and participants view of the situation in question (Creswell, 2009). Whereas, the former, the positivist is mainly considered as a deterministic approach in which some factors determine outcomes. Such philosophical orientation identifies and evaluates the cause of an outcome, observe and measure the objective reality that exists in an environment without relying on personal judgements (Myers and Avison, 2002). There are also other philosophical approaches but these mainly rely on views from both preceding philosophies such as critical realism (Archer *et al.*, 1998). Such approach challenges the single objective reality that exists in the positivism and the shared reality that exists in the interpretivism.

4.2.1. Issues on Philosophical Approaches

As mentioned earlier, Benton and Craib (2010) argued that philosophical positions in general are required and expected to define the ontology, epistemology, the relationship between human beings and their environment (human nature) and the methodology. These dimensions are shown in figure 4, which illustrates the subjective/objective dimensions of Burrell and Morgan (1979).

Figure 4: The subjective/objective dimension of Burrell and Morgan (1979)

The Subjectivist Approach				**The Objectivist Approach**
Nominalism	←	ONTOLOGY	→	Realism
Anti-Positivism	←	EPISTEMOLOGY	→	Positivism
Voluntarism	←	HUMAN NATURE	→	Determinism
Ideographic	←	Methodology	→	Nomothetic

The existing debate in social sciences on ontology relates to the positions of internal realism, relativism and nominalism. Realism refers to the acceptance of one truth and that evidences or facts can be revealed, oppositely, nominalism deals with the acceptance that there is no truth and that such evidences or facts are human made (Easterby-Smith *et al.,* 2012). Moreover, the contrasting view on the epistemological position is reflected in the positivism and the subjectivism orientations. Positivism believes that reality exists in the external world and it can be studied by applying traditional methods that are adopted in the natural sciences (Bryman, 2012). In here the application of methodological approaches is nomothetic, which means focusing on the replicability and the deductive reasoning of testing theory through quantitative assessments (Neuman, 2007). On the other hand, the anti-positivism approach or also referred to as interpretivist or social constructionism falls into the ontology of relativist by if reality is determined by how individuals view it rather than objectives factors (Guba and Lincoln, 1994). In here, researcher favour the ideographic methodology whereby the explanation focuses on the aspect of the social world through details descriptions of relationships (Neuman, 2007).

Business research in general is not a unique type of research that requires consideration of the philosophical underpinnings without taking into consideration the external reality. Research in the business and management discipline does not exist in a bubble and is not separated from other social sciences disciplines or any other academic adherences that business practitioners hold (Bryman and Bell, 2011). The business and management field is not only concerned with the nature of firms or how they operate but also is concerned with findings solutions to organisational problems which are directly related to management practices. As such, the uniqueness of the business and management research is seen in the relationship between theory and practice, which should ultimately be very close. However, Gummesson (2000) argues that academic researchers and business practitioners each place different emphasis on theory and practice, whereby scholars contribute to theory development using fragmented pieces from practice and business practitioners contribute to practice by using fragmented pieces of theory. This has created a gap between business researchers and practitioners particularly as the latter has lost interest in business and management research findings (Tranfield and Starkey, 1998). Therefore, business researchers must relearn how to regain the interest of the business community to retain value and purpose for their research. One of the important facts that would combine and fill in the gap between business researchers and practitioners is the search for the objective reality and the reliance on evidence and facts, which as discussed earlier would mainly exists in the positivist approach.

To identify the appropriate and relevant philosophical approach to be implemented in this research, the author considered the five dimensions of influence presented in table 2.

Table 2: Positivism vs. Interpretivism

	Positivism	**Interpretivism**
Ontology	External Reality Single Reality Causal Laws Generalisable Predictive Reductionist Observer Independence Objective	Socially Constructed Reality Multiple Contexts Multiple Realities Relative Without Independence Interpreted by Observer Subjective

This study as stated earlier, in part corroborate extant research (Crossland and Hambrick, 2011) and build on previous research within the strategic leadership research particularly managerial discretion research. In such context, this stream of research has mainly relied on the positivist approach to objectively assess the external reality and identify the different antecedents and consequences of managerial discretion. Similarly, in this thesis, the author is interested and aims to investigate the relationship between different variables that are considered as external realities as per earlier research (Crossland and Chen, 2013; House *et al.*, 2004; Wangrow *et al.*, 2015) and focuses on the causal relationship between these variables. Additionally, the context of this research is dispersed and consists on different countries (18), so the nature of the research itself would mainly emphasize the positivist approach to reach generalisability, but indeed to a certain extent. Also, the assessment, is mainly objective without relying on personal neither participants' observations and judgement, simply because the examination relates to CEOs, which tends to exaggerate their potency on firms' outcomes (Hambrick *et al.*, 1993). Not to forget that the investigation also includes the assessment of national culture, which is considered as an external reality and generalised across a collective (Hofstede, 2001; House et al., 2004), as such, the positivist approach would be more appropriate for the present research.

4.2.2. Theory and Theory Development

Theory is one of the greatest words in social sciences, which most academics are eager to develop and enhance in different disciplines. It may look an easy and straightforward word, but theory is a complicated notion that could have several meanings. According to Abend (2008), theory, could be used as the general proposition of logical connection between systems of general propositions that establish the relationship between two or more variables; or it could be an explanation of specific social phenomena; or interpret empirically social phenomena to come up with a specific conclusion; or it could relate to how people understand, explain, interpret and represent the social world. Notwithstanding these differences in the use of the word theory, theory is mainly constituted of four elements: definitions of variables, domain in which the theory is applied or applies, set of relationships between variables, and specific factual claims or predictions (Bunge, 1967; Hunt, 1991; Reynold, 1971). Thus, theory outlines the exact definitions in a domain to provide explanation on how and why relationships between variables are logically tied up so that it gives particularly factual claims. Academics in the management discipline argued that a good theory aims to provide clear explanation of why and how specific relationships lead to outcomes (Wacker, 1998). Such good theory should also be accompanied with important feature or virtues, which are: uniqueness, conservatism, generalizability, fecundity, simplicity, consistency, empirical riskiness and abstraction (Popper, 1957; Kuhn, 1980). These features should be present in any empirical examination of relationships aiming to explain outcomes. In this research, the theory development takes into consideration all these features and tried to address each one. The aim in this study is to explain how and why managerial discretion vary across countries, using a set of cultural dimensions to explain such changes, and most importantly how and why such relationships drives country competitiveness. The uniqueness of theory in this research relates to the empirical investigation of managerial discretion construct using a new set of antecedents and consequences that haven't been assessed previously in the extant literature. The current theory development of the national level of managerial discretion has been limited in its domain to the cultural values of countries, namely individualism, uncertainty tolerance and power distance, however, in this research the theory of discretion has a superior position as it considers a wider array of cultural dimensions by not limiting its domain to cultural values only, but instead looking at practices and intra-cultural variation as well. Thus, reaching conservatism.

Moreover, the domain of the theory presented in this thesis is not also limited in terms of the applicability and generalizability of the theory, but instead investigate the theory in different cultural contexts, namely 18 countries from 6 different regional clusters, therefore broadening the domain of theory application to reach the virtue of generalisability. The internal consistency of the theory relates to the adequate explanation of the proposed relationship, which has been provided in the preceding chapter but most importantly is the use of cultural practices which adequately represents the incumbent behaviour in a society instead of individual preferences which exists in research employing values. Also, the present theory considers the fecundity feature, by generating new undiscovered models and hypotheses as opposed to previous research. Finally, the empirical investigation employed in this thesis strengthen the theory development of managerial discretion and shows its independence from time and space, as it has shown similar findings in different places and time by corroborating it with Crossland and Hambrick (2011) and Crossland (2008). Therefore, all the characteristics of good theory have been matched and followed in this thesis, to further develop the research on managerial discretion particularly from the national-level.

4.2.3. Research Paradigms for Theory Building

Research paradigms has been frequently used as a notion in the social sciences, however it tends to confuse the reader about the actual meaning of research paradigms as it may hold several meanings. Burrell and Morgan (1979) were amongst the authors that provided a clarified set of research paradigms sharing the same meaning. That is the way a researcher examine social phenomena from which specific understandings can be generated and the desired explanations endeavoured. Figure 5 provides an illustration of these paradigms that are arranged in a way to meet four main conceptual dimensions: radical change, regulator, subjectivist and objectivist.

Figure 5: Research Paradigms according to Burrell and Morgan (1979)

Radical Change

Subjectivist	Radical Humanist	Radical Structuralism	**Objectivist**
	Interpretive	Functionalist	

Regulation

In the business and management discipline, the radical change dimension relates to the way a judgment is being made on organismal affairs and it offers new ways in which these organisational affairs could be conducted to change the usual order of things. This dimension implements a critical perspective on organisational phenomena. On the other hand, the regulation perspective or dimension, seeks to understand the way in which organisational phenomena is regulated and provides suggestions on how to improve the current behaviour. Subjectivism seeks to view of organisational and social phenomena as a subjective reality based on the interpretation of social actors (informants) and the researcher him/herself, but also provides very detailed explanation of a specific situation (Remenyi *et al.*, 1998). Such paradigm goes hand in hand with the interpretivist research orientation. Finally, the objectivist paradigm views social phenomena as existing in an external form to social actors including the researcher. It doesn't consider the judgement of social actors but try to explain and understand social phenomena in an objective manner, which goes along with the positivist research orientation (Bryman and Bell, 2011).

The choice of the research paradigm in this study is a direct consequence of the research orientation and the philosophical position outlined in the preceding sections. The philosophical position adopted for this research is not superior to any other research orientation, but is legitimised via the identification of the different factors that influence the researcher selection (Blaikie, 1993). It is somehow consciously identified due to the philosophical orientation. In this thesis, the objectivist paradigm is a perfect fit with the theory development as it aims to explain and understand external realities, namely culture, managerial discretion and national competitiveness, where all these variables are independent from individual preferences of social actors and reflect the mechanisms in which the link or relationship between these variables exists. Also, for the sake of maintain a good theory development, the features of good theory should also be reflected in the choice of research paradigms. For instance, if the researcher is to adopt a subjectivist research paradigm, the generalizability of the research would be limited, which will jeopardize the development of a good theory. Instead, the objectivist paradigm would enhance the generalizability of the research findings due to the way relationships are being examined that do not involve any subjective interpretation. Furthermore, the empirical investigation employed in this research which aims to answer the different research questions, uses data that are external to the organisation and are objectively measured. This empirical research is mainly classified as the 'real world' empirical investigation (Wacker, 1998) as it tackles theoretical relationships in the real world.

4.2.4. Constructs and Variables

Before identifying and explaining the different constructs and variables used in this research, it is important to provide an explanation or distinguish between what researchers mean by constructs and variables. Construct in social sciences, is a proposed attribute of something that often cannot be measured in a direct way but instead is assessed different indicators or variables (Cronbach and Meehl, 1955; Messick, 1995). As noted earlier, this research investigates the relationship between inter-cultural, intra-cultural variations and managerial discretion and the implications for national competitiveness. Therefore, there are four main constructs used in this thesis: inter-cultural variation, intra-cultural variation, managerial discretion and national competitiveness. Each of these constructs is represented by different variables and is operationalised using different measurements. The operationalisation techniques are described in depth in the below sub-section 4.4.2. Table 3 provides a summary of the constructs and variables used in this research.

Table 3: Summary of Constructs and Variables

Constructs	Variables
Inter-Cultural Variation	Cultural Practices: - Institutional Collectivism - Uncertainty Avoidance - Power Distance - Future Orientation - Humane Orientation - Performance Orientation - Gender Egalitarianism - Assertiveness - Cultural Looseness
Intra-Cultural Variation	Heterogeneity in cultural practices: - Institutional Collectivism - Uncertainty Avoidance - Power Distance - Future Orientation - Humane Orientation - Performance Orientation - Gender Egalitarianism - Assertiveness Cultural Looseness
Managerial Discretion	Freedom in decision making accorded to CEOs in a specific country
National Competitiveness	Global Competitiveness Index: - Institutions - Infrastructure - Macroeconomic Environment - Health and Primary Education - Higher Education and Training - Goods Market Efficiency - Labour Market Efficiency - Financial Market Development - Technological Readiness - Market Size - Business Sophistication - Innovation

Cultural practices variables are measured through a set of surveys from House et al. (2004) illustrating the present behaviour of societal members in each society. House et al (2004) used a stratified sample of middle managers employed by 951 separate organisations in the three main industries: food processing, financial services and telecommunications services. Two version of surveys have been employed, alpha which relates to the cultural values of societies and asks questions on how things should be in a society, thus reflecting the individual preferences of respondents. The other survey, beta, which has been used in this research, relates to the cultural practices and asks questions about how things are now in each society, so here respondents are observers of their society. Each cultural practice (i.e. institutional collectivism, etc.) is measured via a set of questions that closely relates to people's behaviour in terms of this specific cultural dimension. For further details on the measurement and validity of each cultural practice, please refer to Hanges and Dickson (2004). Intra-cultural variation is represented by the heterogeneity in behaviour on each cultural practice and is measured via the standard deviation of individual responses of middle managers. Detailed explanation of the measurement is provided in section 4.4.2.5. Managerial discretion is represented as the freedom in decision making accorded to CEOs in a specific country and is measured via a questionnaire addressed to senior management consultants. Finally, global competitiveness index as shown in Table 3, is represented via a set of variables ranging from institutions to innovation. Figure 6 provides and explanation of the variables that constitute each of the pillars.

Figure 6: Global Competitiveness Index Framework: Explanation on the Twelve Pillars

Source: World Economic Forum, 2017

As can be seen from the Figure 6, the variables used to represent the global competitiveness of countries does not include any cultural measurements of variables, also do not include variables that could be used to operationalise managerial discretion. As such, there are no replication of variables in any of the constructs used in this research.

4.3. Research Design

The design of research refers to the plans and processes that extend the explanation from broad assumptions to a more detailed set of methods for collection of data and analysis (Creswell, 2009). Drawing upon the earlier discussion, the research design implemented in this research follows the quantitative assessment of the different conceptual (constructs) elements that are investigated. The objective of the quantitative assessment I to explain, test and validate the theoretical hypotheses proposed by the researcher in the aim of exhibiting the relationship between the variables (Bryman and Bell, 2011).

In relation to this PhD in general, the author is investigating the manifestations and national-level antecedents of CEO discretion in several countries. This research question has been formulated after a critical assessment of the available literature. It stems from the research problem identified and includes an enquiry into what the national-level antecedents of discretion are from an institutional perspective, how much these impact CEO discretion, and the contexts in which this phenomenon occurs. Therefore, to best represent the 'how much' part of the question, the quantitative research approach would be more appropriate.

The qualitative paradigm would significantly help in answering the overall research question but cannot quantify the effect of the inter-, and intra-cultural variations on managerial discretion, which is crucial in this stream of research (discretion research) (Crossland and Hambrick, 2011). Additionally, and as will be seen in more detail in the sub-sections below, the literature on discretion has developed several approaches to operationalising CEOs discretion. However, the most direct methods were either through quantitative assessment using surveys (e.g. Hambrick and Abrahamson, 1995; Crossland and Hambrick, 2011) or via the combination of both the quantitative and qualitative paradigms using interviews and surveys (e.g. Carpenter and Golden, 1997). The qualitative approach involves a subject assessment of discretion that would significantly yield biased responses, particularly because CEOs might exaggerate their latitude of actions (Hambrick *et al.*, 1993). Thus, the author is adopting the quantitative research approach using surveys to answer the research question. Surveys are important data-collection techniques that are best used in conjunction with the 'how much' questions (Bryman and Cramer, 1994), especially if using scales (in this case a 1 to 7 Likert scale). More importantly to add is the assessment of informal institutions. In cross-cultural literature, most studies have been examined using the quantitative (surveys) approach. In fact, the development of those surveys' questions was initially sought using a qualitative technique (e.g. Hofstede, 1980; House *et al.*, 2004); however, the operationalisation of cultural norms was then numerically assessed to give specific scores to each country. Hence, as this PhD uses cultural dimensions to assess their impact on discretion, it is more appropriate to employ the quantitative technique.

Data accessibility must also be considered. This research involves looking at a member of top management teams, CEOs. Apart from the bias associated with directly collecting data from these individuals, it is often challenging gaining access to a useful number of CEOs to interview, especially within the wide context of this study (18 countries). Due to their time constraints, the geographical spread of this research, and other factors, it would be very difficult to get access to a sufficient sample. It is also worth noting that even with the use of surveys, the author has faced several challenges, including acquiring a sufficient and reliable number of panellists to participate in the study. Luckily, after several months of data collection and several email waves (reminders), the candidate could get enough participants and completed responses. It is also worth mentioning that the key enquiry of this research is to investigate the impact of national institutions on the discretion level of CEOs of public firms headquartered in several countries. Discretion is highly dependent on the context in which it is studied (Hambrick and Finkelstein, 1987). The discretion of CEOs of private firms is distinct from those of public firms, simply because of the various organisational aspects related to each firm type. Therefore, the nature of firms involved in this research also has played a role in influencing the implementation of the quantitative research approach.

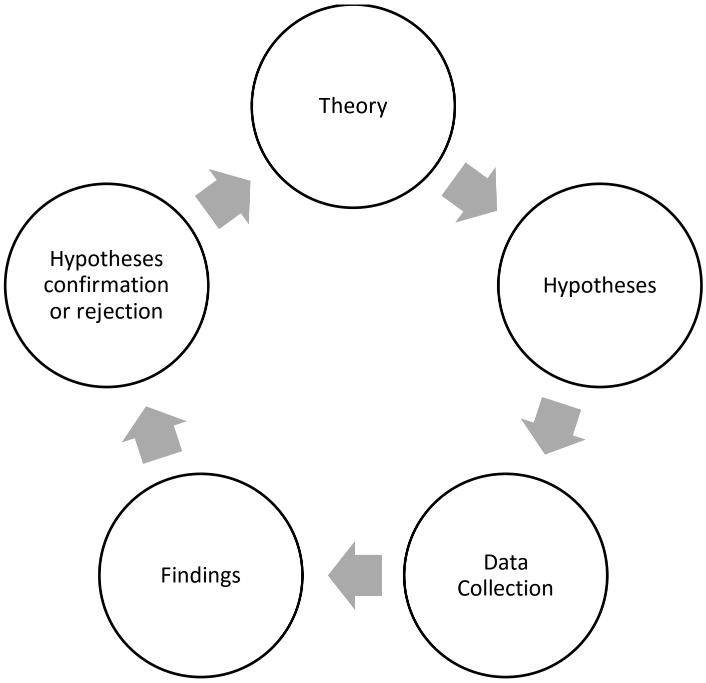
4.3.1. Approaches to Research Design

There are several research design approaches that could employed in business and management research, namely: quantitative, qualitative and mixed methods. Most research in the strategic management discipline and strategic leadership literature employs the quantitative paradigm with few studies using mixed methods. This is according to the literature review presented in chapter 2, and according to the publication in top academic journals. In this research and as previously explained, the author is employing the quantitative research design to be in-line with the extant research and due to the topic being investigated. The below section explains the reasons behind this approach from two different view, based on the research objectives and the time frame employed.

4.3.1.1. Research Design Approach based on Aims and Objectives

As previously mentioned, the adoption of the quantitative research design is derived from the philosophical position of the researcher, but also redirects to the main research questions and the objectives of this thesis. The thesis aims to answer the 'what' and 'why' in terms of the antecedents and consequences of managerial discretion and its role at the national-level. The quantitative research in such case is more reasonable as it looks for facts that can be usefully thought when trying to provide answers for the 'what' questions (Barnham, 2015). As such, the author follows the deductive reasoning to represent the most common view of the relationship between the theory and research. Here, the researcher knows about a specific domain and theoretical assumptions and try to deduce hypotheses, which are subject to empirical analysis aiming to provide further development of the theory and research (Bryman and Bell, 2011). The process of the research based on the research questions and objectives follow the below deductive structure shown in figure 7.

Figure 7: The Deduction Research Process



The process may well seem to be straight forward; however, it is important to note that there may be instances where the researcher view on the theory may change and as such the research design and analysis. For instance, if new theoretical ideas or research findings have emerged during the process in which the research is carrying out his/her investigation, or it may be that the relevance of the data for the theory may become apparent after collecting the data, or the data may not provide good fit for the theory and research hypotheses. For that reason, the researcher has regularly kept an eye on the advances of the literature and any new publication that tackle the concept of managerial discretion. Additionally, the author monitored the research development of the field of upper echelon in general to see if new theoretical insights have emerged which could alter the adopted research design in this thesis. Finally, and as mentioned earlier, the research strategy is in-line with mainstream research in the discretion and upper echelon literatures and the way it was built complements extant research, so the fear of not being able to fit data to the research hypotheses and theory was not a concern.

4.3.1.2. Research Design Approach Based on Time Frame Employed

The research design should also complement the time frame employed to make sure that findings are generalisable and most importantly are applicable in different times, which ultimately contribute to good theory development. Recall, that one of the key elements or feature of a good theory is abstraction, meaning being independent of time and space (Wacker, 1998). The time frame employed in this research is validated by previous research and complement such research stream. Crossland and Hambrick (2011), Crossland and Chen (2013), Hambrick and Quigley (2015), and many others have used 10 years as their time frame of study and carried out an empirical quantitative research to further develop the concept of managerial discretion. Similarly, and as will be seen in the coming sections, the time frame employed in this thesis is also 10 years. It is important to mention that despite being in-line with the extant research in the discretion literature, the time frame in some of the empirical investigations is somehow of minimal implication. As shown in the below section 4.4.2.3. data gathered to measure managerial discretion showed strong correlation with Crossland (2008) and Crossland and Hambrick (2011) data which both were collected around a decade ago. Moreover, the construct of culture (inter- or intra) are both stable and independent of time, simply because culture is a construct that does not change overnight and takes decades to experience some slight changes. To prove this point further, Beugelsdijk *et al.* (2015) recently showed that culture change is relatively stable overtime and that cultural distance is kept the same even after 60 years of replicating the same analysis. Therefore, providing further support for the use of quantitative research design and the employed time frame.

4.3.2. Primary Vs. Secondary Sources of Data

Primary data are thought to be data collected by the researcher him/herself, whereas secondary data are those collected by other professional sources (maybe other researchers) where the main researcher will probably have not been involved in the collection (Dale *et al.*, 1988; Bryman and Bell, 2011). Another distinction between primary and secondary data, is the accessibility of these data. If data are being published regularly or are published in trusted sources, like articles and books, and are available to use by any researcher, these will be considered as secondary. On the other hand, data that are used in other studies but have not been published and are given to a researcher to be used in their study, then it will be considered as primary. The author used a mixture of primary and secondary data. Primary data are collected via a survey questionnaire of senior management consultants to illustrate the score of managerial discretion per country. Data on intra-cultural variation are considered as secondary data published by House and colleagues (2004). These secondary data relate the scores of cultural practices in each of the studied countries. Data on intra-cultural variation are primary as these are not being published by any researcher before and were sought to be used in this thesis only with the consent of the original author. Finally, data on global competitiveness index are secondary as these are published by the World Economic Forum on a yearly basis. This is not a surprise for research in the strategic management discipline particularly discretion literature, as most studies tend to use a mixture of both primary and secondary data (Wangrow et al., 2015). Detailed explanation on the operationalisation techniques of each variable is available in section 4.4.2.

4.3.3. Objective Vs. Subjective Measures of Data

Subjectivity or objectivity of data relates to the philosophical position of the researcher, where mainly positivist researchers tend to use objective measures as opposed to interpretivist who uses subjective measures. The subjectivity of data may be associated with the researcher and respondents' views but also can be related to the respondents view only (Bryman and Bell, 2011). For example, the number 1 has a clear mathematical representation that does not change from one researcher to another, in such scenario, the data become objective. Whereas, the word data may well be interpreted differently by different people, in this case it becomes subjective. Objective data are not only present in quantitative research and subjective data are not presented in qualitative research as well. In this research, the author mainly uses objective measures. Starting with managerial discretion, one might argue that because the researcher is asking for the individual opinion of the senior consultant and answers provided are closely related to the respondent perception, the data on managerial discretion are subjective. However, Bryman and Bell (2011) argue that objective data uses the qualitative reality to convert it to quantitative simulation, whereby the number defines the external reality in a mathematical manner, meaning in numbers. Here, respondents are used as observers of the external world, particularly the freedom of decision making that is accorded to executives, as such their answers is based on objective reality without involving their individual preferences or perceptions. Moreover, measures of cultural practices are also considered as objective measures, as here respondents are used as observers of their society and particularly the behaviour in their society on each cultural dimension (Javidan et al., 2006). There is no subjectivity involved in their rating, they only report what is currently happening in their cultural environment. Also, the measures of national competitiveness are also considered objective as these reports numerical data on various outputs, such as institutions, economic development, etc. Pillars included in the measurement of the global competitiveness index are all analysed and interpreted the same by different individuals. After all, we are better observers of others than ourselves (Hofstede, 2001) and as such when respondents act in this way they will provide objective measures of data.

4.3.4. Scales of Measure

Researcher carrying out a survey as a measurement instrument, should make sure to choose the correct scale for the measurement of the variable. Likert (1932) is most used scale for survey instruments in various disciplines particularly business and management. Originally, the scale is 5 points, however other scholars have used a semantic differential such as 7 points (e.g. Osgood et al., 1957), 11 points (e.g. Thurstone, 1928) and some have even used 101 points such as the American National Election Survey (Miller, 1982). Robinson and colleagues (1999) have provided a catalogue of scales that used from 2 points to 10 points in their survey instrument. Therefore, it appears that there is no standard for the number of the points used in a survey scale and is mainly related to either common practices or most importantly to the theoretical assumption for the construct being measured. Krosnick and Presser (2010) carried a literature review and empirical analysis on all the different scales used and concluded that the most optimal choice is to use 7-point scale as this would increase reliability, validity and discern natural scale differentiation. Moreover, Krosnick and Presser (2010) argued that the use of a specific scale should be in-line with a stream of research and should be corroborate extant research. A direct point supporting the use of the 7-point scale that is adopted in this thesis. Along with enhancing reliability and validity of the scale, the author has used the 7-point scale to be in-line with the extant literature particularly with Crossland and Hambrick (2011).

4.4. Survey Design

Research that uses survey as the main measurement instrument is very important for the contribution to the advancement in theory development (Babbie, 1990). Scholars have distinguished between different type of survey research, mainly they argued of three different types: exploratory, confirmatory and descriptive (Filippini, 1997; Malhorta and Grover, 1998; Pinsonneault and Kraemer, 1993). Exploratory surveys are used when researchers are interested in preliminary insights to a specific topic as it helps to provide the basis for a more in-depth investigation. Confirmatory or theory testing surveys are used when knowledge on a phenomenon or topic has already been articulated in a theoretical fashion. In this case, surveys are employed to gather data with specific purpose or aim to test the adequacy of the proposed theoretical concepts or relationships. On the other hand, descriptive surveys are aimed to understand the relevance and description of a specific phenomenon. It doesn’t aim for theory development, instead it is used for descriptive purposes such as describing how a particularly phenomenon is distributed in each population (Wacker, 1998).

In this research, the survey instrument used to measure managerial discretion belongs to the confirmatory type whereby the author is aiming to test the proposed theoretical hypotheses. The author articulated a theoretical framework using well defined concepts, such as culture, theories, models and propositions with the specific aim to test the adequacy of the proposed relationships between the different variables. Despite adopting the survey design of Crossland and Hambrick (2011), the author checked that the employed design is in-line with the broader survey research design and the confirmatory type of surveys. Following Sekaran (1992) and Wacker (1998), the researcher first provided a clear identification of definition of the actual construct of managerial discretion and used an example to make sure that the language used in the survey is somewhat loose, avoiding any technical language. Second, the researcher presented the proposition and discussed the role of the constructs, this is shown in the objective of the study and in the description of the research project. Here the author highlighted that discretion is used as a dependent construct when investigation its relationship with culture and as an independent construct when assessing its implication on national competitiveness. Finally, the author has set the boundaries of the conditions under which the relationships between culture, discretion and national competitiveness holds using references of other constructs as control variables, also by clearly stating to respondents that the researcher is only interested in the national-level of managerial discretion and not the individual, organisation or industry levels.

4.4.1. Email Invitation(s) to the Survey

Apart from the recruitment email or email invitation, three email reminders have been sent on a timely manner to the respondents to complete the online questionnaire. The author used this strategy to follow up on non-respondent to make sure that responses are provided in a timely fashion as it is argued that late respondents are like non-respondents (Linder et al., 2001). For that reason, the author has put a time frame for the data collection and any responses received after the deadline were considered as inappropriate. Before judging the late response, the author has considered all the late responses, which were mainly 7 and check the individual questionnaire received by these respondents. It is quite interesting, that all the 7 respondents provided individually the same rating to all countries, for example late respondent 1 provide the rate of 5 for all the 18 countries under investigation, late respondent 2 provided the score of 6 to all the 18 countries. This is indeed inappropriate and their answers are invalid and were dropped from the final sample.

4.4.1.1. Pre-notification and Email Content

After screening the expert panel that should be used in this research, sent an email to each of the respondent as a recruitment of invitation letter to seek their participation in the research project. The content of the invitation letter as seen in figure 8, request the participation of the senior consultant and give a brief overview of the research project along with few details on the researcher and the actual PhD program undertaken by the researcher. Additionally, the invitation letter includes a copy of the survey link, so the respondent can check before granting his/her participation. Once the respondent agrees to participate he/she needs to provide the researcher with their consent (the form is shown in figure 9) and then would be able to complete the questionnaire.

Figure 8: Invitation Letter

Dear Mr./Mrs. XX

Trust this email finds you well

I am writing to request 3-4 minutes of your time for a research project related to my PhD thesis that I'm currently undertaking at the University of Westminster. Professor Ioannis Christodoulou, Dr. Thoralf Dassler and I are conducting an investigation into how the discretion, latitude of executive actions, of CEOs differs across a number of Anglo American, European, Asian and Middle Eastern countries. As part of this project we are surveying a small number of prominent senior consultants/associates, partners and directors working in high profile consultancy firms such as: Accenture, Aon Consulting, Bain & Company, Boston Consulting Group, Deloitte, Ernst & Young, Grant Thornton, KPMG, McKinsey & Company, Mercer LLC, PriceWaterhouseCoopers, Roland Berger and Strategy &.

With your expertise in consultancy and particularly within one or more of the countries in our sample, we would be very grateful if you could help us by completing a brief online questionnaire. I understand that this must be a busy time of year, but we would greatly appreciate it if you could contribute to this project.

The survey is in the form of online questionnaire, which we build using Survey Monkey platform. The webpage links can be found below:

https://www.surveymonkey.com/XXXXXXXX

Whether or not you wish to participate in this survey, I will be pleased to send you a summary of the results. Please let me know if you do not wish to receive this summary.

Thank you very much in advance for your time to participate and be part of our project.

Sincerely,

Moustafa Haj Youssef
Doctoral Researcher-Business Strategy
Westminster Business School
35 Marylebone Road
London, NW1 5LS

Figure 9: Online Consent Form

Doctoral Researcher: Moustafa Haj Youssef
Email: moustafa.youssef@my.westminster.ac.uk
Phone: +44 (0) 77 3370 1313
Director of Studies: Dr. Ioannis Christodoulou
Supervisor: Dr. Thoralf Dassler

University of Westminster
Westminster Business School, Department of Marketing & Business Strategy
35 Marylebone Road, London NW1 5LS

PhD Thesis: THE EFFECTS OF INTER- AND INTRA-CULTURAL VARIATIONS ON MANAGERIAL DISCRETION AND THE IMPLICATIONS FOR NATIONAL-LEVEL COMPETITIVENESS.

The purpose of this PhD research is to examine how and why managerial discretion of CEOs of publicly listed firms differs across several Anglo America, European, Asian and Middle Eastern countries. Also, it aims to investigate the influence of managerial discretion on national performance measured by competitiveness.

This survey should take no more than 5 to 10 minutes to complete. You will first be given a brief explanation on the questions. Then, based on your perception, you will be asked to answer few questions concerning the level of managerial discretion provided to CEOs of public firms headquartered in a number of different countries.

The responses that you provide are treated confidentially. Your participation and personal details will be all anonymous. That being said, any publication arising from this work will **NOT** contain any personal identifiable information. By clicking on the 'Next' button, you confirm your participation and will be directed to the survey page.

Please note, if you have submitted the survey and then realized that you wish to withdraw, please contact me in order to delete your answers.

I greatly appreciate your contribution and thank you very much for taking the time to complete this questionnaire.

Sincerely,

Moustafa Haj Youssef

4.4.1.2. Personalisation

Each email sent to respondents is being personalised and addressed solely to them using their first and last name. This was done using a mail merge feature from Gmail, which allows senders to send emails with the same content to a list of respondents but personally addressed to each recipient. Therefore, the researcher used this feature on all correspondences with the respondents, that includes: invitation letter, consent form, and the survey itself.

4.4.2. Measuring Instrument

As previously explained the researcher used survey as the main measuring instrument for the data collection related to the construct of managerial discretion. The survey questions are based on Crossland and Hambrick (2011), which have used the same measuring instrument and questionnaire to derive managerial discretion scores for their sampled countries from international fund managers. Details of the questionnaire is provided in the below sub-sections.

4.4.2.1. Length and Structure of the Questionnaire

The survey is based on one question which relates to the degree of managerial discretion that is accorded to CEOs in a particularly country. Senior consultants are first given an explanation on managerial discretion based on Hambrick and Finkelstein (1987) original definition. Then a short scenario is presented to give a practical meaning for the concept of discretion, to make sure that all respondents are getting the same perspective of managerial discretion. Afterwards, a list of the sampled countries is provided and respondents are kindly asked to rate the discretion of CEOs on a 7 point Likert type scale. Figure 10, illustrates the survey questionnaire.

Figure 10: Managerial Discretion Questionnaire

Managerial discretion is defined as latitude of managerial action (Hambrick & Finkelstein, 1987). A CEO with high discretion has a wide range of strategic actions from which to select and a wide range of options for implementing strategic actions. In contrast, a CEO with low discretion has a much narrower range of strategic options and is greatly restricted in how strategic choices may be implemented. Constraints on discretion may arise from both formal sources (e.g. laws, regulations) and informal sources (e.g. culture). For example, large scale layoffs, a typical turnaround strategy followed by Anglo-American firms (Lee, 1997), are considerably less common in Continental European countries (Gangl, 2003) and often create enormous upheaval when they do occur (Ewing and Hibbard, 2005).

Now based on your consultancy experience of handling projects and dealing with CEOs in one or more of the below listed countries, please indicate the extent to which – in your estimation – CEOs of publicly listed firms headquartered in that country possess discretion.

Please note that if you are unfamiliar with the country or not sure about your answer, please leave it blank.

	To a very small extent			To a moderate extent			To a very large extent
Australia	○	○	○	○	○	○	○
Austria	○	○	○	○	○	○	○
Canada	○	○	○	○	○	○	○
Egypt	○	○	○	○	○	○	○
France	○	○	○	○	○	○	○
Germany	○	○	○	○	○	○	○
Italy	○	○	○	○	○	○	○
Japan	○	○	○	○	○	○	○
Korea (South)	○	○	○	○	○	○	○
Kuwait	○	○	○	○	○	○	○
Netherlands	○	○	○	○	○	○	○
Qatar	○	○	○	○	○	○	○
Singapore	○	○	○	○	○	○	○
Spain	○	○	○	○	○	○	○
Sweden	○	○	○	○	○	○	○
Switzerland	○	○	○	○	○	○	○
United Kingdom	○	○	○	○	○	○	○
United States	○	○	○	○	○	○	○

4.4.2.2. Measurements Used in this Study on Managerial Discretion

Because managerial discretion is an intangible concept and has a multi-dimensional foundation (Hambrick and Abrahamson, 1995), determining its level consists of examining various proxy measures (please refer to Boyd and Gove, 2006, and/or Wangrow *et al.*, 2015). In the empirical studies carried out so far, scholars have looked at theorised antecedents (Crossland and Hambrick, 2011) of discretion such as organisational-level antecedents, including sales, size, R&D intensity, company structure, advertising intensity, volatility and firms' strategic orientation (e.g. Roth and O'Donnell, 1996; Rajagopalan, 1997; Finkelstein and Boyd, 1998; Boyd and Salamin, 2001; Kim, 2013; Quigley and Hambrick, 2012). Others have used industry (or task-environment) level variables, including regulatory conditions, market growth, product differentiability, attentional homogeneity, industry capital intensity, demand instability, etc. (e.g. Magnan and St-Onge, 1997; Haleblian and Finkelstein, 1993; Datta and Rajagopalan, 1998; Finkelstein, 2009; Hambrick and Quigley, 2014; Keegan and Kabanoff, 2008; Peteraf and Reed, 2007). Another cluster of researchers employed individual executives' characteristics, measuring variables such as locus of control, perception, commitment to the status quo, tenure, age, education, risk-taking behaviour, etc. (e.g. McClelland *et al.,* 2010; Miller *et al.,* 1982; Roth, 1992). These measures represent an indirect approach of assessing the degree of managerial discretion within a certain environment. These studies have preserved/treated discretion as a "black box", whereby it was associated with various individual, organisational and/or industry specific variables. As Wangrow *et al*. (2015: 124) suggested, "future research could pilot…industry experts, academics and managers to assess the level of discretion in firms…and nations". This call represents the need to look at discretion directly without relying on the antecedents and proxy measures originally proposed by Hambrick and Finkelstein (1987).

In an approach to assess discretion directly, Carpenter and Golden (1997) measured discretion by asking executives about their perception of their own level of discretion. Despite employing a direct measure, Carpenter and Golden (1997) did not take into consideration respondents' bias. Executives tend to exaggerate their potency or impact on firms' outcomes, hence they will discuss a greater latitude of actions available to them than may be the case (Hambrick and Abrahamson, 1995). As Hambrick *et al.* (1993: 414) noted, "suggesting to a group of executives that they may not have much leeway over their organisations is a sure way to get them upset". Accordingly, adopting such a methodological approach would be inappropriate.

Interestingly, some progress took place where a group of scholars started to measure discretion directly in a more innovative manner. Using expert panel ratings, Hambrick and Abrahamson (1995) were the first to introduce this direct measurement, which they employed in a later study (Abrahamson and Hambrick, 1997). Here, discretion degrees/scores were gathered from two groups of experts: scholars (14 academics) and security analysts (17 analysts) (Hambrick and Abrahamson, 1995; Abrahamson and Hambrick, 1997). Crossland and Hambrick (2011) departed from the same position where they measured national discretion level using two expert panels: academics and fund managers. More recently, Crossland and Chen (2013) also used the country discretion scores generated by Crossland and Hambrick (2011) in their study to investigate the role of discretion in assessing CEOs accountability for poor performance in various countries. Therefore, an expert panel, if appropriately selected, provides consistent and valid assessments of organisational phenomena including business strategies (Snow and Hambrick, 1980), strategic decision procedures (Fredrickson, 1986), etc. Notwithstanding its probable perceptual bias, an expert panel possesses the advantage of rating discretion itself directly and more closely than other measures. Additionally, the use of an expert panel provides scores with a minimum bias compared to CEOs for instance, and these panellists possess better knowledge in multiple contexts due to their exposure to several environments, and most importantly the relative objectivity of their answers (Hambrick and Abrahamson, 1995; Crossland and Hambrick, 2011). Using other theorised antecedents of discretion is not relevant in this research. The aim is to assess the relationship between culture (cultural practices previously introduced) and discretion at the national level. If the author used, for instance, power distance as a proxy measure indicating greater discretion, the measurement does not reflect discretion itself, hence, there is a need to have separate measures – one for discretion and another for cultural dimensions. Accordingly, by following this approach and in the aim of reaching consistency in the measurements (Boyd and Gove, 2006), the author sought national discretion scores from an expert panel consisting of senior management consultants.

4.4.2.3. Measurements Used in this Study on Inter-Cultural Variation

Within cross-cultural studies, several models have been developed to illustrate differences in culture across countries (such as: Schwartz and Bilsky, 1987; Hofstede, 2001; House *et al*., 2004). In the strategic management field and particularly managerial discretion, previous authors have mostly employed Hofstede's (1980, 2001) model. For instance, Crossland and Hambrick (2007, 2011), the only work so far tackling discretion at the national level, used Hofstede's (1980, 2001) scores of national values to operationalise cultural differences across countries. Hofstede (2001) and the GLOBE by House *et al*. (2004) are both highly valued cultural models (Shi and Wang, 2011). Although Hofstede (2001) is the most widely cited model in cross-cultural research (Kirkman *et al.*, 2006), GLOBE has been characterised as the 'most sophisticated' cross-cultural project undertaken in the field of international business (Leung, 2006). In this PhD, the author is seeking to get cultural ratings for the countries studied, thus it is crucial to decide on which cross-cultural model to employ. To justify the choice, it is essential to review some of the discussion presented in cross-cultural and international business literatures.

An enormous debate took place in the 37th volume of the Journal of International Business Studies (2006) concerning cross-cultural research; it centred on the differences between the GLOBE and Hofstede models. In his critique of GLOBE, Hofstede (2006) referred to the differences between his and House *et al.*'s (2004) model. He argued that fundamental transformations existed particularly in relation to the measurement, data collection and research designs. He claimed that GLOBE did not exactly measure societies' culture but instead operationalised individual preferences. A counter-argument was raised by Javidan *et al.* (2006) in the same volume, quarrelling that the GLOBE model is theory-driven, showing its convergent-emergent nature and that Hofstede's model is not action-driven research simply because it does not take into consideration the processes or steps used in an action research. Further, they assert that Hofstede's isomorphic scales do not capture the national culture; surveying IBM, a sole organisation, yielded different phenomena from measuring national culture. Additional critiques of Hofstede showed that his model suffers from homogenous sampling, time relevancy, corporate culture impact and factor structure problems (Orr and Hauser, 2008). Hofstede (2006) condemned GLOBE of using two measures (practices and values) to identify national culture, insisting that the cultural values in his own model were a more accurate reflection of aggregate national culture. However, self-rating of values does not reflect national culture characteristics (Fischer, 2006); such an approach is accompanied with several problems (e.g. Bierbrauer *et al.,* 1994; Oyserman *et al.,* 2002) and yield ambiguous cross-cultural comparisons (Heine *et al.* 2001).

An alternative to that is asking individuals to rate behaviours within a certain culture (e.g. Peterson and Fischer, 2004). By doing that, individuals would be able to report on descriptive norms (Cialdini and Trost, 1998) related to a society (Ehrhart and Naumann, 2004). These two methods differ significantly in their measurement of national culture. For instance, Terracciano *et al.* (2005) examined the difference between self- and national character by showing that both methods of ratings possess weak correlation (r=0.04). Similarly, GLOBE's

(2004) overall scores of values and practices presented weak correlation (r=-0.26). Thus, at best there is a weak relationship between self-ratings and ratings based on asking individuals about the common behaviours/norms in their societies. The former measure eliminates the objectivity element associated with assessing cultures (Fischer, 2006). In that sense, people would subjectively rate cultural dimensions, taking their own individual preferences into consideration. On the other hand, if individuals rate how their collective behave, this yields objective scores excluding personal inclinations. Such an approach allows them to become observers of their society. Hofstede (1980, 2001) is an example of cross-cultural studies that adopt the former method (self-rating), denoting that cultural values determine practices. This view is based on two assumptions: ecological values assumption, which suggests that knowing individual values is sufficient to know the culture, and the onion assumption, which means that by knowing cultural values, we would predict what happens in that culture (Javidan *et al.*, 2006). In this vein, GLOBE took a different standpoint where it rejected the first assumption by using respondents as informants to report on their society's culture (the latter method presented above) and tested the second assumption by comparing the correlation between self-rating (values) and respondents' assessment of their societies (practices). The negative correlation between GLOBE values and practices empirically contradict the onion assumption by showing that people in a certain society hold views on what 'should be' based on what they really observe in action through cultural practices. This negative correlation was later explained using microeconomic insights, associating it with the law of diminishing marginal utility (Maseland and van Hoorn, 2009). Maseland and van Hoorn (2009) argued that the value surveys lack a fundamental factor that is helpful to differentiate between the marginal preferences of individuals within a culture (currently what value surveys measure) and the underlying values or the relative weight of values people attach to certain objectives. In a cultural sense, having more of a certain cultural dimension (practices) would yield less preference to asking more of it (values). Thus, measuring marginal preferences (self-rating) "fail[s] to measure cultural values" (Maseland and van Hoorn, 2009: 528). In contrast, Brewer and Venaik (2010) analysed all 38 GLOBE scales and identified that the logic of marginal utility would not be compatible with all the GLOBE scales but only a few. Although they agree with Maseland and van Hoorn (2009) that cultural values measures through self-ratings may not accurately reflect cultural values, they found that the relationship between practices and values is more complex than simply explaining it through the lens of marginal utility, and in fact they assure that GLOBE values measures do not reflect marginal preferences (Brewer and Venaik, 2010).

Following Venaik and Brewer's (2010) case of uncertainty avoidance, in which various motivational factors played a role in impacting respondents ratings, Brewer and Venaik (2010) advised that there should be an individual analysis of each cultural dimension to explore the reason behind these negative correlations. Analogously, Taras *et al.* (2010) agree with this logic of individual interpretation and affirm that the law of diminishing marginal utility explains the negative relationship but is not the sole explanation. To add further to the debate, Taras *et al*. (2010) argued that buyer's remorse, the degree of value internalization, vocal minority, anchoring and priming, referent shift, Maslow's hierarchy of needs, the use of correlation coefficients, response bias, analysis level and potential moderators all together play a role in shaping the differences between values and practices. Thus, they should be considered as useful factors to explain the negative relationship between these two. Regardless of these propositions, values or self-rating measurements showed debatable and controversial findings as opposed to cultural practices, which seem to be a more useful operationalisation of societal culture particularly due to respondents' (middle managers) ability to provide valuable responses. Accordingly, the implementation of value-based survey questions generally provokes marginal preferences instead of underlying values, therefore using them to measure culture would elicit problematic assessments (Maseland and van Hoorn, 2009). The construct of GLOBE practices was found to be a better identifier of national character stereotypes and not an indicator of individuals' personality traits (McCrae *et al.*, 2008). Put simply, GLOBE practices reflect the shared beliefs in a society. Additionally, the referent measures of cultural models provide a more appropriate construct for measuring societal outcomes (Klein and Kozlowski, 2000; Fischer, 2006; Stephan and Uhlaner, 2010). As discretion at the national level illustrates a societal outcome, therefore, practices would be a better construct to employ that shows the national instead of societal members' characteristics of various cultural dimensions.

Furthermore, in the aim of supporting the use of GLOBE practice dimensions, the author has sought additional arguments from the cross-cultural and international business literatures. For instance, Venaik and Brewer (2010) identified the differences between GLOBE and Hofstede's uncertainty avoidance (UA) scales. They argued that GLOBE's UA practices capture rule-orientation practices of UA due to their significant positive relationship with World Governance Indicators. On the other hand, Hofstede's UA scale measures the stress constituent of UA due to its significant positive relationship with national stress level indicators. Venaik and Brewer (2010) differentiate between GLOBE UA practices and values, in the sense that the values dimension captures people's aspirations as opposed to the reality captured in practices. While higher rule-oriented uncertainty avoidance is accompanied with greater constraints, executives would not be able to implement radical actions. In other words, societies with low uncertainty avoidance provide executives with a greater array of actions that are not considered objectionable (Crossland and Hambrick, 2007). Hence, the rule-orientation measurement of UA would appropriately reflect the range of accepted actions rather than emphasising the importance of stress as an indicator of constraints on executives' actions.

Moreover, Brewer and Venaik (2011), in a later study, showed the misrepresentation of Hofstede's individualism and collectivism dimensions. Through content analysis, Brewer and Venaik (2011) argued that Hofstede's individualism is more related to the self-orientation dimension; on the other hand, the collectivism scale does not operationalise the collectivity of a society but rather illustrates its work-related values (Oyserman *et al.,* 2002; Gelfand *et al.,* 2004; Brewer and Venaik, 2011). Further, GLOBE's in-group collectivism has been tested to reflect family collectivism instead of societal collectivism (Brewer and Venaik, 2011). However, institutional collectivism, as measured in the GLOBE scales, is considered as being a more accurate reflection of the operationalisation of the individualism and collectivism cultural dimensions (Brewer and Venaik, 2011). Therefore, further support is provided to the use of GLOBE's institutional collectivism scores compared to the Hofstede dimension. Another example by Venaik *et al.* (2013) showed the drawback of Hofstede's cultural dimension, particularly long-term orientation (LTO), which is like the future orientation (FO) scale used in the GLOBE model. Venaik *et al.* (2013) argued through content analysis of the items' scale that Hofstede's LTO is associated with conflicting items that are reliant on the past and tackles items (e.g. ordering, sense of shame, etc.) that do not operationalise time orientation. GLOBE's FO practices focus on the tangible future aspect of time and planning in relation to the present, which is conceptually consistent and unidimensional (Venaik *et al.,* 2013). Since the conditions impacting discretion change over time (Crossland and Hambrick, 2011), measuring the impact of future preferences/aspirations using GLOBE values would not yield an accurate effect on discretion. This provides additional support for the use of GLOBE practices scales to assess the impact of national culture on executives' discretion.

Several other differences can be seen between these two models in terms of methodology, data collection, participants, cultural dimensions, country coverage, etc. House *et al*. (2004) developed two measures of cultural norms labelled '*As Is*', relating to cultural practices, '*Should Be',* which refers to individual cultural values, as opposed to Hofstede's model, which only includes cultural values. Furthermore, Hofstede's model has been constructed using one international corporation (IBM) and by the effort of a sole researcher as opposed to 172 researchers creating the GLOBE model seeking cultural scores from middle managers working in several domestic firms belonging to different industries (food, finance and telecommunication). Thus, GLOBE's stratified sampling has helped in limiting the corporate and industry impact on participants' responses.

Consequently, and due to the above-presented differences, researchers are free to choose which model to employ according to their research needs. In terms of this thesis, the author employed the GLOBE (House *et al.*, 2004) cultural model instead of Hofstede's (2001) due to the above-explained and the following reasons: first, the author's aim is to discover new national-level antecedents of managerial discretion. Using Hofstede (2001) would not provide any additional informal institutions dimensions' even if the author chose to employ Hofstede's most recent work (Hofstede *et al.,* 2010). Instead, GLOBE, which measures six additional cultural dimensions, would provide rich national-level antecedents that could be tested in relation to discretion. Second, the informal institution perspective in which discretion has been investigated; there is a focus on how stakeholders assess whether executives' actions are objectionable. In this sense, it looked at the array of executives' actions that fall within the zone of acceptable practices; studying individual values would therefore not be appropriate due to its intangible nature (House *et al.,* 2004). Values are personal perceptions or preferences for certain behaviour; however, practices (tangible) emanate what really is the behaviour (what is really happening) in a culture.

Third, economic developments of countries along with modernisation predicted that cultural values would be affected (Beugelsdijk *et al.*, 2015). Even Hofstede (2001) argued that economic wealth has a large impact on cultural dimensions; he gave the example of increased wealth, which makes society more individualistic. Smith (2002) was cautioned about such propositions by considering national wealth to be an integral part of culture instead of being an extraneous variable. Empirically tested, this relationship between cultural dimensions and economic indicators has shown an intertwined and non-unidirectional relationship depending on the individualities of each dimension (House *et al.,* 2004). Hence, using Hofstede's scores collected during the 1970s would not accurately reflect the cultural status of, for example, the 1996-2005 period, which is examined in Crossland and Hambrick (2011) nor a more recent era, such as 2005 to 2014, which is the time-frame of this PhD. Culture within a society might change over time, but the proportion of change is very slow and low. However, as put by modernisation theorists (e.g. Inglehart, 1997) economic development goes together with variations in values, norms and beliefs, thus cultures particularly values do change with time. Although such variation is dependent on time, the cultural differences across countries is somewhat stable (Beugelsdijk *et al.,* 2015), therefore using Hofstede's (1980, 2001) scores as they are would provide inaccurate measures of the current somehow developed culture. Fourth, GLOBE's country practices showed strong correlation with Hofstede's (2001) scores as opposed to the GLOBE values. For instance, GLOBE's power distance practice scores have .57 correlations with Hofstede's power distance rate as opposed to GLOBE's power distance value, which only provides a .03 correlation score.

Hence, by using House *et al.*'s (2004) practices, the author would also be in line with other cross-cultural and organisational studies that shifted from using Hofstede (e.g. Rabl *et al.,* 2014) and allow for basic comparison with Crossland and Hambrick's (2011) findings. Lastly, Hofstede in his own words indirectly supported the logic of using the GLOBE practices when he stated: "we are all better observers of others than of ourselves" (Hofstede, 2001: 9), and "GLOBE's 'as is' measure corresponded with what I called a shared value" (Hofstede, 2006: 887). As such, the GLOBE practices represent a more accurate and valid measure for assessing national culture in the context of discretion. Although GLOBE is a more recent cross-cultural model, it has been less criticised in the literature as opposed to Hofstede due to the low presence of controversial issues (Venaik and Brewer, 2010). Accordingly, due to the above-presented extensive review of the relevant arguments, and by following recent management literature (Basuil and Datta, 2015), the author has employed GLOBE's practice scales to operationalise the cultural dimensions of the countries under investigation.

Cultural-Looseness Measurement

The cultural tightness-looseness construct can be dated back to Pelto's (1968) study, in which he showed the difference between traditional tight and loose societies. Pelto (1968) relied on several measures to operationalise tight and loose societies, including: corporate ownership, legitimate use of force, degree of political control and theocracy. Lomax and Berkowitz (1972) later used communication patterns, cohesiveness and orderliness to try to classify the degree of tightness for gardening and hunting societies. Similarly, Barry *et al.* (1959) looked at food supply to justify their proposition that agriculture societies rely heavily on rules and routines, which make them more lenient towards being tight.

However, recent research has departed from assessing the antecedents of tight/loose societies towards establishing direct measures of this construct. In this vein, Gelfand *et al.*

(2011), using a survey instrument, asked a sample of respondents from 33 nations about their degree of agreement with some situational statements. By aggregating individual responses to the macro-level (country), Gelfand *et al.* (2011) could provide tightness scores for the studied countries by using a six-item scale. The items on the cultural tightness-looseness scale assessed the extent of the clarity and the number of social norms, overall compliance of societal members with social norms and the degree of tolerance for deviant behaviour (norm violation) (Gelfand *et al*., 2011). An example of the items used in their original questionnaire include: "In this country, there are clear expectations for how people should act in most situations", and "there are many social norms that people are supposed to abide by in this country". Analysis demonstrated that the scale used had metric equivalence across all societies, with reliability value of 0.85, rwg (j) of 0.85, intra-class correlation coefficients ICC (1) and (2) are 0.13 and 0.97 respectively. This shows the trustworthiness and validity of their cultural construct of tightness-looseness. Therefore, and in line with previous studies (e.g. Crossland and Hambrick, 2011; Aktas *et al.*, 2016), the author used Gelfand *et al.* (2011) scale to operationalise cultural looseness.

Control Variables

Earlier work in the discretion literature particularly from the national-level (Crossland and Hambrick, 2011) have explored a variety of national variables that directly affect the degree of managerial discretion available to CEOs headquartered in each country. These variables have been covered extensively in the literature chapter and the theoretical background section of this thesis. As can be gleaned from these preceding sections, from the informal institutions part, cultural values – particularly individualism, uncertainty tolerance and power distance – were directly related to managerial discretion. Also, formal institutions have shown a significant effect on managerial discretion; these variables were: ownership structure (concentrated versus dispersed), legal origin (common versus civil) and employer flexibility. Therefore, the author has controlled for these variables when running the regression models.

Societal values of several cultural dimensions – institutional collectivism (opposite to individualism), uncertainty avoidance (opposite to uncertainty tolerance), power distance, future-, humane-, and performance orientations along with gender egalitarianism and assertiveness – have been used as control variables, representing the effect of informal institutions. These were operationalised using House *et al.*'s (2004) cultural values scores.

Ownership dispersion and legal origin have been operationalised using data from La Porta *et al.* (1999). For the first variable, La Porta *et al.* (1999) calculated the proportion of companies that were widely held across several countries. To be considered as widely held, a company needs to have a less direct impact from shareholders, which is measured as the indirect and direct control rights that exceed a certain level. These authors have produced such measures in four different ways: for two different levels, 10% and 20%, and for two different firm sizes – medium and large – based on market capitalisations. The author used the ownership dispersion measure as the mean for these proportions.

Like the above, legal origin was also operationalised using La Porta *et al.* (1999), who classified countries based on their legal origin, either common-law or civil-law. Here, the author created a dummy variable, where 1 refers to countries with common-law legal origin and 0 refers to countries with civil-law origin.

Finally, for employer flexibility, data have been taken from Botero *et al.*'s (2004) employment law index. These authors have developed an employment law index based on several variables, such as: alternative employment contracts, cost of firing employees, collective dismissals protection, complexity of the dismissal procedure, labour union power, rigidity of employment laws, social security laws, autocracy, government employees protection etc. Despite the existence of other employment protection indices (e.g. Estevez-Abe *et al.*, 2001), the author has used Botero *et al.*'s (2004) index due to its wider country coverage.

Table 4 depicts the original scores of all the cultural dimensions (practices and cultural looseness) along with the scores for the control variables.

Table 4: Country-level scores for all variables: Managerial discretion, cultural practices and control variables

										Control Variables											
		Cultural Practices								*Formal Institutions*				*Informal Institutions (Cultural Values)*							
Country	**Discretion**	IC_P	UA_P	PD_P	FO_P	HO_P	PO_P	GE_P	AA_P	OD	LO	EF	CL	IC_V	UA_V	PD_V	FO_V	HO_V	PO_V	GE_V	AA_V
Australia	5.73	4.31	4.40	4.81	4.09	4.32	4.37	3.41	4.29	0.40	Com	0.35	-4.4	4.47	3.99	2.77	5.21	5.60	5.99	5.02	3.83
Austria	4.90	4.34	5.10	5.00	4.47	3.77	4.47	3.18	4.59	0.02	Civ	0.50	-6.8	4.78	3.65	2.52	5.15	5.68	6.12	4.83	2.85
Canada	5.59	4.36	4.54	4.85	4.40	4.51	4.46	3.66	4.09	0.52	Com	0.26	-5.3	4.20	3.73	2.73	5.34	5.58	6.13	5.04	4.15
Egypt	3.30	4.36	3.97	4.76	3.80	4.60	4.15	2.90	3.91	0.10	Civ	0.37	-9.2	4.72	5.24	3.20	5.60	5.13	5.71	3.34	3.22
France	5.02	4.20	4.66	5.68	3.74	3.60	4.43	3.81	4.44	0.22	Civ	0.74	-6.3	5.27	4.65	2.96	5.35	5.91	6.10	4.71	3.57
Germany	5.04	3.82	5.27	5.59	4.23	3.38	4.29	3.21	4.72	0.26	Civ	0.70	-7.0	4.97	3.70	2.70	5.21	5.60	6.26	5.02	3.23
Italy	4.82	3.75	3.85	5.45	3.34	3.66	3.66	3.30	4.12	0.09	Civ	0.65	-6.8	5.20	4.52	2.51	6.01	5.57	6.11	4.88	3.87
Japan	4.53	5.23	4.07	5.23	4.29	4.34	4.22	3.17	3.69	0.47	Civ	0.16	-8.6	4.01	4.40	2.76	5.42	5.53	5.37	4.41	5.84
Korea	4.76	5.20	3.52	5.69	3.90	3.73	4.53	2.45	4.36	0.31	Civ	0.45	-10.0	3.84	4.74	2.39	5.83	5.61	5.41	4.23	3.69
Kuwait	3.30	4.32	4.02	4.97	3.18	4.44	3.79	2.59	3.56	0.31	Civ	0.53	-9.2	5.04	4.65	3.02	5.62	5.06	5.89	3.50	3.61
Netherlands	5.36	4.62	4.81	4.32	4.72	4.02	4.46	3.62	4.46	0.20	Civ	0.73	-3.3	4.76	3.34	2.61	5.24	5.41	5.71	5.10	3.13
Qatar	3.73	4.78	4.26	5.05	4.08	4.79	3.76	3.86	4.39	0.10	Civ	0.53	-9.2	5.10	4.82	3.18	5.92	5.31	5.94	3.49	3.72
Singapore	4.98	4.77	5.16	4.92	4.88	3.29	4.81	3.52	4.06	0.17	Co	0.31	-10.4	4.42	4.08	2.84	5.46	5.66	5.70	4.43	4.28
Spain	4.81	3.87	3.95	5.53	3.52	3.29	4.00	3.06	4.39	0.12	Civ	0.74	-5.4	5.25	4.80	2.23	5.66	5.63	5.85	4.82	4.01
Sweden	4.91	5.26	5.36	4.94	4.37	4.09	3.67	3.72	3.41	0.11	Civ	0.74	-9.5	3.91	3.45	2.49	4.96	5.72	6.01	5.19	3.49
Switzerland	5.20	4.26	5.24	5.03	4.58	3.86	4.70	3.29	4.10	0.50	Civ	0.45	-6.9	4.65	3.52	2.67	4.91	5.66	6.09	4.89	3.57
UK	5.73	4.31	4.70	5.26	4.31	3.74	4.16	3.67	4.23	0.65	Com	0.28	-6.9	4.39	4.17	2.82	5.15	5.52	6.03	5.20	3.76
USA	6.09	4.21	4.15	4.92	4.13	4.18	4.45	3.36	4.50	0.75	Com	0.22	-5.1	4.20	3.99	2.88	5.34	5.51	6.14	5.03	4.36

Countries with no original published scores, have imputed scores based on geographical proximity.

4.4.2.4. Measurements Used in this Study on Intra-Cultural Variation

Earlier research has focused on archival data to measure intra-cultural variation; works in political economy and international business have relied on ethno-linguistic diversity as a proxy to account for intra-cultural variation (e.g. La Porta *et al.*, 1999; Mauro, 1995; Puia and Ofori-Dankwa, 2013). The use of ethno-linguistic diversity as an antecedent of intra-cultural variation has been well documented since Au's (1999) discussion of such construct. This proxy is useful because distinct ethnic societal groups or sub-groups, even if they have similar or different mother tongues, tend to behave differently and have different norms (Alesina *et al.*, 2003; Beugelsdijk and Maseland, 2011; Tung and Baumann, 2009). Along with the use of ethnic background and language as a representation of intra-cultural variation, some studies have incorporated religion as another indicator (e.g. Alesina and Zhuravskaya, 2011). Others have relied on the World Value Survey to measure within-country variation or heterogeneity (Au and Cheung, 2004; Venaik and Midgley, 2015). These measures represent an indirect attempt to measure intra-cultural variation.

Beugelsdijk *et al.* (2014) argue that intra-country variation is best measured through data on the behaviour and values of the societal members or a representative national sample. But these data are mostly unavailable in archival formats and it is cumbersome to collect such large-scale data from a wide set of countries. Also, the main cross-cultural models that introduce the various cultural dimensions such as Hofstede and GLOBE do not report the variation within each country and only publish the mean or variation across countries. Fortunately, this challenge has been overcome in this research. The author was able, through a series of discussions with one of the co-authors of the GLOBE model, to outsource data on intra-cultural variation within each of the studied countries. Professor Paul Hanges was kind enough to provide the standard deviation scores for each dimension for all the GLOBE countries (62 societies), which indeed includes the sample of this study. The datasheet and consent provided by Prof. Hanges can be requested from the author. However, as a matter of courtesy, the researcher does not report the standard deviation scores of each country as these have not appeared in print yet and were provided as primary data.

Therefore, the author operationalises intra-cultural variation using the average of the standard deviation score reported by all respondents (societal members) per country. Standard deviation is an appropriate and reliable estimate to measure the relative dispersion within a country (Au, 1999). The usefulness of standard deviation has been of interest to several scholars. Some (e.g. Smith, 2004; Van Hemert *et al.*, 2002; Uz, 2015) regard this measure as a useful construct to reflect the dispersion of behaviour/norms in a culture. On the other hand, Hofstede (2001) criticises the use of such a measure and encourages researchers to neutralise it as it may well lead to biases in data, particularly in cross-cultural comparisons. Indeed, it is agreed among scholars that culture affects the responding style (Fisher and Schwartz, 2011), such as the differences between the extreme response style (using the extreme ends of a scale) and the acquiescent response style (tendency to positive responses). However, it is crucial to emphasise that these two (response style and standard deviation) are not identical and that they differ from each other (Cheung and Rensvold, 2000). Quantitatively speaking, the response style, either acquiescent or extreme, is about the relative extremity in respondents' answers across several variables. In contrast, standard deviation is about the variation in a variable across respondents. Of the two groups of respondents from different cultural backgrounds with identical means, the group with a more extreme response style could have a similar, smaller or even larger standard deviation. To prove the point even further, consider the example of Taiwan, Kuwait and Qatar. Taiwan is an Asian country that scored almost the same (5.15) as Kuwait and Qatar (Middle Eastern) on the cultural dimension of institutional collectivism. It is widely acknowledged that respondents from Asian cultures tend to avoid extreme ends as opposed to Mediterranean cultures that tend to avoid the midpoint of a scale (Hui and Triandis, 1989). In terms of standard deviation, Taiwan had an overall score of 0.97 as opposed to Kuwait and Qatar which scored 0.60 and 0.84 respectively. If standard deviation is like response style, then Taiwan, Kuwait and Qatar should have had similar scores, whereas in this case they all showed different within-country variation to the extent that Qatar resembled Taiwan more than Kuwait.

Moreover, relevant to this study, the use of standard deviation captures the extent to which stakeholders' (in this case societal members) behaviour and norms vary from the central tendency (mean) of the overall society. This enables a better conceptualisation of the zone of acceptance of stakeholders' condition that the author has used to link the institutional and managerial discretion arguments. In the first empirical chapter, the author uses the central tendency on selected cultural behaviours to show how the dominant behaviour in each country could affect managerial discretion. Instead, in this chapter, the author is interested in examining if variation from the central tendency of a society affects the degree of managerial discretion. Therefore, the use of standard deviation would enable the author to capture the extent of that variation and how it could alter managerial discretion.

The standard deviation score was developed as the ratio of deviation on each of the preceding eight cultural practices or behaviours. The average standard deviation of each respondent per dimension (cultural practice) per country was aggregated to represent the national level variation of that dimension. The scores were then combined to show an aggregate level of dispersion on all dimensions. To test the hypothesis, the empirical examination will consist of testing variation on each cultural practice and then on the overall behaviour in each country.

Control variables

To escape the bias of omitted variables, the author considers the inclusion of several control variables. Like the preceding chapter, all control variables in this analysis are the variables that exhibited a direct relationship with managerial discretion in the extant discretion literature. That is, the author controlled for the national formal institutions measured by: ownership dispersion, legal origin and employer flexibility (Crossland and Hambrick, 2011). Ownership dispersion and legal origin have been operationalised using data from La Porta *et al.* (1999); data for employer flexibility have been taken from Botero *et al.*'s (2004) employment law index. Along with these variables, the author also controlled for cultural tightness and looseness. Although differences exist between cultural tightness and looseness and intra-cultural variation, some authors (e.g. Chan *et al.*, 1996; Aktas *et al.*, 2016) argue that cultural tightness-looseness is a fundamental construct affecting the degree of cultural variation. Therefore, it was necessary to control for it to empirically show the direct effect of intra-cultural variation. Cultural tightness-looseness was operationalised using the reverse of Gelfand *et al.*'s (2011) scores. For a detailed discussion on the measurement of each of the control variables, please refer to the first empirical chapter.

The author did not control for cultural dimensions (practices or values) as these were already reflected in the intra-cultural variation construct and were omitted from the statistical model due to multi-collinearity between cultural values, practices and the measure of intra-cultural variation. The subsequent section describes the statistical analysis used to test for the relationship between intra-cultural variation and managerial discretion.

4.4.2.5. Measurements Used in this Study on National Competitiveness

To study the implications of managerial discretion for national-level competitiveness, the author conducted an international field study using the publicly listed database of the World

Economic Forum (WEF) to derive country-level competitiveness scores. The Global Competitiveness Index (GCI) generated by WEF was used as the dependent variable, which represents the national level competitiveness of countries. Consistent with studies in the management literature (e.g. House *et al.*, 2004; Herciu and Ogrean, 2008; Casero *et al.,* 2013; Petrakis *et al.*, 2015; Welsh *et al.*, 2016), GCI is considered one of the main aggregate indicators of national competitiveness, which has been widely used by earlier researchers (e.g. Thompson, 2004). Despite, the existence of other national competitiveness measures – mainly the World Competitiveness Index (WCI) by the International Institute of Management Development – the author chose GCI for several reasons.

First, the GCI covers all the countries that are present in this PhD sample; it has scores for Egypt, Kuwait and Qatar. Second, it directly relates to Crossland and Hambrick's (2011) criticism that the 2008 GCI report places Japan, a low-discretion country, and the United Sates, a high-discretion country, both within the top 10 most competitive countries (Crossland and Hambrick, 2011: 815-816). Therefore, to empirically challenge their proposition and be consistent with the existing literature, the author chose the GCI as the appropriate national competitiveness measure. Both the GCI and the WCI share similar basis since they started as a sole index but have split away since 1996. Additionally, both indices are highly correlated ($r=0.89$) (Thompson, 2004), particularly for the 15 countries out of the whole sample of this study (except: Egypt, Kuwait and Qatar) ($r=0.69$, $p<0.001$). As such, there is no significant difference between the use of GCI or WCI, but due to the reasons explained above, the author used the GCI.

The GCI is developed by the World Economic Forum in collaboration with Professor Xavier Sala-i-Martin from Columbia University. It is a result of two other measures – the Growth Competitiveness Index and Business Competitiveness Index – which are also aimed at measuring national competitiveness. It incorporates variables that respond to the continuous advancement in economic research and accounts for changes in the international landscape (Herciu and Ogrean, 2008). GCI examines the comparative weaknesses and strengths of competitiveness across 131 countries by classifying economic development based on Porter *et al.* (2002) and by taking into consideration 114 indicators that capture economic development and productivity, which are categorised into 12 pillars. According to WEF (2016), these pillars are as follows: institutions (e.g. legal and administrative framework), infrastructure (e.g. transport, roads), macroeconomic environment (e.g. interest rates), health and primary education (e.g. health and education level), higher education and training (e.g. educational attainment), goods market efficiency (e.g. production), labour market efficiency (e.g. skilled labour), financial market development (e.g. business investment climate), technology (e.g. technological advancement), market size (e.g. export), business sophistication (e.g. networks) and finally innovation (e.g. R&D). The 12 categories reported above are then organised into three sub-indices – basic index, efficiency enhancer index and innovation and sophistication index – which are given different weights depending on the economic stage of development of each country, as proxied by the share of exports and GDP per capita (Schwab *et al.*, 2015). Data included in the construction of the GCI are both soft and hard. Soft or secondary data are collected from recognised databases such as the International Monetary Fund (IMF), World Bank and Global Entrepreneurship Monitor, to name a few. The primary or hard data are collected from the WEF's Executive Opinion Survey, which captures the perspectives of more than 14,000 business leaders and executives around the world on topics related to national competitiveness and their view of the competitiveness level of the country in which they reside or operate (WEF, 2016).

Control variables

Previous research has shown the importance of national culture in driving economic performance and how culture can advance the economic development of countries (e.g. Petrakis *et al.*, 2015). Studies have also shown that national culture can increase wealth, which will in turn enhance countries' economic performance (Hofstede, 2001). Particularly, House *et al.* (2004) examined the direct association between national cultural dimensions and country competitiveness. As a result, the first control variable is national culture, measured as a set of cultural practices and values as per House *et al.* (2004) along with the cultural tightness-looseness dimension as per Gelfand *et al.* (2011).

In addition to the national cultural influence, formal institutions are expected to influence countries' economic development (e.g. Minkov and Hofstede, 2012; North, 1990), and as such their national competitiveness. For instance, studies in the corporate governance literature have demonstrated the increased importance of the governance systems implemented in various countries; this includes, for instance, the ownership structure (La Porta *et al.*, 1999) of publicly listed firms. Therefore, to control for ownership structure, the author uses the mean score of all four proportions that exist in La Porta *et al.*, (1999). These scholars calculated the proportion of firms that are widely held if shareholders' rights do not exceed a certain threshold.

Moreover, Millar *et al.* (2005) argue that countries characterised by an Anglo-American system and a common legal law origin are more developed economies. Thus, the country legal origin plays an important role in driving a country's economic development and as a result its competitiveness. Accordingly, the author also controls for the legal origin based on La Porta *et al.*'s (1999) classification of common versus civil legal law origins; each country was coded either 1 for common law origin or 0 for civil legal low origin.

Furthermore, the employee protection and legislation that help to sustain long-term employment in a country would positively contribute to reducing that country's unemployment, which in turn is healthy for economic growth. Hence, the author controls for the employment protection as per Botero *et al.*'s (2004) employment law index, which was constructed using three indicators: employee protection legislation, collective dismissals protection and company-based protection.

Additionally, the author controls for the country's level of entrepreneurial behaviour. It has been argued that entrepreneurship is an important contributor to socio-economic growth and development and generally enhances national prosperity and competitiveness (e.g. Zahra, 1999; Lee and Peterson, 2000). As such, and following Autio *et al.* (2013), the author adds another control variable which is the entrepreneurial behaviour in a country. It is measured using the rate of individuals who are active in setting up or establishing firms and those who are currently owner-managers of firms who have paid wages to employees for longer than three months. These measures are derived from the Global Entrepreneurship Monitor's (GEM) adult population survey measures.

Furthermore, because the author is interested in the impact of managerial discretion on national competitiveness, which is the relative quality of a competitor to compete at an international level with other countries and the probability of winning such competition (Francis, 1992), it is important to control for the aggregate economic performance of a country. As such, the author controls for the level of economic output per country as it plays an extremely important role in allowing countries to be more competitive. Following recent studies (e.g. Berry *et al.*, 2014; Macher and Mayo, 2015), the aggregate economic performance of countries was operationalised using GDP per capita. However, it is important to note that due to the highly-skewed nature of GDP per capita variables, the author used logged GDP per capita.

Finally, because economic freedom is considered an essential contributor to the development and competitiveness of countries, the author controls for it using the Economic Freedom Index published and created by the Heritage Foundation and the Wall Street Journal. Economic freedom is strongly associated with greater economic development, healthier societies, better per capita wealth, etc. and captures several variables such as: rule of law, limited government, regulatory efficiency and open markets.

Table 5 below shows the mean scores for all the variables per country.

Table 5: National-level variables: Independent and control variables

Country	Discretion	GCI	LnGDP Per Capita	EFI	OD	LO	ELI	EB	IC	In-Group IC	UA	PD	FO	HO	PO	GENDERE	AA	CL
Australia	5.73	5.04	4.53	81.76	0.4	Common Law	0.35	6.88	4.38	4.98	4.19	3.76	4.65	4.94	5.18	4.21	4.06	-4.40
Austria	4.90	5.14	4.61	71.21	0.02	Civil Law	0.5	4.98	4.54	5.11	4.41	3.74	4.81	4.70	5.28	3.96	3.74	-6.80
Canada	5.59	5.28	4.56	79.26	0.52	Common Law	0.26	6.69	4.29	5.08	4.16	3.78	4.89	5.04	5.31	4.37	4.10	-5.30
Egypt	3.30	3.88	3.17	56.36	0.1	Civil Law	0.37	4.61	4.61	5.44	4.65	4.06	4.73	4.93	4.99	3.08	3.57	-9.20
France	5.02	5.10	4.54	63.13	0.22	Civil Law	0.74	2.55	4.60	5.27	4.54	4.12	4.42	4.66	5.11	4.18	3.85	-6.30
Germany	5.04	5.42	4.6	71.09	0.26	Civil Law	0.7	3.23	4.32	4.90	4.45	4.05	4.66	4.44	5.21	4.05	3.93	-7.00
Italy	4.82	4.37	4.5	61.70	0.09	Civil Law	0.65	2.85	4.44	5.38	4.16	3.97	4.63	4.60	4.85	4.06	3.97	-6.80
Japan	4.53	5.39	4.58	72.06	0.47	Civil Law	0.17	3.71	4.60	5.08	4.24	3.94	4.86	4.92	4.80	3.80	4.72	-8.60
Korea	4.76	5.09	4.27	68.95	0.31	Civil Law	0.45	6.03	4.52	5.61	4.15	4.00	4.90	4.71	4.98	3.37	4.05	-10.00
Kuwait	3.33	4.59	4.42	65.17	0.1	Civil Law	0.53	4.34	4.77	5.51	4.43	4.07	4.44	4.79	4.92	3.04	3.62	-9.20
Netherlands	5.36	5.38	4.62	74.89	0.2	Civil Law	0.73	5.3	4.61	4.59	4.02	3.36	4.93	4.64	5.02	4.30	3.73	-3.30
Qatar	3.73	5.02	4.79	67.01	0.1	Civil Law	0.53	6.75	4.80	5.31	4.41	3.96	4.85	4.87	4.70	3.56	3.92	-9.20
Singapore	4.98	5.55	4.48	87.63	0.17	Common Law	0.31	4.17	4.66	5.56	4.70	3.92	5.27	4.58	5.30	4.07	4.23	-10.40
Spain	4.81	4.62	4.4	68.77	0.12	Civil Law	0.74	4.53	4.55	5.68	4.39	3.88	4.59	4.48	4.93	3.92	4.22	-5.40
Sweden	4.91	5.53	4.63	71.33	0.11	Civil Law	0.74	3.9	4.57	4.86	4.39	3.67	4.68	4.91	4.87	4.52	3.44	-9.50
Switzerland	5.20	5.63	4.77	80.18	0.5	Civil Law	0.45	5.3	4.39	4.64	4.35	3.78	4.71	4.71	5.34	4.04	3.78	-6.90
UK	5.73	5.34	4.6	77.27	0.65	Common Law	0.28	4.4	4.33	4.87	4.41	3.99	4.72	4.62	5.06	4.44	3.96	-6.90
US	6.09	5.60	4.67	78.76	0.75	Common Law	0.22	6.12	4.20	5.01	4.07	3.88	4.75	4.84	5.32	4.19	4.46	-5.10

Notes: GCI= Global Competitiveness Index, LnGDP Per Capita= Log GDP per capita, EFI= Economic Freedom Index, OD= Ownership Dispersion, LO= Legal Origin, ELI= Employment Law Index, EB= Entrepreneurial Behaviour, IC= Institutional Collectivism, In-group IC= In Group Institutional Collectivism, UA= Uncertainty Avoidance, PD= Power Distance, FO= Future Orientation, HO= Humane Orientation, PO= Performance Orientation, GENDER= Gender Egalitarianism, AA= Assertiveness and CL= Cultural Looseness.
Some countries did not have a reported OD and ELI data (e.g. Kuwait), here the author have used geographical proximity according to House *et al.*'s (2004) regional clusters. Such approach is widely used in the management literature particularly for cross-cultural studies (Freeman, 2002; Crossland and Hambrick, 2011).

4.5. Sampling

For this study, the author selected 18 countries in total to illustrate the sample. The countries selected are: Australia, Austria, Canada, Egypt, France, Germany, Italy, Japan, Kuwait, the Netherlands, Qatar, Singapore, South Korea, Spain, Sweden, Switzerland, the United Kingdom and the United States. These countries, except, Egypt, Kuwait and Qatar, have been heavily used in earlier cross-cultural studies and studies looking at cross-national business phenomena (e.g. La Porta *et al.,* 1997; Crossland and Hambrick, 2011). Also, these countries account for most the publicly listed companies around the world and constitute the highest percentage of the global domestic product (World Bank, 2014). Additionally, by using a similar sample of countries to examine managerial discretion, the author would be able to validate previous studies (Wangrow *et al.,* 2015). The author chose to include three more countries – Egypt, Kuwait and Qatar – to provide more richness to the data and help improve the generalisability of the findings. To examine the impact of cultural practices on managerial discretion, it is important to have a sample of countries comprising culturally distant countries with greater inter-cultural variation that represent different geographical clusters. As such, after the inclusion of these countries, six different regional clusters emerged: Anglo, Germanic Europe, Latin Europe, Confucian, Nordic Europe and the Middle East (House *et al.,* 2004). It is important to note that all independent variables (in this case the cultural practices) are lagged before managerial discretion (the dependent variable). House *et al.* (2004) collected societal practices scores from surveys between 1994 and 1996. the dependent variable was collected during the years 2014/15. The author chose this lag structure to assert that the antecedent or exploratory variables temporally proceed the dependent variable to avoid any problem with a causality relationship (Hambrick, 2007) or potential endogeneity (Judge *et al.,* 2008).

4.5.1. Respondents Population and Sample Selection

To produce discretion ratings for individual countries, the researcher, as mentioned earlier, followed Hambrick and Abrahamson's (1995) approach by identifying an expert panel that would be able to provide direct and valid measures of discretion.

Crossland and Hambrick (2011) used eight fund managers to generate discretion scores for 15 countries. In terms of this research, fund managers were discarded as the aim was to choose a sample of panellists more engaged with the concept of CEO discretion. Additionally, fund managers are responsible for executing executives' actions; this means that they will possess enough knowledge about the risk-taking behaviour of CEOs. In other words, they would be able to distinguish between risk takers and risk adverse CEOs. Such a characteristic is deeply rooted in CEOs' own individualities and does not appropriately reflect the national-level constraints imposed by the institutional environment. Instead, the author identified management consultants as an appropriate panel to measure CEO discretion in the selected sample of countries. This expert panel possesses an extensive knowledge about various external (environmental including market and country), internal (related to the firm) and even individual characteristics of CEOs. Thus, they would provide discretion ratings based on a broader perspective, taking into consideration various aspects and not solely based on CEO individualities as in the case of fund managers.

The following criteria were used during the selection process to ensure significant proficiency. Consultants should have at least 15 years of experience in the consultancy industry, 10 years of experience handling projects in at least one of the sampled countries, and possess a senior position in the company he/she works for. Additionally, they needed to belong to one of the major multinational consultancy firms with a highly reputable profile; this includes Accenture, Aon Consulting, Bain & Company, Boston Consulting Group, Deloitte, Ernst & Young, Grant Thornton, KPMG, McKinsey & Company, Mercer LLC, PriceWaterhouseCoopers, Roland Berger and Strategy&.

4.5.1.1. Sample Size Obtained with Email contacts

The author used consultancy firms' webpages to identify their leadership team. This screening resulted in identifying 193 management consultants holding the following positions: principal, partner, senior associate, director and managing director. Each panellist was contacted by electronic mail requesting his/her participation along with survey links attached to the request. If the recipient accepts to participate, he/she clicks on the survey link, gives their consent and starts completing the questionnaire. Surveys were in the form of webpages developed and created using the Survey Monkey platform. Before viewing the questions, experts were given a description about the project and the confidentiality consideration for their responses. Later, they were provided with a brief explanation of managerial discretion based on Hambrick and Finkelstein's (1987) original description. Each management consultant was asked to rate on a 7-point Likert-scale, varying from *'to a very small extent'* to *'to a very large extent'*, their perception of the degree of discretion provided to CEOs in each country in the sample. The panellists were also asked to refrain from rating countries with which they were not familiar.

4.5.1.2. Increasing Sample Size Using Social Media Platforms

The author tried to social media platforms particularly LinkedIn to increase the sample size, however, as per the criteria selected for the selection of the expert panel or in other words the management consultants, there were limited data available as details of most of the incumbent consultants were already published on their company websites. However, LinkedIn was used to confirm the details of the consultants and make sure that there is an alternative channel to contact these respondents if for any reason (i.e. security reasons) the emailed failed to reach their company email address.

4.5.2. Reminders and Response Rates

Of the 193 management consultants contacted, 57 (29.5%) granted participation and provided utilisable responses. Compared to the 25% (8 panellist) response rate achieved by Crossland and Hambrick (2011), 57 is satisfactory. The 57 panellists provided 792 ratings, with every country receiving between 30 and 56 ratings (overall mean of 44 scores per country). Table 6 below shows the mean discretion score and other descriptive frequencies per country.

Table 6: Mean discretion scores and frequencies for all countries

Countries	N	Minimum	Maximum	Mean	Std. Deviation
Australia	45	1	7	5.73	1.32
Austria	41	1	7	4.90	1.45
Canada	51	2	7	5.59	1.27
Egypt	33	1	7	3.30	1.67
France	48	2	7	5.02	1.23
Germany	48	2	7	5.04	1.25
Italy	45	1	7	4.82	1.39
Japan	45	1	6	4.53	1.38
Korea	41	1	7	4.76	1.43
Kuwait	30	1	6	3.30	1.62
Netherlands	47	2	7	5.36	1.34
Qatar	33	1	7	3.73	1.84
Singapore	45	1	7	4.98	1.53
Spain	47	1	7	4.81	1.30
Sweden	44	1	7	4.91	1.57
Switzerland	44	1	7	5.20	1.50
UK	49	2	7	5.73	1.19
US	56	2	7	6.09	1.16

4.5.3. Pre-testing Procedures

As this study operationalises individual responses (ratings for managerial discretion) from different countries, several authors in the cross-cultural literature have flagged a response bias problem when surveying individuals from different cultures (e.g. Stening and Everett, 1984; Triandis, 1994). For instance, Hui and Triandis (1989) reported that people from Asian cultures generally tend to use the mid-point of the scale and avoid any extreme responses, whereas individuals from Mediterranean culture avoid mid-point responses and tend to use the extreme ends of the scale to show more commitment (Stening and Everett, 1984; Hui and Triandis, 1989). Therefore, using mean scores for raw data will lead to problematic interpretation. Triandis (1995) suggested a method to overcome such response bias; this is achieved by calculating the mean and standard deviation of each respondent then subtracting each individual mean from the original item score and then dividing it by each respondent's standard deviation. This procedure results in having 'corrected scores', which are then aggregated to the society level of analysis. However, House *et al.* (2004) argued that the classical response bias procedure has several drawbacks. Initially, the corrected scores become '*ipsative*' and not directly interpretable because they fall outside the original scale used (e.g. 7-point rating scale). Accordingly, House *et al.* (2004) extended the classical response bias procedure by using simple regression analysis to generate the new scores. By following this approach, the author generated corrected scores by computing the mean and standard deviation for each respondent, subtracting the mean from the individual item responses and then dividing it by that individual standard deviation. Later, to generate the final response bias-free data, each respondent's corrected score was regressed against his/her original scores. The unstandardised regression predicted the values shown in the below equation, which were then correlated against the original scores. If the magnitude of the correlation between these two scores (corrected and uncorrected) is high, then the data are declared as being free from respondents' bias (House *et al.*, 2004).

$$Predicted\ value = \beta_0 + \beta_1(corrected\ values)$$

Subsequently, to assess the importance of cultural-response bias in the discretion scale, a bivariate correlation procedure was performed. Using Pearson correlation, the author found a very high correlation between the corrected scores and the original raw scores ($r=0.80$, $p<0.01$). Furthermore, well-established residual analysis (Draper and Smith, 1981) was used to identify any data points that are considered as outliers in the regression model between the corrected and uncorrected scores. The author employed such diagnostic tests to identify if any of the scores provided to each of the sampled countries exhibit substantial response bias. Figure 4 below illustrates the studentised residuals for the 792 discretion scores. Such values compare the difference between the corrected (regression unpredicted values) and the uncorrected (raw scores) scores and assess whether the discrepancy between these two values is large enough for a panellist to say that this should be considered as an outlier. To be considered as an outlier, the studentised residual should report a value greater than 2 (positive or negative) (House *et al.*, 2004). As can be seen from Figures 11 and 12, only very few discretion scores, about 3% from the overall rating, are listed as outliers, thus there exists very little evidence that response bias associated with panellists' background is present in the data.

Figure 11: Studentised Residuals for Managerial Discretion Scores

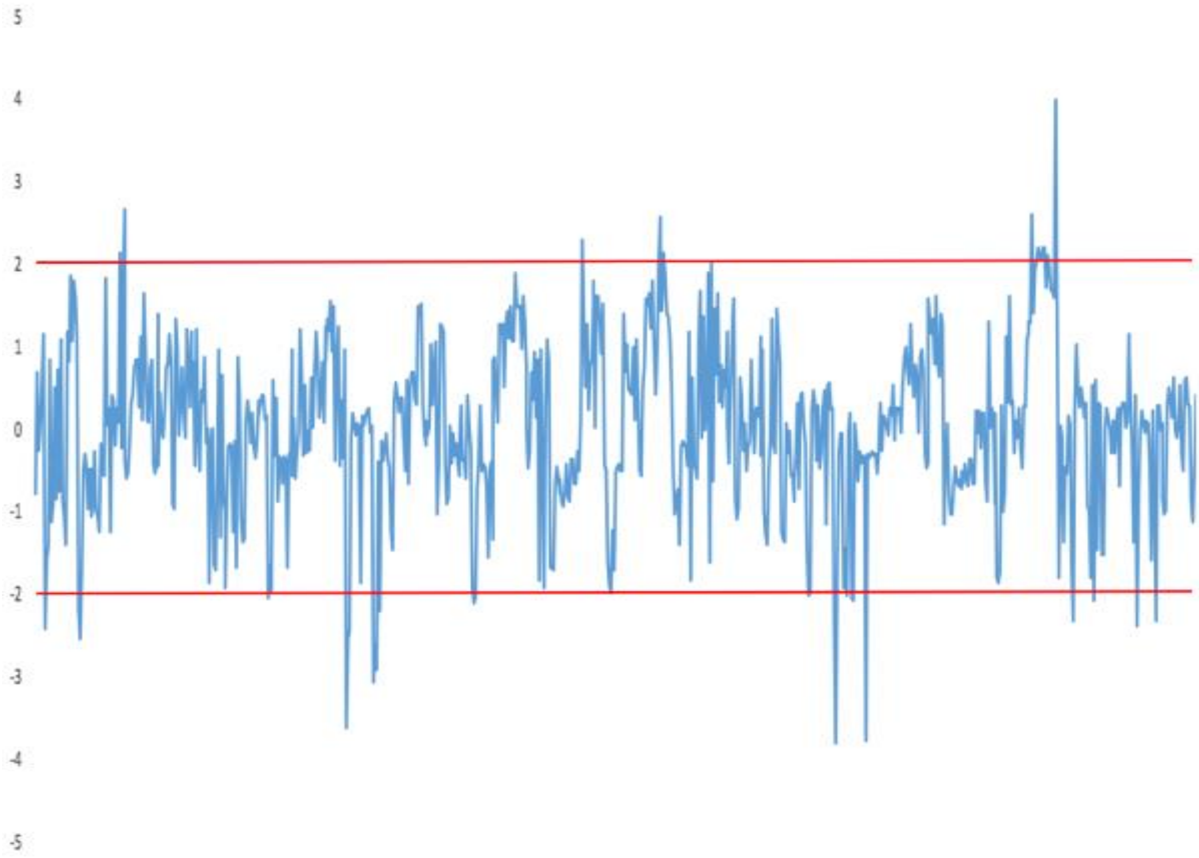
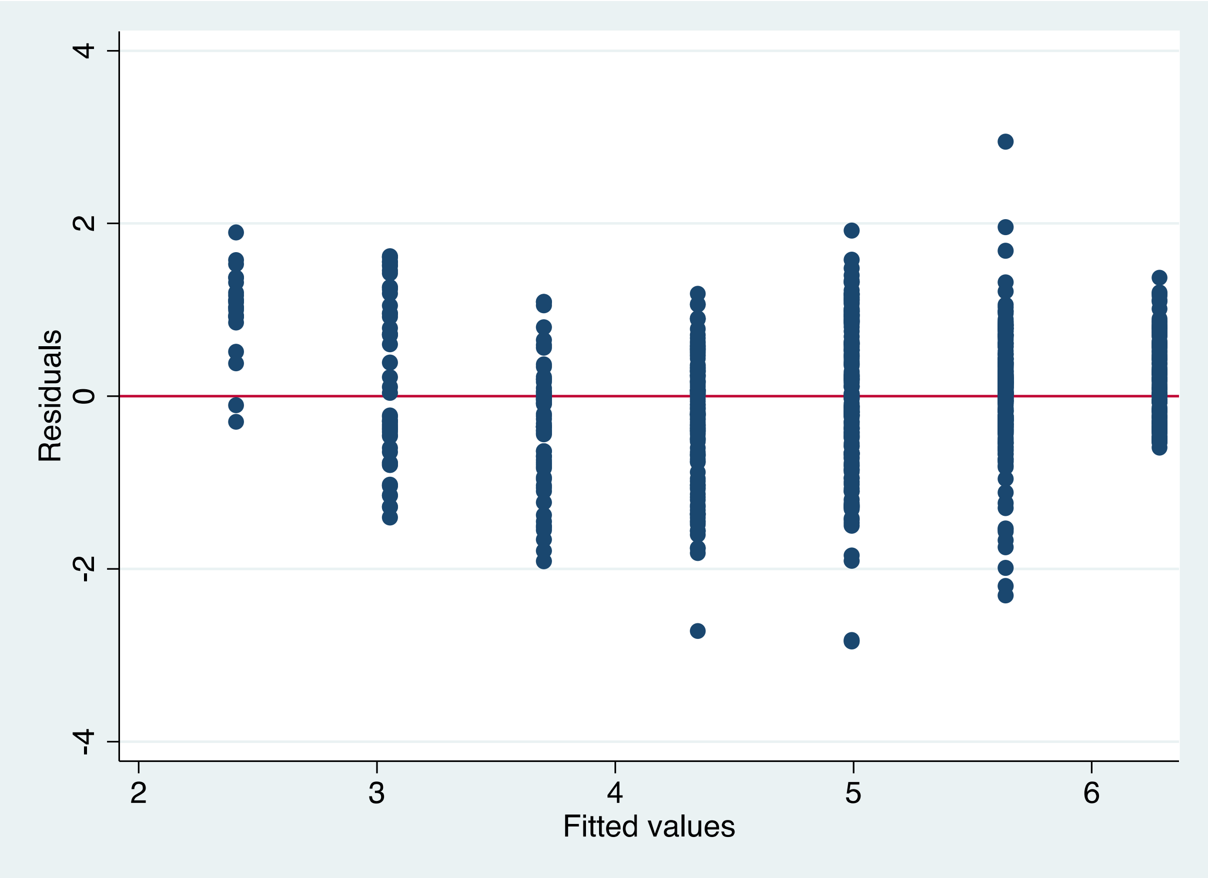


Figure 12: Studentised Residuals for Managerial Discretion Scores with Fitted Values

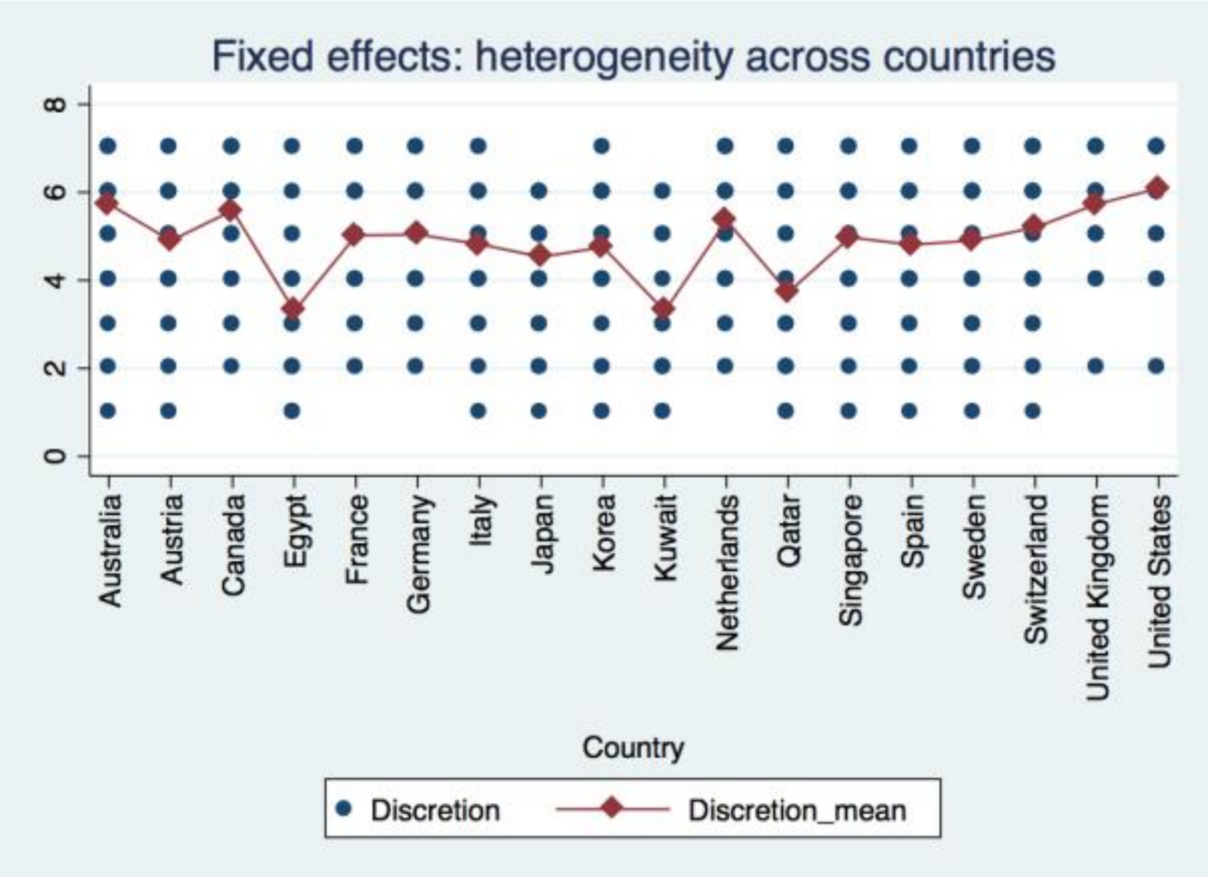


These raters compromise the entire sample so every country discretion score was rated by the same k panellists (Shrout and Fleiss, 1979). The author used ICC (3, k) to assess the inter-rater reliability (Judge *et al.*, 2007). The ICC (3, k), by consistency instead of agreement, was computed as the survey question asked raters to make comparative rather than absolute judgments regarding CEOs' discretion level in several countries (McGraw and Wong, 1996). The ICC (3, k) coefficient was 0.96, indicating high inter-rater reliability (e.g. Chen *et al.*, 1993; Taggar, 2002) and agreement of ratings among the panellists (senior management consultants) (James, 1982).

Former studies (e.g. Hambrick and Abrahamson, 1995; Crossland and Hambrick, 2011) validated their professional expert panel rating with another panel compromised of academics. The author has tried to follow such an approach and assessed the validity of the consultant panel using Crossland's (2008) academic panel. Crossland's (2008) work covers several countries but only shares 15 countries in common with this research; as such the author assessed the validity with his panellists for those 15 countries only. The academic panel showed strong consistency and correlation in their scores with the author's consultants' panel. The country level discretion scores were significantly correlated ($r=0.93$; $p<0.01$). Furthermore, as an additional validity test and to determine that the consultants provided accurate and usable responses, the author considered the discretion scores generated by Crossland and Hambrick's (2011) international fund managers. Similarly, the consultants' panel country-level discretion scores are significantly correlated with the scores of their fund managers ($r=0.90$; $p<0.01$), providing additional evidence of the validity of the panellists' ratings in this thesis.

Figure 13 below shows the variation of managerial discretion across the sampled countries along with the trend of panellists rating per country.

Figure 13: Heterogeneity of Managerial Discretion Across Countries



4.5.4. Non-Respondents

The author assesses the possible non-response bias in two ways. First, the author conducts tests comparing respondents to non-respondents (and respondents who failed to complete the survey) in terms of years of experience and nationality and finds no significant difference ($p>0.1$). Further, he compares the final respondent pool with the total sampling frame (e.g. 193 compared to 57 final respondents). Again, the findings suggest that there are no significant differences ($p>0.1$). The relatively high response rate and the results of these tests suggest that non-response bias is not a concern.

4.5.5. Summary

The expert panel chosen for generating managerial discretion scores proved to be an important as they provided reliable and accurate responses. Preliminary analysis of the discretion ratings has been also validated with earlier findings namely Crossland and Hambrick (2011) and Crossland (2008), therefore providing additional support for the discretion measurement adopted in this research. The following section discusses the statistical or econometric techniques used to test the proposed hypotheses.

4.6. Methodology Adopted for Data Analysis

This section introduces the reasons behind the econometric techniques chosen to test the proposed hypothesis. The author used two different techniques, fixed-effect regression analysis and multi-level or hierarchal linear modelling. All analyses were carried out using the Stata 14 software, an advanced econometrics software that is now being highly used in top business and management studies (i.e. Quigley and Hambrick, 2015). Before, discussing the hypotheses testing, the researcher first provides a descriptive and correlation analysis for the all the variables.

4.6.1. Descriptive and Correlation Analysis

Table 7 illustrates the bivariate correlations between discretion and all cultural practices along with variable descriptive statistics. To provide a visual illustration of the relationship between all cultural practices along with the construct of cultural tightness-looseness and managerial discretion, the author created the discretion level index based on the mean scores of all the respondents by country. Figures 14 to 22 represent the country-level relationship between cultural practices (standardized scores) (8 in total) along with cultural looseness and managerial discretion.

Table 7: Descriptive statistics and bivariate correlations (all variables)

	Mean	S.d.	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
Discretion[1]	4.88	0.78	-																			
IC_P[2]	4.44	0.46	-.160	-																		
UA_P[2]	4.50	0.56	.341	.007	-																	
PD_P[2]	5.11	0.37	-.028	-.206	-.248	-																
FO_P[2]	4.11	0.46	.479*	.390	.707**	-.458	-															
HO_P[2]	3.98	0.46	-.364	.325	-.292	-.540*	-.087	-														
PO_P[2]	4.24	0.35	.484*	.054	.307	-.127	.622**	-.301	-													
GE_P[2]	3.32	0.40	.431	.004	.536*	-.241	.472*	.051	-.003	-												
AA_P[2]	4.18	0.36	.417	-.468	.065	.235	.141	-.388	.415	.132	-											
OD[2]	0.29	0.21	.556*	-.015	-.064	-.057	.183	.170	.342	.054	.010	-										
LO[2]	0.28	0.46	.613**	-.071	.100	-.278	.344	.041	.381	.327	.090	.615**	-									
EF[2]	0.48	0.20	-.173	-.257	.201	.244	-.285	-.380	-.380	.090	.170	-.656**	-.645**	-								
CL[2]	-7.24	2.07	.642**	-.531*	.080	-.235	.086	-.069	.209	.319	.513*	.293	.252	.129	-							
IC_V[2]	4.62	0.47	-.339	-.711**	-.039	.200	-.478*	-.202	-.291	.072	.345	-.474*	-.390	.583*	.230	-						
UA_V[2]	4.19	0.56	-.644**	-.054	-.772**	.408	-.714**	.163	-.350	-.399	-.102	-.223	-.227	-.060	-.412	.312	-					
PD_V[2]	2.74	0.26	-.409	.022	-.050	-.298	-.055	.594**	-.047	.194	-.142	.144	.173	-.350	-.242	.163	.347	-				
FO_V[2]	5.41	0.31	-.521*	-.059	-.794**	.320	-.631**	.112	-.404	-.341	.034	-.339	-.225	.057	-.307	.321	.780**	.109	-			
HO_V[2]	5.54	0.20	.645**	-.009	.430	.434	.330	-.630**	.378	.389	.302	.013	.111	.199	.214	-.135	-.397	-.536*	-.385	-		
PO_V[2]	5.92	0.25	.358	-.676**	.465	.046	-.034	-.122	-.110	.433	.323	.094	.198	.263	.420	.393	-.387	.050	-.348	.253	-	
GE_V[2]	4.62	0.60	.904**	-.215	.482*	.035	.410	-.481*	.259	.432	.287	.324	.344	.120	.628**	-.216	-.741**	-.604**	-.602**	.704**	.439	-
AA_V[2]	3.79	0.65	.118	.314	-.334	.130	.024	.131	.032	.015	-.335	.458	.284	-.586*	-.120	-.393	.176	.029	.170	.066	-.434	-.002

n[1]= 792; n[2]=18 *p<0.05; **p<0.01; ***p<0.00

Figure 14: Country-level Relationship between Institutional Collectivism and Managerial Discretion

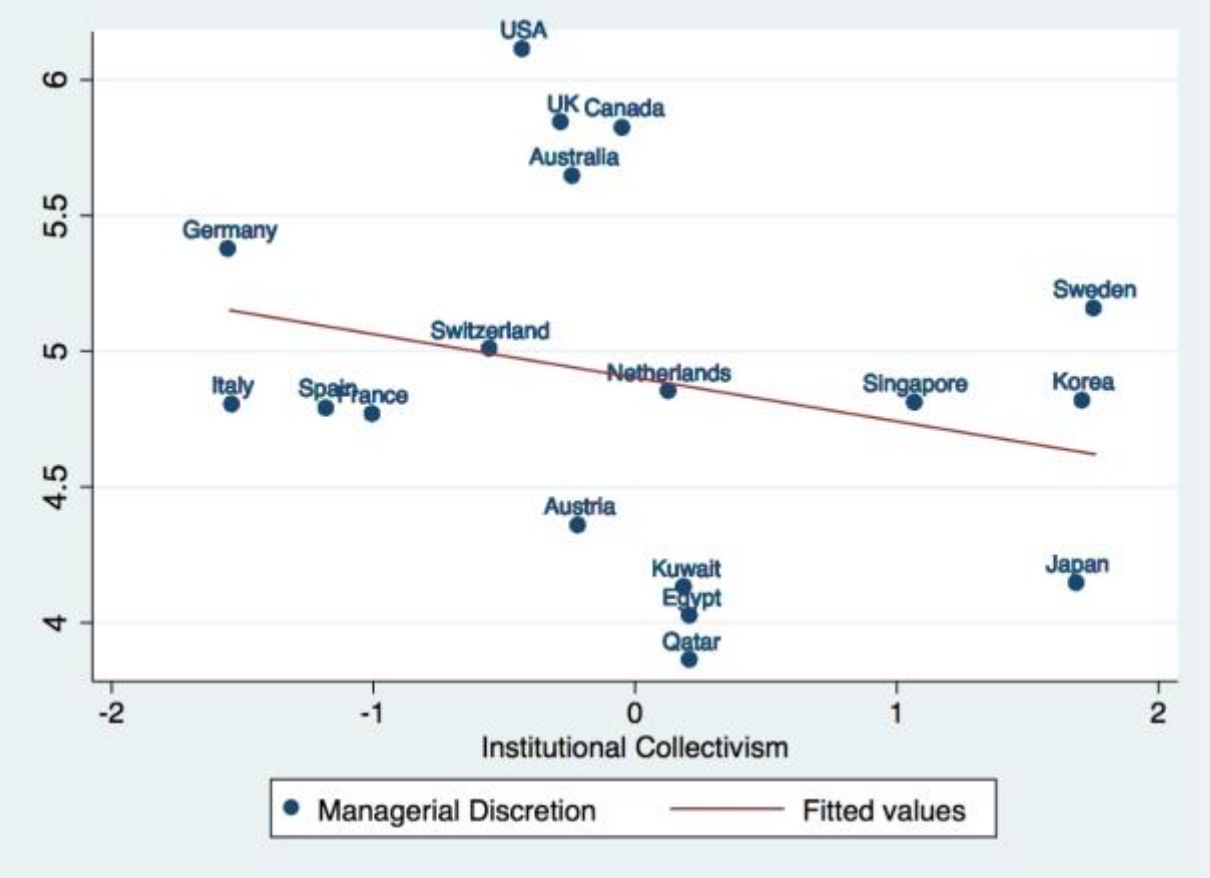


Figure 15: Country-level Relationship between Uncertainty Avoidance and Managerial Discretion

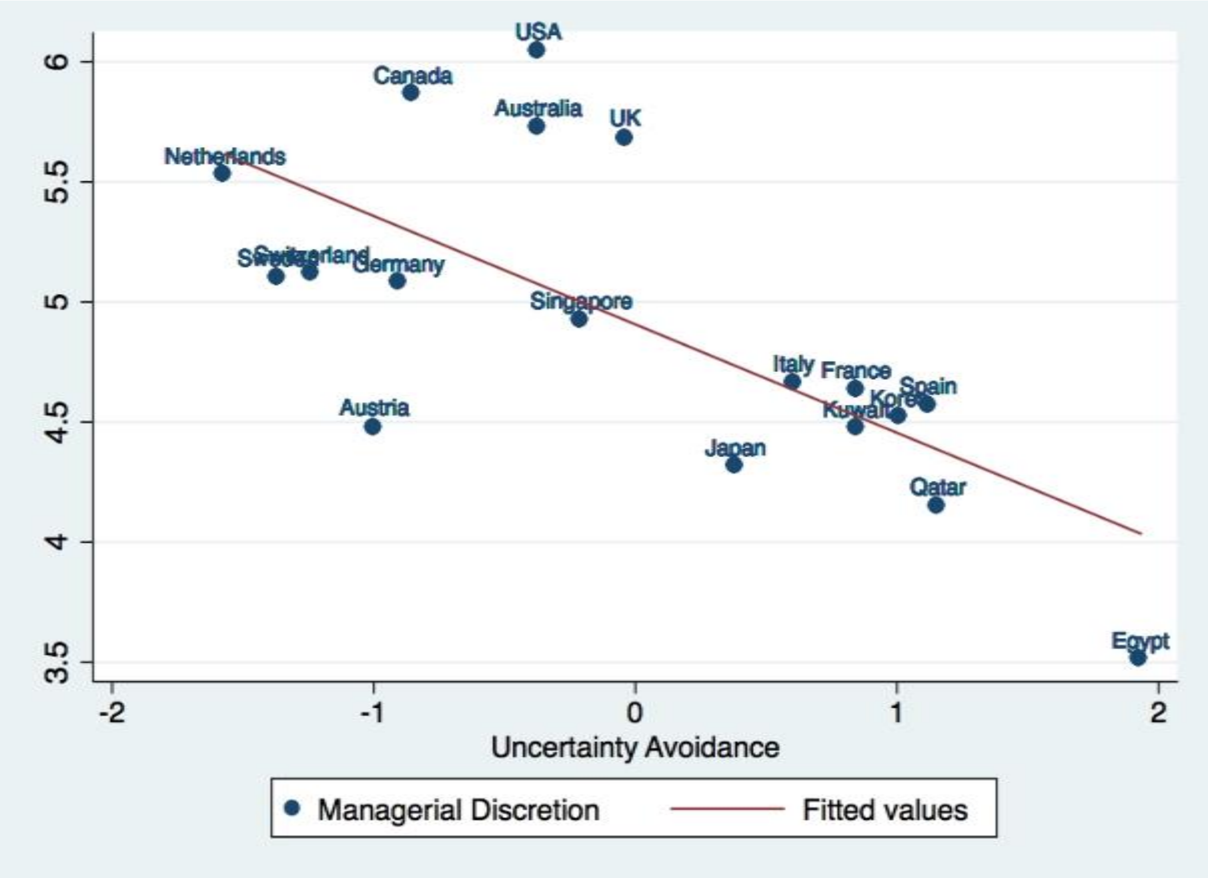


Figure 16: Country-level Relationship between Power Distance and Managerial Discretion

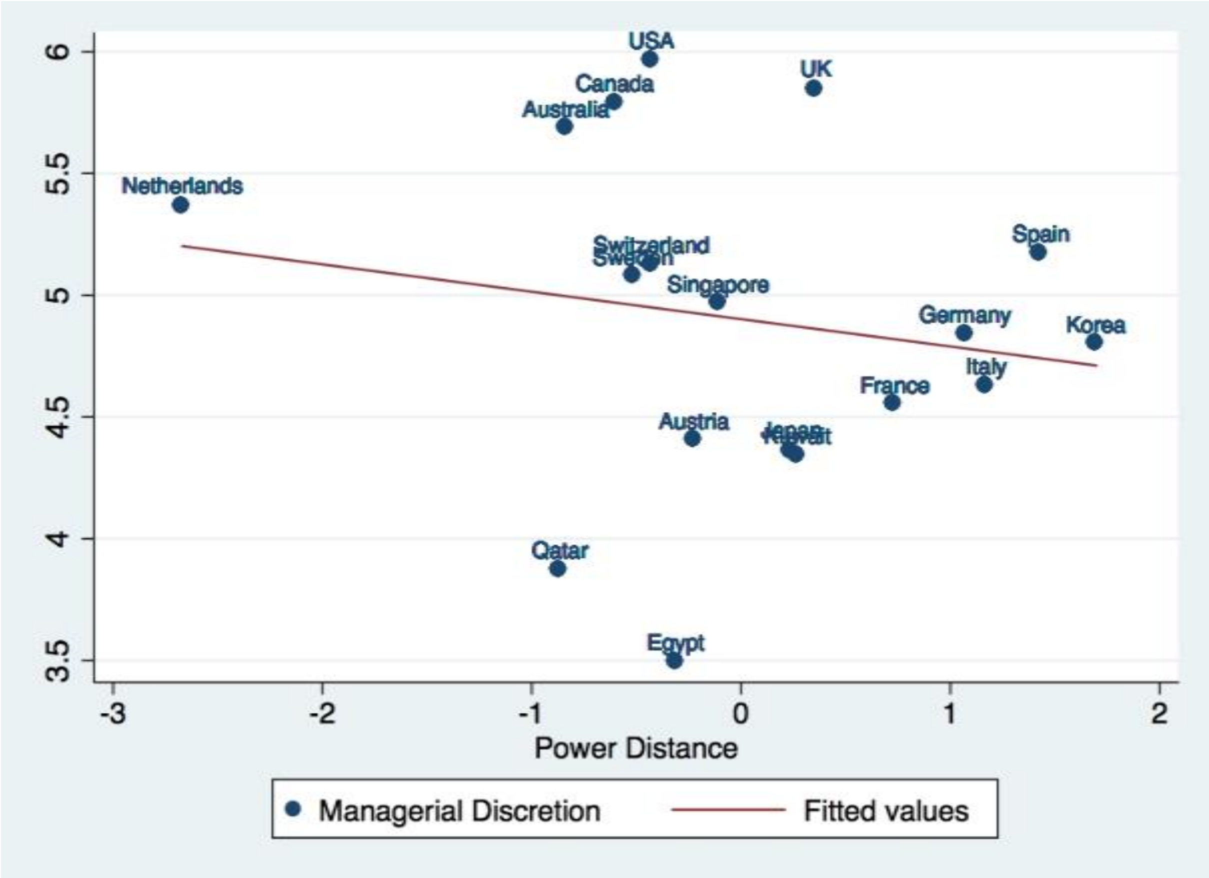


Figure 17: Country-level Relationship between Future Orientation and Managerial Discretion

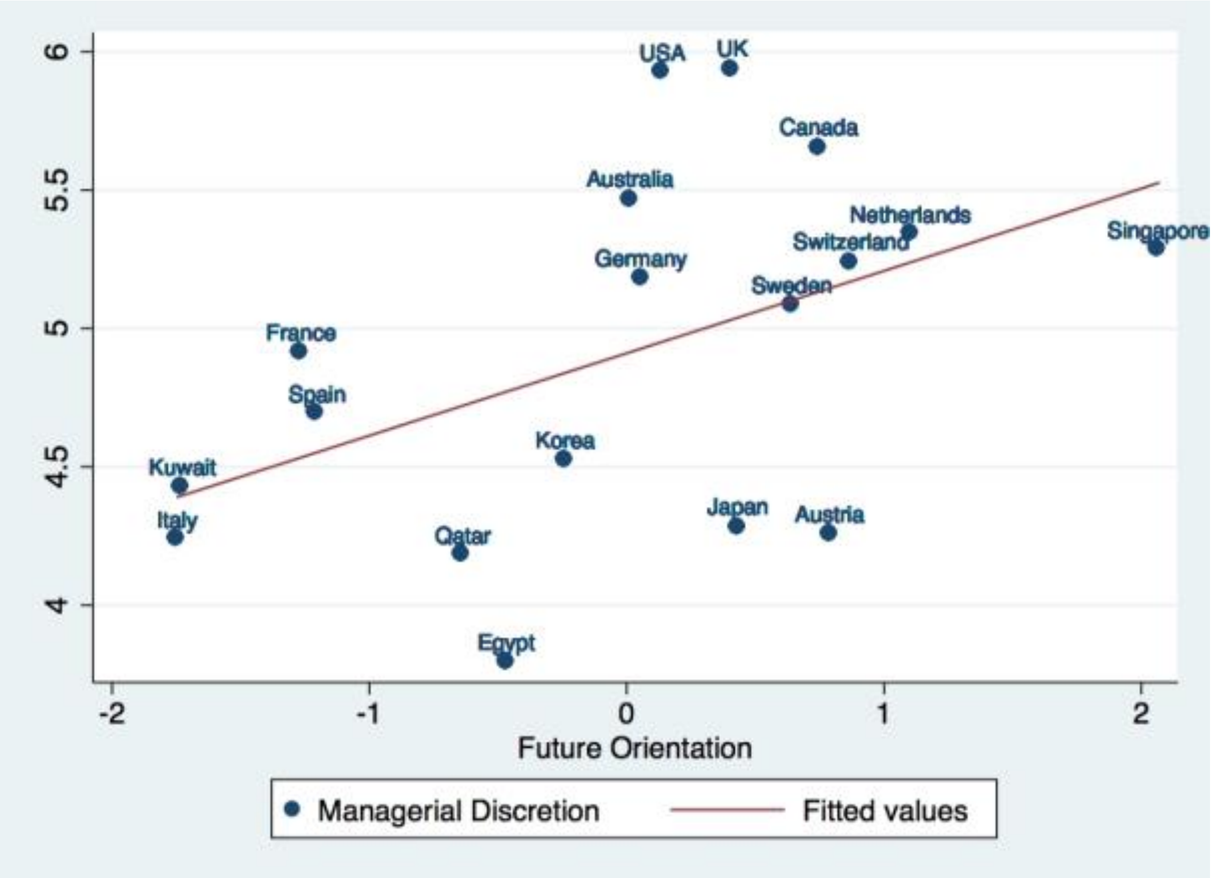


Figure 18: Country-level Relationship between Humane Orientation and Managerial Discretion

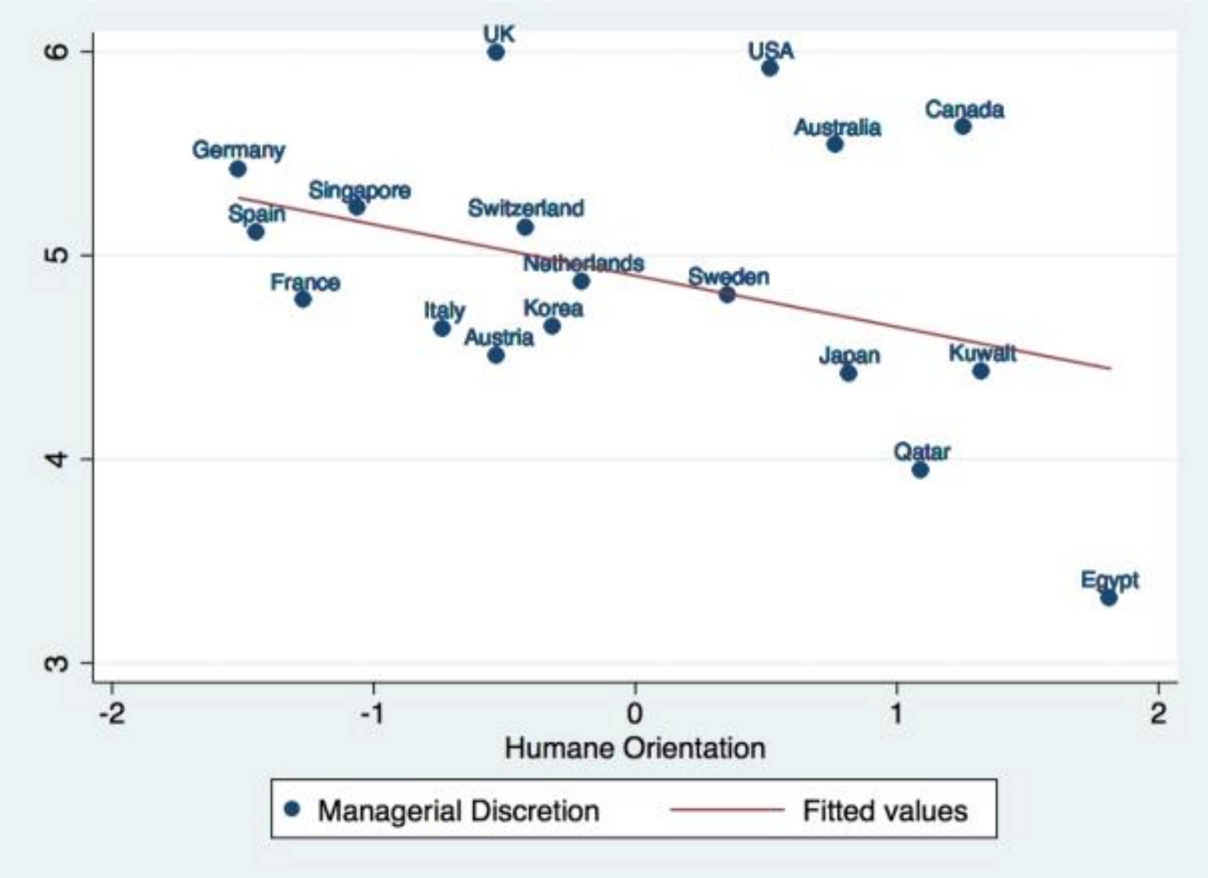


Figure 19: Country-level Relationship between Performance Orientation and Managerial Discretion

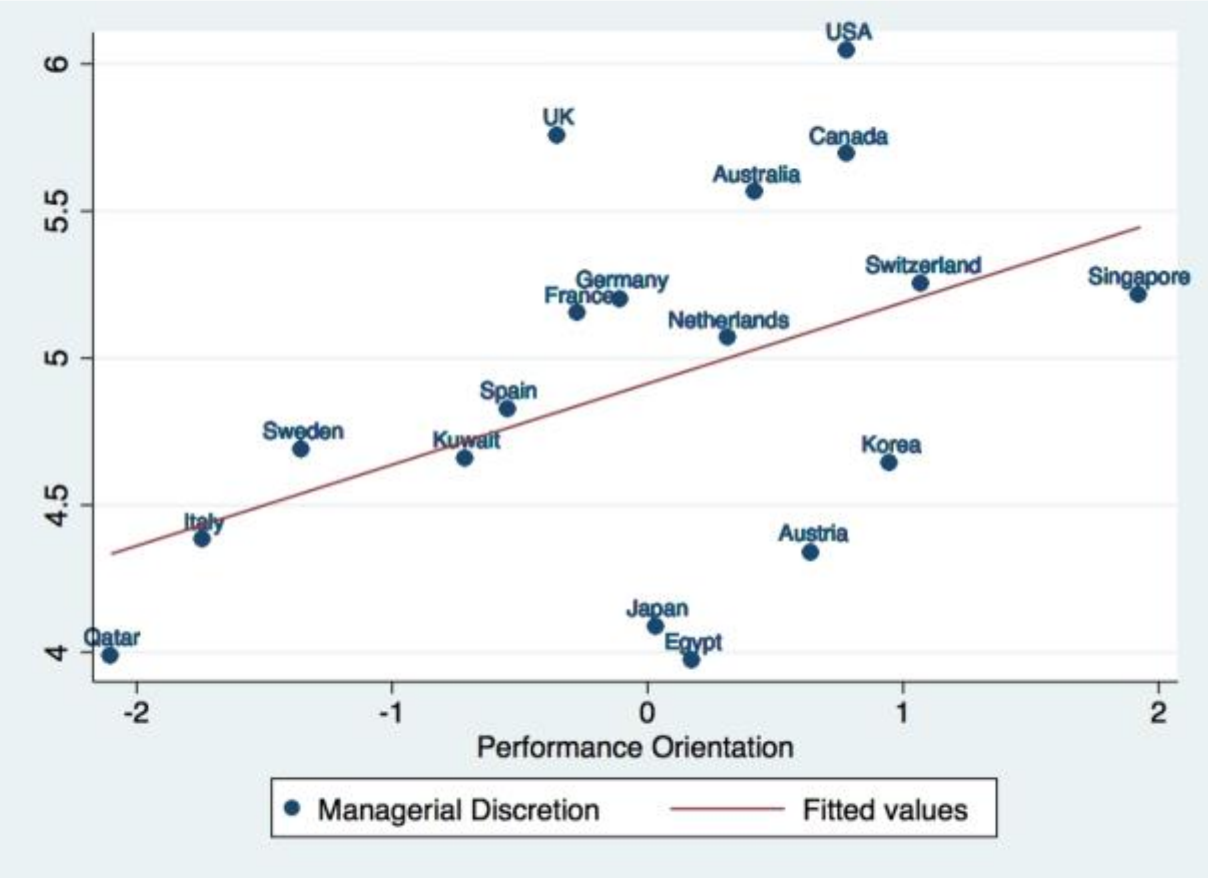


Figure 20: Country-level Relationship between Gender Egalitarianism and Managerial Discretion

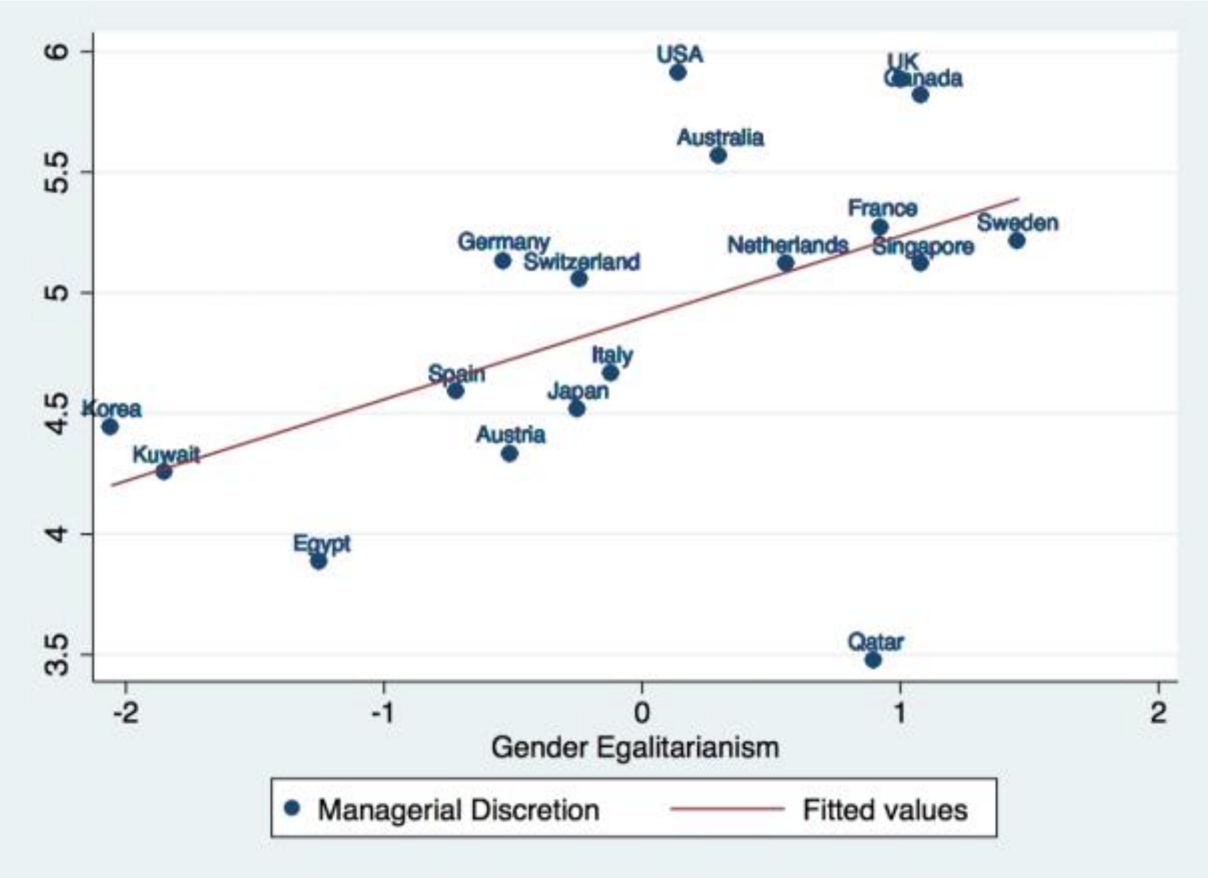


Figure 21: Country-level Relationship between Assertiveness and Managerial Discretion

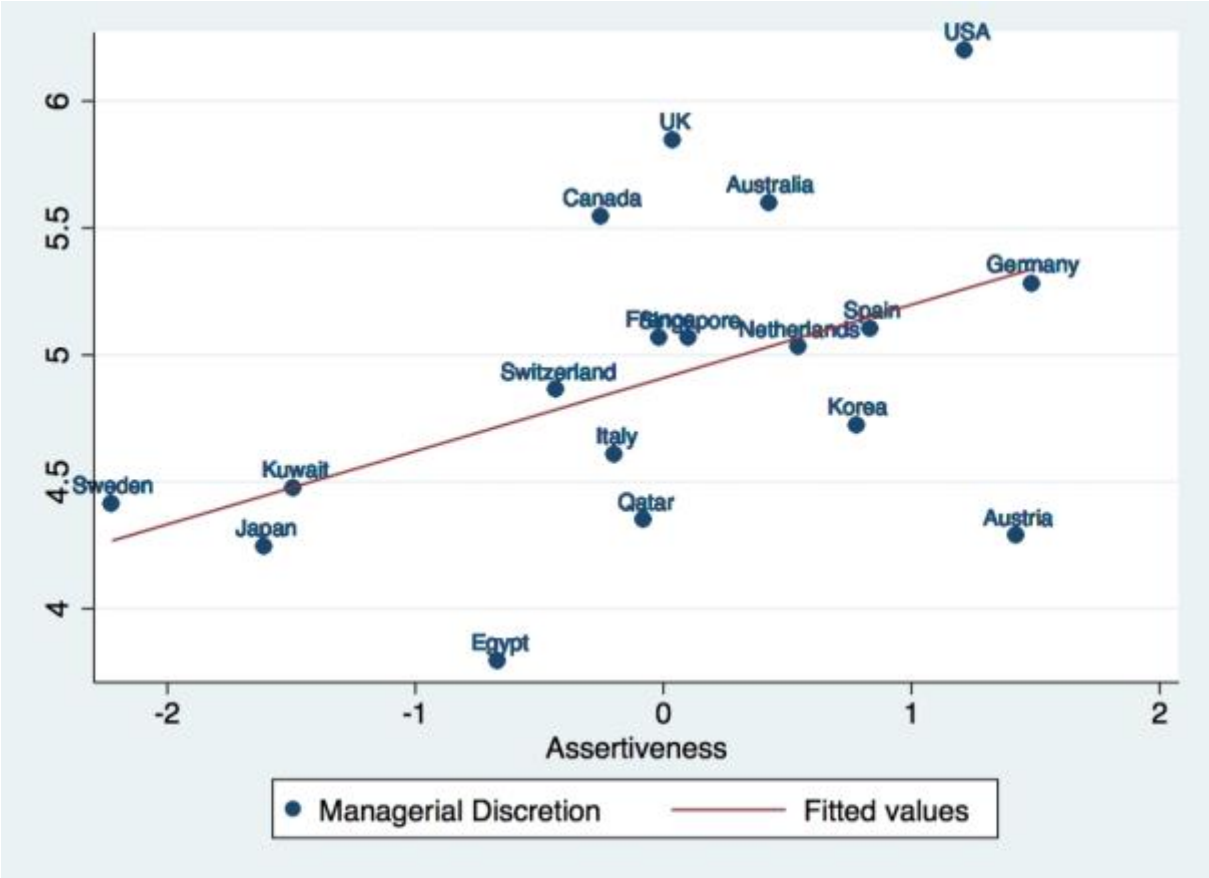
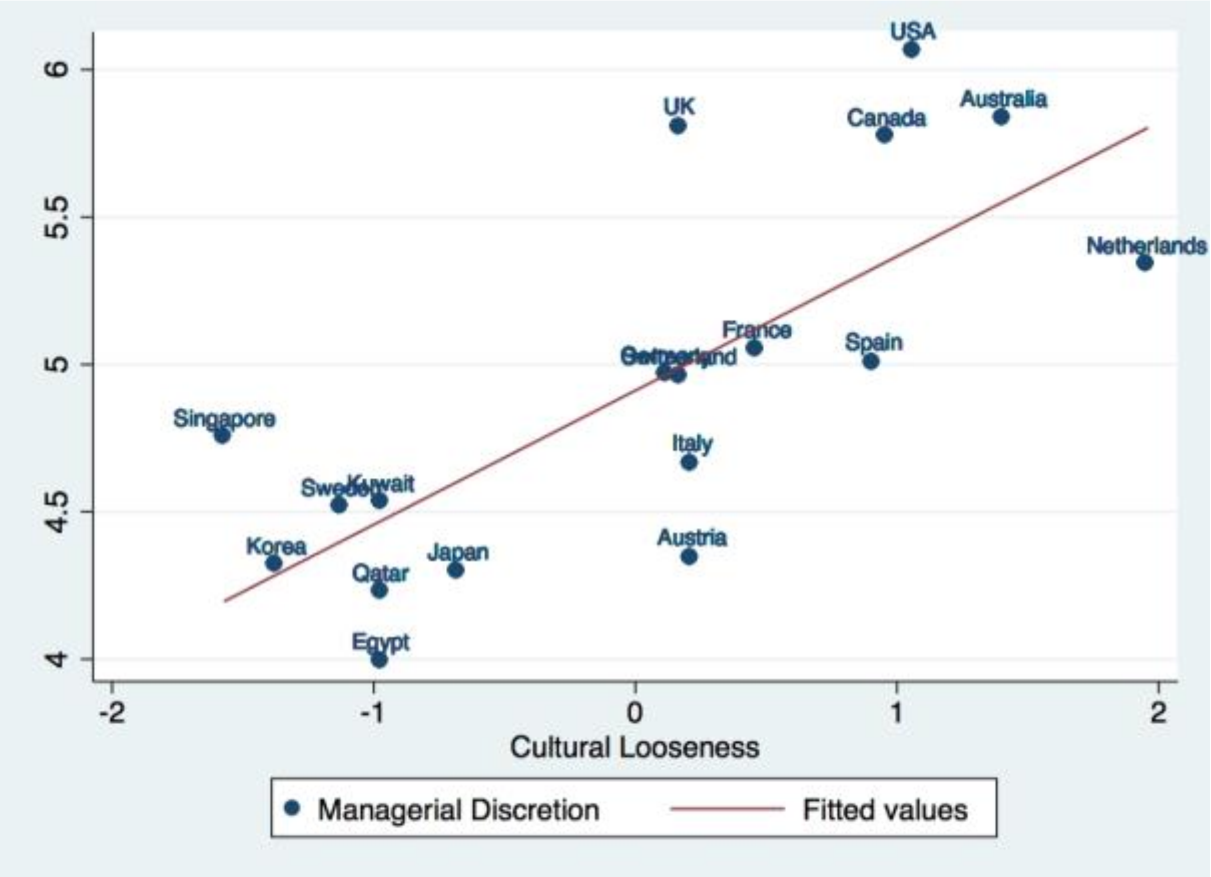


Figure 22: Country-level Relationship between Cultural Looseness and Managerial Discretion



At this simple level, and as illustrated below, there exists some correlation between discretion and most the proposed cultural dimensions. Most the proposed relationships are in line with the hypothesised direction. As shown in Table 4, the direction of some of the proposed relationship has started to emerge. For instance, future orientation is positively correlated with managerial discretion ($p<0.05$). However, some of the relationships are contradictory, particularly for power distance and uncertainty avoidance, where both illustrate opposite direction of the relationship to what was initially hypothesised.

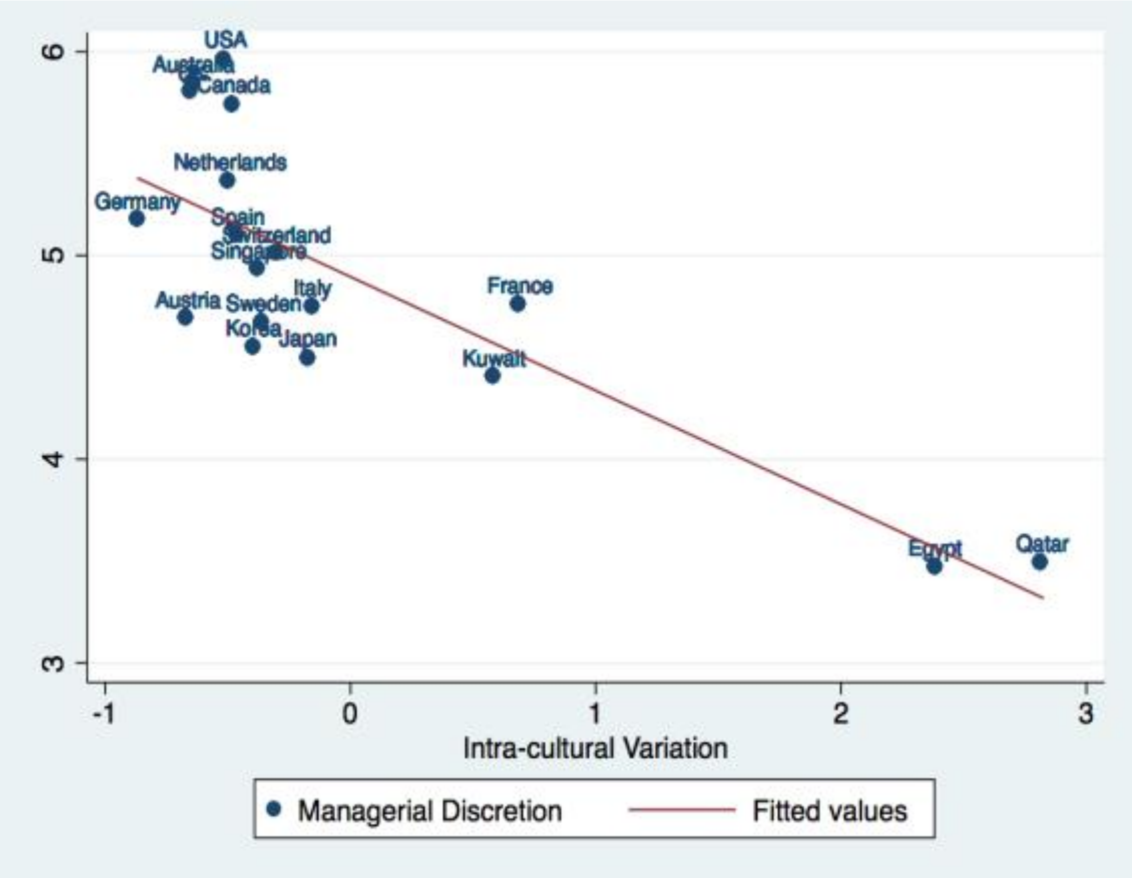
Moreover, Table 8 contains some descriptive statistics and reports the bivariate correlations between the dependent, managerial discretion, and independent variable, the overall intra-cultural variation per country. Figure 23 also shows the relationship between the country-level intra-cultural variation across all cultural practices and managerial discretion. At this simple stage, as proposed earlier, we can see that intra-cultural variation has a negative relationship with managerial discretion. Additionally, the table shows that there exists a significant relationship between the dependent variables and the other control variables (formal institutions), reemphasising the importance of controlling these.

Table 8: Bivariate correlations: Intra-cultural variation and managerial discretion

	Mean	SD	1	2	3	4	5
Managerial discretion[1]	4.98	1.55	-				
Intra-cultural variation[2]	0.80	0.08	-.330**	-			
Control variables							
Ownership dispersion[2]	0.29	0.21	.271**	-.344**	-		
Legal origin[2]	0.28	0.45	.289**	-.318**	.615**	-	
Employer flexibility[2]	0.48	0.19	-.103**	0.023	-.656**	-.643**	-
Cultural tightness[2]	-7.24	2.01	.287**	-.412**	.293**	.252**	.130**

*n^1=792; n^2= 18; *p<0.05; **p<0.01, ***p<0.001.*

Figure 23: Country-level Relationship between intra-cultural variation across all dimensions and managerial discretion



Furthermore, Table 9 illustrates the bivariate correlations between intra-cultural variation on each dimension (i.e. variation on institutional collectivism) and managerial discretion. Again, from this simple statistical step, a significant relationship is seen to exist between country cultural heterogeneity, in most dimensions, and managerial discretion. Surprisingly, the effect or direction of the relationship is negative on all dimensions, which the author will further elaborate on in the discussion section. The author did not anticipate the direction of such relationship to exist across all cultural practices, as this is the first empirical attempt to test the effect of intra-cultural variation and particularly the variation on each dimension of cultural practices and managerial discretion. The researcher therefore had no way of predicting that the relationship would be negative for all practices. This is something that has a theoretical contribution on its own. This is particularly common in cross-cultural studies that involve new empirical investigations (e.g. Crossland and Hambrick, 2011).

Table 9: Bivariate correlations: Intra-cultural variation (each dimension) and managerial discretion

	Mean	S.d.	1	2	3	4	5	6	7	8	9	10	11	12
Managerial Discretion[1]	4.88	0.78	-											
IC_Var[2]	0.77	0.08	-.673**	-										
UA_Var[2]	0.86	0.08	-.391	.613**	-									
PD_Var[2]	0.80	0.11	-.552*	.731**	.414	-								
FO_Var[2]	0.82	0.12	-.797**	.733**	.375	.785**	-							
HO_Var[2]	0.76	0.10	-.688**	.795**	.486*	.906**	.771**	-						
PO_Var[2]	0.80	0.10	-.710**	.755**	.577*	.781**	.769**	.797**	-					
GE_Var[2]	0.76	0.16	-.648**	.621**	.653**	.615**	.474*	.680**	.710**	-				
AA_Var[2]	0.83	0.09	-.532*	.582*	.618**	.620**	.497*	.646**	.758**	.550*	-			
OD[2]	0.29	0.21	.556*	-.363	-.428	-.183	-.380	-.213	-.364	-.196	-.335	-		
LO[2]	0.28	0.46	.613**	-.383	-.054	-.279	-.642**	-.367	-.392	-.021	-.103	.615**	-	
EF[2]	0.48	0.20	-.173	.146	.130	-.048	.193	.001	.157	-.167	-.089	-.656**	-.643**	-
CL[2]	-7.24	2.07	.642**	-.546*	-.177	-.282	-.421	-.366	-.257	-.414	-.259	.293	.252	.130

*n^1=792; n^2= 18; *p<0.05; **p<0.01, ***p<0.001.*

Furthermore, Table 10 below shows that managerial discretion measures are positively correlated with national competitiveness and that control variables included in the multilevel modelling significantly affect and have an important influential role on competitiveness. This further supports the inclusion of these variables. This table shows the mean, standard deviation and the bivariate correlations between all variables including the control variables. For a visual representation, Figures 24 and 25 illustrate the country-level relationship between managerial discretion and GCI across all years and per year.

Table 10: Bivariate correlations: Managerial Discretion and National Competitiveness

	Mean	SD	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
Managerial Discretion[1]	4.88	0.77	-																
Global Competitiveness Index[2]	5.11	0.47	.658**	-															
Control Variables																			
GDP Per Capita[2]	4.49	0.35	.526*	.742**	-														
Economic Freedom Index[2]	72.03	7.91	.697**	.771**	.529*	-													
Ownership Dispersion[3]	0.28	0.22	.661**	.525*	.278	.554*	-												
Legal Origin[3]	0.28	0.46	.614**	.341	.150	.719**	.636**	-											
Employment Law Index[3]	0.48	0.20	-.176	-.179	.108	-.451	-.656**	-.649**	-										
Entrepreneurship Behaviour[3]	4.80	1.32	.187	.146	.093	.405	.329	.413	-.429	-									
Institutional Collectivism[3]	4.51	0.17	-.786**	-.340	-.186	-.412	-.730**	-.532*	.306	-.165	-								
In Group Collectivism[3]	4.70	0.72	-.640**	-.594**	-.476*	-.393	-.461	-.212	-.054	-.100	.518*	-							
Uncertainty Avoidance[3]	4.34	0.19	-.493*	-.232	-.381	-.194	-.427	-.114	.090	-.427	.433	.410	-						
Power Distance[3]	3.89	0.18	-.423	-.394	-.328	-.441	-.017	-.066	-.146	-.370	.092	.590**	.513*	-					
Future Orientation[3]	4.75	0.19	.161	.385	.042	.553*	.089	.350	-.439	.333	.061	.089	-.018	-.336	-				
Humane Orientation[3]	4.74	0.17	-.128	-.048	-.171	.020	.231	.227	-.513*	.521*	.025	-.204	-.211	-.133	.057	-			
Performance Orientation[3]	5.07	0.20	.602**	.444	.132	.621**	.429	.539*	-.300	.201	-.611**	-.253	.022	-.165	.212	-.098	-		
Gender Egalitarianism[3]	3.95	0.43	.853**	.641**	.590*	.574*	.389	.446	.078	-.053	-.555*	-.779**	-.287	-.508*	.115	-.115	.376	-	
Assertiveness[3]	3.96	0.32	.362	.287	.247	.387	.539*	.401	-.560*	.117	-.295	.136	-.303	.153	.328	.004	.083	.131	-
Cultural Looseness[3]	-7.24	2.07	.643**	.138	.290	.241	.341	.252	.128	.219	-.533*	-.525*	-.574*	-.509*	-.231	-.092	.359	.543*	.133

*n^1= 792; n^2 = 180; n^3= 18; *p<0.05; **p<0.01; ***p<0.001*

Figure 24: Relationship between managerial discretion and GCI across all years

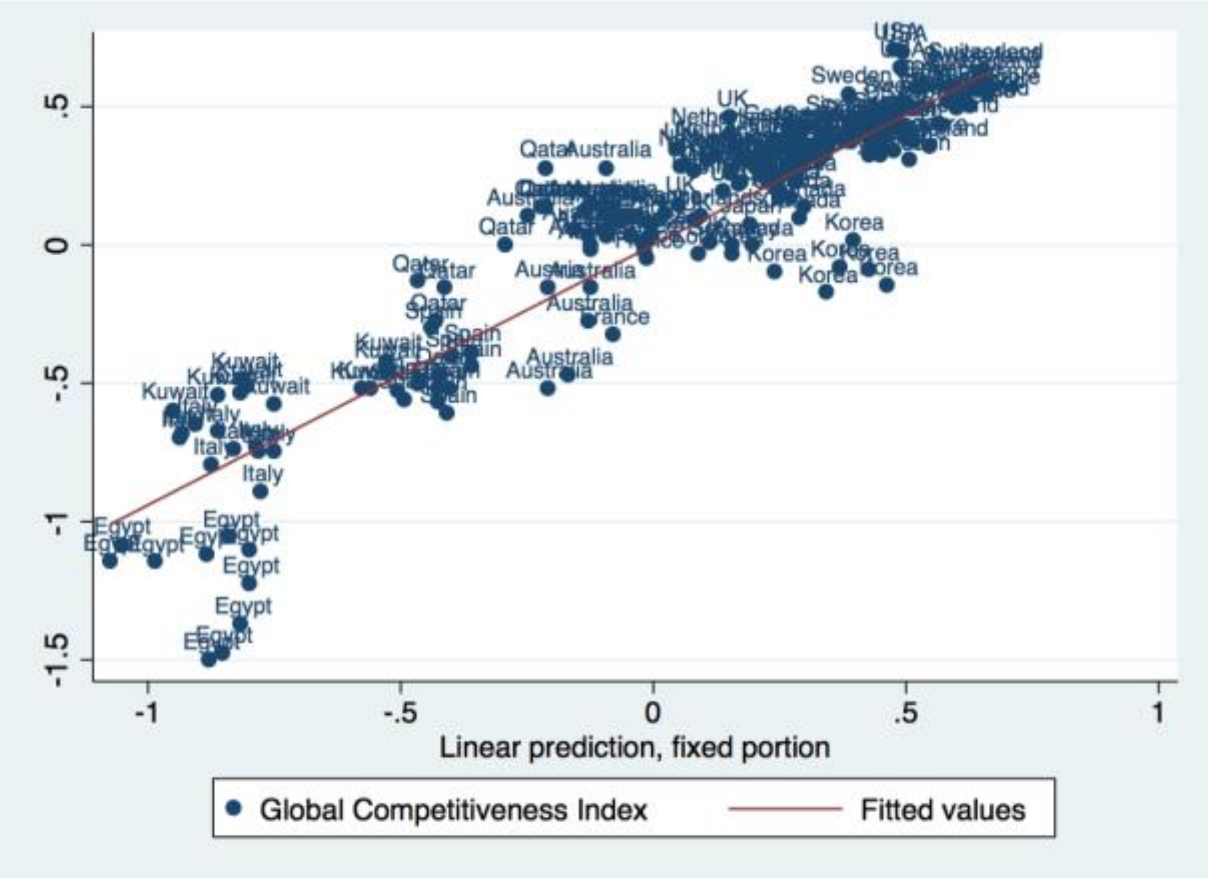
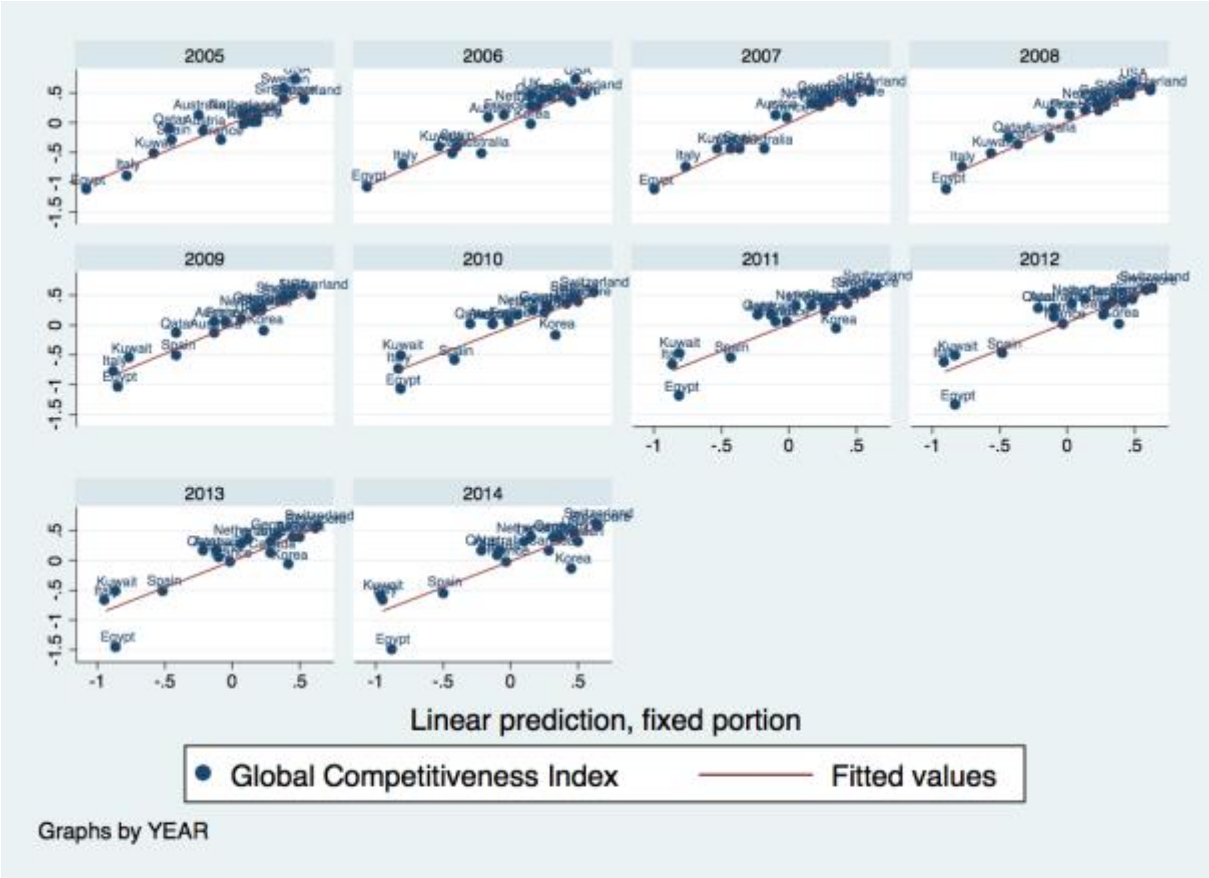


Figure 25: Relationship between managerial discretion and GCI per year



4.6.2. Hypotheses Testing

To test the proposed relationships the author has used several econometrics models based on extant research and suitability in terms of the variables being tested. For hypothesis 1 to 10, the author used fixed-effect regression analysis, for hypothesis 11, the author employed a hierarchical linear model, often referred to as multilevel mode, and finally for hypothesis 12, the author used multilevel mediation analysis. Details and further explanation on each model and the reason being using it is provided in the below sub-sections.

4.6.2.1. Fixed-Effect Regression Analysis

Due to the changes in the external conditions affecting discretion over time, it is worth stating that the sample period examined in this analysis is 2005-2014 inclusive (10 years); such a time frame is in line with several works in the discretion literature (e.g. Crossland and Hambrick, 2007, 2011). The author identified this time frame to correspond with the sample frame used in this and the following chapters, particularly the last one. To test the proposed hypotheses (1-9), the researcher has performed fixed-effect regression analysis in which country level discretion scores generated from the consultant panel were the dependent variables (792 diverse ratings), and the country national culture (cultural practices) scores the independent variables. The use of such analysis technique is due to variation between individual ratings. In other words, each consultant is distinct from the other in terms of the number of countries he/she rates and the tendency of his/her ratings. Not all the panellists provided scores for all the country discretion levels, and each one gave a distinct score (either low, moderate, or high). Thus, fixed-effect regression in this context considers the inter-rater (consultant) differences and treats each consultant as a fixed-effect. As opposed to ordinary least square (OLS) regression analysis, the fixed-effect addresses the heterogeneity between raters along with controlling for the distinctive panellists' rating pattern (Hsiao, 2003). This enables more accurate analysis that illustrates each consultant's exclusive intercept and control for unobserved heterogeneity between raters (Kennedy, 2008: 282-283; Crossland and Hambrick, 2011). Additionally, it provides more variability, informative data, less collinearity between variables, greater efficiency and degrees of freedom (Hsiao, 2003; Baltagi, 2008).

The analysis was conducted using the statistical software Stata 14 in which panels were assigned the ID value of each respondent, which was then absorbed in the analysis equation to take into consideration the uniqueness of each panellist. First, discretion scores were constructed according to each consultant rating per country. Then, cultural practices mean scores aggregated to the country level were included in the fixed-effect equation as predictor/independent variables.

It is important to note that the function or stata command used in this analysis is the *areg* function instead of the *xtreg*, because discretion was considered as constant during the whole period and was not measured on an annual basis. The *areg* command takes into consideration the changes in ratings across each panellist and considers that the number of groups (consultants) remains the same throughout the sample size, which is indeed the case here. This is opposed to *xtreg*, which handles cases in which the actual number of groups increases with the sample size and accounts for the changes over time. Additionally, in the *areg* function, the model absorbs or controls the fixed-effect (which is in this case the panellists) and considers it as a nuisance parameter in order not to affect the β coefficients (McCaffrey *et al.*, 2012). This is particularly important as it allows for computational efficiency (Lovell, 2008).

Furthermore, the author has run a series of preliminary analyses to empirically justify the use of the fixed-effect instead of the random or any other regression model. Starting with the Breusch-Pagan Lagrange Multiplier test, which is helpful to determine whether the consideration of the ordinary lease square regression is warranted. The Breusch-Pagan test results ($\chi^2_{(2)}$ = 699.81, $p<0.001$) indicate that the variance across entities is not zero and that there exist significant differences across units, which is in this case the scores of discretions provided by the expert panel. As such, the use of OLS regression is not appropriate because it is unable to address the heterogeneity between raters. Next, Hausman test was performed to determine whether random effects would be a possible option to test the hypothesised relationships. It is important to clarify here that the author did not use the normal Hausman test due to its serious shortcomings, particularly related to the consideration of the random estimator as being efficient (Cameron and Trivedi, 2010). Instead, Cameron and Trivedi (2010) proposed an enhanced version of the Hausman test labelled as robust Hausman analysis. After running the robust version of the Hausman test, the results ($\chi^2_{(2)}$ =399.93, $p<0.001$) indicated that the current data fits better in a fixed-effect regression model as opposed to a random effect one. This further supported the use of the fixed-effect regression technique.

Like the statistical technique implemented to test hypotheses 1 to 9 concerning the effect of cultural practices on managerial discretion, and consistent with Crossland and Hambrick (2011), the author used fixed-effect regression analysis in which the panellists' ratings of national-level managerial discretion were the dependent variable and the intra-cultural variation measured by the overall standard deviation of the society across all cultural dimension was the independent variable. As stated earlier, the reasoning behind the use of the fixed-effect model is mainly due to the distinctiveness and heterogeneity in the panellists' ratings. Although OLS may be helpful as a statistical procedure to test the proposed relationship, its drawback is the inability to control for panellists' heterogeneity and the uniqueness of each panellist rating (Kennedy, 2008). Furthermore, to empirically justify the use of fixed-effects regression, the author runs several statistical tests as preliminary analysis.

First, the author runs the Breusch-Pagan Lagrange Multiplier test to decide whether the consideration of the simple OLS regression is warranted. The test results ($\chi^2_{(2)}$ = 668.93, *p<0.001*) indicate that the variance across entities is not zero and that there exists significant difference across units, thus the use of simple OLS regression is not appropriate. Later, to decide whether random or fixed effects should be used, the author run a robust Hausman test instead of the normal Hausman test, which has a serious shortcoming by considering the random estimator to be efficient (Cameron and Trivedi, 2010: 267). The results ($\chi^2_{(2)}$ =240.82, *p<0.001*) designate that the current data fits better in a fixed-effects model as opposed to the random-effect method.

4.6.2.2. Hierarchical Linear Modelling

To capture the estimates of the explanatory variables at the year and country levels, and thereby predict individual national-level performance per year (Hypothesis 10), the author specified a multilevel regression model, often referred to as a hierarchical linear model (HLM) (Bliese and Hanges, 2004). The use of multilevel analysis is consistent with the broader management literature (e.g. Hammer *et al.,* 2009; Aguinis *et al.,* 2013; Quinn and Bunderson, 2016) and particularly the strategic leadership literature (e.g. Crossland and Hambrick, 2011; Crossland and Chen, 2013; Lam et *al.,* 2015). Due to the within-subject nature of the current data (discretion and competitiveness levels within country), multilevel analysis was used to capture the nesting of the measures within each subject (Bliese, 2000; Song *et al.,* 2002). The multilevel approach is suitable for the current data structure because it accounts for the interdependencies among repeated observations per country (e.g. multiple years by the same country), whereas standard regression techniques do not and instead assume that each yearly observation is independent of the others. Whereas the use of the ordinary least square analysis (OLS) would be inappropriate because it does not account for the non-independence of nested data and increases the likelihood of Type I (when analysing group-level effect) and Type II (when analysing individual-level effect) errors (Bliese and Hanges, 2004). The current data contained multiple yearly observations (10 per country) nested within any given country, and the multilevel model or HLM modelling appropriately controls for the possibility that national competitiveness performance from the same country would be more like one another than to performances from another country. It also supports the simultaneous testing and explanatory variables at yearly (e.g. economic performance, economic freedom index) and country levels (e.g. level of managerial discretion).

Before estimating the hypothesised relationship, the author sought to determine whether there was any significance between group-variation in the dependent variable (GCI) – a prerequisite for conducting multilevel analysis (Quinn and Bunderson, 2016). The author first estimated a baseline ordinal regression model (intercept only) that included only the dependent variable (GCI), then he conducted a baseline multilevel regression (intercept only) that included GCI as the dependent variable and a random effect for the country as a grouping variable. A likelihood ratio test indicated that the multilevel ordinal regression model provided a significantly better fit than the non-nested ordinal regression model ($\chi^2_{(2)}$ =44.07, *p<0.001*), indicating the appropriateness of the multilevel modelling technique for testing the proposed hypothesis. Even with the inclusion of the control variables, the likelihood ratio test also indicated that the multilevel model provided a significantly better fit than the non-nested ordinal regression model ($\chi^2_{(2)}$ =26.20, *p<0.001*).

Furthermore, to determine the extent to which the variation in GCI was due to the grouping variables (countries), the author calculated the intra-class correlation (ICC) statistic for multilevel ordinal regression model (Algesheimer and Herrmann, 2005), which reveals a ratio of between-group variance to total variance. The ICC value of 0.92 indicated that differences between countries accounted for a large percentage of the total variance in the yearly GCI. Also, the author chose to grand-centre the variables prior to running the multilevel models as this is an important and helpful procedure before estimating an HLM model because it reduces the correlations among main-effect, random-effect and interactive terms (Bliese, 2005). Accordingly, the author specified the multilevel regression model to estimate the effect of the antecedent year- and country-level managerial discretion on GCI. The author relied on Stata 14 to estimate the model.

4.6.2.3. Hierarchical Mediation Analysis

Mediation analysis was carried out to determine whether discretion mediates the relationship between cultural practices and national competitiveness (Hypothesis 11). The concept of the mediation analysis is that the effect of the independent variable is transmitted to the dependent variable through the mediator variable. In such an analysis, there exists three main statistical equations: first the effect of the dependent on the independent variable; second the effect of the mediator on the independent variable; and third the effect of the dependent variable on the mediator and the independent variable. The latter is the indirect effect, which relates to the proportion of the effect of the independent variable that passes to the mediator variable.

Due to the multilevel nature of the current data (nested within countries), the author conducted a multilevel mediation analysis instead of the normal mediation analysis (sgmediation) using the ‘ml_mediation’ command in stata. This is because sgmediation would not be able to capture the endogenous nature of variables and will provide inconsistent estimates (Antonakis *et al.*, 2014). Additionally, multilevel mediation provides a much better fit after an xtmixed command, which was used to test Hypothesis 10. Finally, such analysis would only provide confirmation if a mediation exists or not, but to report standard errors and confidence intervals, the author uses Preacher and Hayes’ (2004) bootstrapping approach. This also helps to avoid the normality distribution assumption of the confidence intervals and circumvents the power problem associated with non-normality and the asymmetries of the sampling distribution (Shrout and Bolger, 2002). Furthermore, it has been acknowledged that bootstrapping is the most accurate and accepted approach nowadays (Zhao *et al.*, 2010).

4.7. Summary

This chapter has identified the methodological approach which has been implemented in this research to provide answers the proposed research questions along with accomplishing the research aim of investigating the impact of inter- and intra-cultural variations on managerial discretion and the implications for national competitiveness. Additionally, this chapter has also showed the different econometric analysis employed to test the relationship between the variables and to show the mediating relationship that discretion plays between culture (antecedent) and national competitiveness (consequence). Several research philosophies or philosophical approaches were discussed and outlined to support to positivist choice of the researcher. The following chapter, reports the findings of the hypotheses testing.

5. Research Findings

5.1. Inter-Cultural Variations Findings

Despite these initial indications reported in the correlation analysis section, when running the actual regression models along with the control variables, the relationship may well vary. Another interesting observation is the inter-correlations among several cultural practices, where some exhibit high (above 0.6) and significant coefficients, which have also existed in other studies (e.g. Crossland and Hambrick, 2011). This indicates that cultural practices are not fully distinctive from each other and that they cohere in a way that suppresses the statistical effects of individual cultural practice. For that reason, each cultural practice was regressed against discretion ratings simultaneously. By doing that, the researcher is trying to avoid the multi-collinearity among variables and illustrate the individual effects on discretion.

After running nine separate fixed-effect models, the results are presented in Table 11 below.

Table 11: Fixed-effect regression: The effect of inter-cultural variation (each cultural dimension) on managerial discretion

	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7	Model 8	Model 9
Constant	4.903***	4.907***	4.902***	4.910***	4.901***	4.913***	6.196***	4.910***	4.912***
Institutional Collectivism	-0.474***								
	(0.095)								
Uncertainty Avoidance		-0.215**							
		(0.072)							
Power Distance			-0.133**						
			(0.044)						
Future Orientation				0.220**					
				(0.071)					
Humane Orientation					-0.129*				
					(0.057)				
Performance Orientation						0.193***			
						(0.053)			
Gender Egalitarianism							0.172**		
							(0.055)		
Assertiveness								0.190***	
								(0.048)	
Cultural Looseness									0.232***
									(0.052)

Control Variables									
Institutional Collectivism-values	-0.599***								
	(0.104)								
Uncertainty Avoidance- values		-0.438***							
		(0.076)							
Power Distance- values			-0.316***						
			(0.051)						
Future Orientation- values				-0.008					
				(0.070)					
Humane Orientation- values					-2.140***				
					(0.524)				
Performance Orientation- values						0.069			
						(0.054)			
Gender Egalitarianism- values							-1.658***		
							(0.288)		
Assertiveness- values								0.092	
								(0.058)	
Ownership Dispersion	0.176*	0.265***	0.415***	0.466***	0.420***	0.409***	0.321***	0.400***	0.298***
	(0.075)	(0.067)	(0.060)	(0.075)	(0.060)	(0.063)	(0.063)	(0.061)	(0.066)
Employer Flexibility	0.406***	0.328***	0.335***	0.520***	0.347***	0.469***	0.288***	0.445***	0.282***
	(0.073)	(0.065)	(0.065)	(0.076)	(0.074)	(0.077)	(0.069)	(0.072)	(0.073)
Legal Origin	0.385***	0.439***	0.451***	0.414***	0.325***	0.407***	0.382***	0.433***	0.394***
	(0.062)	(0.061)	(0.059)	(0.061)	(0.065)	(0.068)	(0.071)	(0.062)	(0.062)
F	44.02***	45.49***	45.91***	41.02***	43.89***	39.10***	45.16***	39.62***	50.67***
R^2	0.47	0.47	0.48	0.46	0.47	0.46	0.47	0.46	0.46

*n= 792; *p<0.05; **p<0.01; ***p<0.001*

The author argued in Hypothesis 1 that the more that a society's practices encourage collectivistic behaviour, the lower the discretion available to CEOs of firms headquartered in that society will be. Model (1) shows a strong negative and significant relationship between institutional collectivism and managerial discretion (β= -0.47; $p<0.001$), thus supporting Hypothesis 1. Model (2), which illustrates the relationship between uncertainty avoidance and managerial discretion, indicates a significant negative relationship (β= -0.21; $p<0.01$), thus Hypothesis 2, which argued that the more a society promotes uncertainty avoidance behaviour, the less the discretion available to CEOs of firms headquartered in that society will be, was supported. Hypothesis 3 suggested that higher power distance practices have a positive relationship with CEO discretion; Model (3) did not exhibit the same hypothesised direction and oppositely showed a negative relationship (β= -0.13; $p<0.01$); Hypothesis (3) was therefore not supported.

Hypothesis 4, which argued that the more a society endorses future-oriented behaviour, the higher the CEO discretion would be, was supported, as per Model (4) (β= 0.22; $p<0.01$). Model (5) proves that the prediction concerning the impact of humane orientation practices on discretion was in the same hypothesised direction (negative relationship). This provides support for Hypothesis 5 (β= -0.12; $p<0.05$), which contended that in societies where humane orientation behaviour is valued and promoted, CEOs would have lower leeway over their firms' faith and form. Hypothesis 6 debated that the higher the performance orientation practices in a society are, the greater the CEO discretion would be. Model (6) proves this proposition (β=0.19; $p<0.001$).

Model (7) exhibited a strong and positive relationship between gender egalitarianism and managerial discretion. Hypothesis 7, which argues that the more a society encourages equality among genders, the greater the discretion available to CEOs of firms headquartered in that society will be, was also supported (β=0.17; p<0.01). Hypothesis 8, which argued that the more a society values assertive behaviour, the higher the discretion available to CEOs headquartered in that society will be, was positive and supported, as per Model (8), (β=0.19; p<0.001). Lastly, Model (9) illustrates a significant positive relationship between cultural looseness and managerial discretion. Thus, Hypothesis 9, which argued that in loose societies CEOs of firms headquartered in that society possess higher latitude of actions as opposed to their counterparts who operate in tight societies, was supported as well (β=0.23; p<0.001). Accordingly, all the cultural practices, as measured by House *et al.*, (2004), showed a strong relationship with managerial discretion. However, not all the relationships followed the proposed direction. All the hypothesised directions were supported except for power distance, which showed an inverse relationship. Further explanation and implications of these results will follow in the discussion chapter (6).

5.2. Intra-Cultural Variations Findings

Table 12 reports the fixed-effect regression results for the main Hypothesis 10, which is related to the intra-cultural variation within a country across all cultural dimensions.

Table 12: Fixed-effect regression: The effect of intra-cultural variation on managerial discretion

	Model 10	Model 11	Model 12	Model 13	Model 14
Constant	4.8953***	4.939***	4.946***	4.975***	4.946***
Intra-cultural variation	-0.3105*** (0.0547)				
Control Variables					
Cultural Tightness-Looseness		0.1869*** (0.0525)			
Ownership Dispersion			0.2087** (0.0674)		
Employer Flexibility				0.1881* (0.0741)	
Legal Origin					0.3132*** (0.0626)
F	48.70***	96.41***	87.55***	11.69***	102.06***
R^2	0.48	0.39	0.38	0.32	0.39

*n= 792; *p<0.05; **p<0.01; ***p<0.001*

Table 13, on the other hand, reports the fixed-effect regression results for the intra-cultural variation within a country on each cultural dimension.

Table 13: Fixed-effect regression: The effect of intra-cultural variation (each cultural dimension) on managerial discretion

	Model 15	Model 16	Model 17	Model 18	Model 19	Model 20	Model 21	Model 22
Constant	4.906***	4.9071***	4.9036***	4.8983***	4.8996***	4.8967***	4.8877***	4.9077***
Institutional Collectivism	-0.1850***							
	(0.0546)							
Uncertainty Avoidance		-0.1482**						
		(0.0522)						
Power Distance			-0.1807***					
			(0.0501)					
Future Orientation				-0.3065***				
				(0.0643)				
Humane Orientation					-0.2596***			
					(0.0516)			
Performance Orientation						-0.2947***		
						(0.0521)		
Gender Egalitarianism							-0.3468***	
							(0.0537)	
Assertiveness								-0.2137***
								(0.0546)
Control Variables								
Cultural Tightness-Looseness	0.1469*	0.2302***	0.2251***	0.1832***	0.1986***	0.2270***	0.1656**	0.2400***
	(0.0583)	(0.0527)	(0.0526)	(0.0532)	(0.0526)	(0.0519)	(0.0526)	(0.0525)
Ownership Dispersion	0.2997***	0.2051**	0.2785***	0.2989***	0.2856***	0.2265***	0.1728*	0.1668*
	(0.0665)	(0.0742)	(0.0666)	(0.0660)	(0.0659)	(0.0668)	(0.0680)	(0.0743)
Employer Flexibility	0.3029***	0.2686***	0.2160**	0.2147**	0.2062**	0.2182**	0.1682*	0.1753*
	(0.0735)	(0.0735)	(0.0754)	(0.0740)	(0.0741)	(0.0731)	(0.0739)	(0.0779)
Legal Origin	0.3635***	0.4417***	0.3218***	0.1764*	0.2798***	0.2964***	0.4259***	0.3859***
	(0.0625)	(0.0642)	(0.0649)	(0.0765)	(0.0653)	(0.0634)	(0.0608)	(0.0617)
F	43.42***	42.54***	43.81***	46.28***	46.95***	48.67***	51.13***	44.40***
R^2	0.47	0.47	0.47	0.48	0.48	0.48	0.49	0.47

*n= 792; *p<0.05; **p<0.01; ***p<0.001*

These individual results provide further support for the theoretical reasoning that derived Hypothesis 10. Greater heterogeneity of behaviour on all and each cultural practice/s within an environment significantly reduce the degree of managerial discretion available to CEOs headquartered in that country.

Hypothesis 10 argues that greater heterogeneity within a given country would be negatively associated with managerial discretion. Model 1 shows that the relationship between intra-cultural variation and managerial discretion is indeed negative (β= -0.31; $p<0.001$), thus supporting Hypothesis 10. The remaining results show that the variation on each of the cultural practices negatively affects the degree of managerial discretion available to CEOs. Institutional collectivism (β= -0.18, $p<0.001$); uncertainty avoidance (β= -0.14; $p<0.01$); power distance (β= -0.18; $p<0.001$); future orientation (β= -0.30; $p<0.001$); humane orientation (β= -0.25; p<0,001); performance orientation (β= -0.29; $p<0.001$); gender egalitarianism (β= -0.34; $p<0.001$) and assertiveness (β= -0.21; $p<0.001$) are all significant and negatively related to managerial discretion. This provides additional support for the idea that greater heterogeneity within a given country increases the institutional constraints on CEOs actions, as they need to adapt and take into consideration a broader set of stakeholder needs.

5.3. National Competitiveness Findings

Table 14 contains the results for the HLM. As per the model below, managerial discretion has a positive and significant effect on national-level competitiveness measured by GCI ($\beta_{discretion}$ =2.505, $p<0.001$), thus providing support for Hypothesis 10. Clearly, countries that allow for greater latitude in executive decision making perform better overall.

Table 14: HLM: The effect of managerial discretion on national-level competitiveness

	Model 1 Global Competitiveness Index
Constant	0.244***
	(0.058)
Managerial Discretion	2.505***
	(0.477)
GDP Per Capita	2.627***
	(0.541)
Economic Freedom Index	0.012*
	(0.006)
Ownership Dispersion	2.755***
	(0.362)
Legal Origin	-0.871***
	(0.179)
Employment Law Index	3.825***
	(0.577)
Entrepreneurial Behaviour	-0.603***
	(0.127)
Institutional Collectivism	-5.932***
	(1.360)
In Group Collectivism	1.136***
	(0.312)
Uncertainty Avoidance	7.708***
	(1.537)
Power Distance	-2.191***
	(0.543)
Future Orientation	6.042***
	(1.163)
Humane Orientation	6.686***
	(1.239)
Performance Orientation	-4.370***
	(1.084)
Gender Egalitarianism	-5.029***
	(1.079)
Assertiveness	-1.215**
	(0.379)
Cultural Looseness	0.352***
	(0.101)
Year	-0.000
	(0.007)
lns1_1_1	-3.600***
	(0.217)
lns1_1_2	-2.996***
	(0.604)
lnsig_e	-2.293***
	(0.061)
Wald Statistic	525.28***
LR Statistic	26.20***
Log Likelihood	122.80

*n= 180; number of groups 18; *p<0.05; **p<0.01; ***p<0.001*

Again, the empirical results indicate that the inclusion of the various control variables was warranted. Concerning the impact of national culture, the findings show that all cultural practices exhibit a strong relationship with national competitiveness. Particularly, institutional collectivism ($p<0.001$), power distance ($p<0.001$), performance orientation ($p<0.001$), gender egalitarianism ($p<0.001$) and assertiveness ($p<0.01$) have a strong negative relationship with national competitiveness. In contrast, in-group collectivism ($p<0.001$), uncertainty avoidance ($p<0.001$), future orientation ($p<0.001$), humane orientation ($p<0.001$) and cultural looseness ($p<0.001$) showed a strong positive relationship with country competitiveness. In relation to GDP per capita, it is obvious that the greater the economic productivity and performance of a country, the greater its competitiveness ($p<0.001$), which is also reflected in the relationship between economic freedom index and GCI ($p<0.001$). Consistent with the literature (e.g. La Porta *et al.,* 1999), the ownership dispersion ($p<0.001$) and legal origin ($p<0.001$) of countries exhibited strong positive and negative relationships consecutively. The greater the flexibility of ownership structure and legal origin (e.g. protection of property rights in common laws), the greater is a country's ability to compete on an international level. Also, the employment law index ($p<0.001$) showed a significant positive relationship with country competitiveness.

Although entrepreneurial behaviour seemed to drive economic performance and growth, which in turn contributes to countries' competitiveness, it has exhibited a negative relationship. There is no direct explanation for such findings, but a possible argument may be related to culture and other formal institutions factors. It has been argued that entrepreneurial orientation or activity within a given country is subject to and constrained/enabled by its culture (Autio *et al.*, 2013), which may well not show any positive relationship while not controlling for the cultural aspect. Also, according to Berger (1991), the entrepreneurial activity continues to be relatively constrained in many countries despite their considerable economic development. Thus, to have a positive relationship, there is a need to include a different set of variables to control for variables that are directly related to entrepreneurial behaviour. Due to the small variation across countries in terms of entrepreneurial behaviour, such an association should be interpreted with caution.

Lastly, the variable year did not show any relationship with national competitiveness. It may be that the actual construction of the GCI measure considers the yearly changes and impact of external events (e.g. financial crisis). For that reason, financial crisis did not show any impact in this sample. Also, another explanation may relate to the nature of the variables in use in the multilevel modelling, as most them were constructed in a static manner that does not change over time.

5.4. Mediation Analysis Findings

The results for Hypothesis 11, which argues that managerial discretion mediates the relationship between cultural dimensions and national competitiveness, has been supported as per Table 15. The author finds strong evidence that managerial discretion mediates the relationship between: institutional collectivism (coefficient= -2.30, z= -30.52, $p<0.001$), uncertainty avoidance (coefficient=-0.87, z=-24.76, $p<0.001$), power distance (coefficient= -0.65, z= -19.91, $p<0.001$), future orientation (coefficient=0.23, z=21.74, $p<0.001$), humane orientation (coefficient= -0.23, z=-17.90, $p<0.001$), performance orientation (coefficient=0.85, z=21.92, $p<0.001$), gender egalitarianism (coefficient=0.37, z=7.99, $p<0.001$), assertiveness (coefficient=0.34, z=21.63, $p<0.001$), cultural looseness (coefficient= 0.14, z=33.63, $p<0.001$) and GCI.

Table 15: Results for the mediation test

Variables	Mediation Effect	
	P-values	Std Error
Institutional Collectivism	-2.3033***	(0.0755)
Uncertainty Avoidance	-0.8780***	(0.0355)
Power Distance	-0.6560***	(0.0329)
Future Orientation	0.2385***	(0.0110)
Humane Orientation	-0.2353***	(0.0131)
Performance Orientation	0.8548***	(0.0390)
Gender Egalitarianism	0.3776***	(0.0472)
Assertiveness	0.3486***	(0.0161)
Cultural Looseness	0.1417***	(0.0042)

*n= 180; $^{+}p<0.1$; *$p<0.05$; **$p<0.01$; ***$p<0.001$*

6. Discussion and Conclusions

For almost four decades, since the influential work of Lieberson and O'Connor (1972), academics have argued the core examination of whether executives matter or, in other words, have much leeway over their organisations' fate and form. Are proponents of population ecology, neoinstitutionalism and other similar theoretical reasoning right in their assumption that executives are much constrained in their actions by inertial and environmental forces that limit their abilities to take strategic initiatives (Hannan and Freeman, 1977; DiMaggio and Powell, 1983)? Or, are strategic management and upper echelon scholars, who studied and empirically looked at executive effects (e.g. Hambrick and Mason, 1984; Wiersema and Bantel, 1992; Sanders, 2001), more in the right direction, if executives can take idiosyncratic actions that significantly influence their firms' outcomes? Bridging these two schools of thought using the theory of managerial discretion (Hambrick and Finkelstein, 1987) has shifted the debate from whether firms' executives matter to a more contextually related situation, which investigates when and under which circumstances they do matter. These contextual situations depend on various external and internal conditions. Sometimes these conditions might boost executives' discretion to take idiosyncratic actions where they would be able to have a significant impact on their organisations' outcomes. However, in other situations, contextual settings confer little latitude of action and, in this vein, executives would not be able to affect firms' outcomes. Such contextual conditions have been studied for nearly three decades focusing mainly on the industry (e.g. Abrahamson and Hambrick, 1997; Finkelstein, 2009; Hambrick and Quigley, 2014), organisational (e.g. Boyd and Salamin, 2001; Kim, 2013) and individual (e.g. Carpenter and Golden, 1997; McClelland *et al.*, 2010) contexts. Recently, Crossland and Hambrick (2007, 2011) broadened the milieu in which executives matter by arguing that discretion also emanates from the institutional environment. Building on this logic, the author has extended the institutional framework of managerial discretion by discovering new national-level antecedents – inter-cultural variation (cultural practices) and intra-cultural variation – and consequences (its implication on national competitiveness).

This thesis aimed to answer several research questions. The first question was related to the national-level predictors of managerial discretion. To provide a response to this question, the author studied other important cultural aspects and practices, and identified several important dimensions. A total of eight cultural practices along with an additional cultural dimension (cultural looseness/tightness) exhibited high bivariate associations with managerial discretion. In an examination of 18 countries from six regional clusters, including under-researched countries (e.g. Egypt, Kuwait and Qatar), the researcher found that an encompassing array of societal practices illustrating the informal institutions of these eighteen societies were significantly associated with the degree of discretion available to CEOs of public firms headquartered in these nation-states. As rated by a panel of senior management consultants, the Anglo country cluster, e.g. the US, the UK and Australia, were amongst the countries that provide CEOs with the greatest discretion. On the opposite side of the spectrum, the Middle Eastern country cluster e.g. Egypt, Kuwait and Qatar, were amongst the countries that provide CEOs with the least discretion. In the middle were countries from different regional clusters like Singapore, France and Sweden. This shows how managerial discretion varies from one country to another and, more importantly, from one cultural cluster to another. Also, there were some variations within the same cultural cluster; for instance, Japan and Korea provided a much lower level of discretion compared to Singapore, despite all of them belonging to the Confucian cluster. Likewise, the Germanic Europe cluster was not consistent, with Switzerland providing CEOs with greater discretion than Germany and Austria.

The results showed that in countries where institutional collectivism is high (e.g. Qatar, Japan), the discretion available to CEOs of public firms headquartered in these societies was low. This is supported by theoretical reasoning, which argues that executives are restricted to take decisions only based on consensus from other important stakeholders (Smith *et al.*, 1996). In such contextual conditions, CEOs are constrained to take unilateral and idiosyncratic action (Crossland and Hambrick, 2007) without having a collective agreement. For instance, reorganisation, laying-off employees, aggressive mergers and acquisitions, huge investments, along with other strategic actions cannot be taken solely by the CEO as such initiatives might harm the collective. In countries where institutional collectivism is low and society promotes individualistic behaviour (e.g. the US and the UK), CEOs are rewarded with a wider array of acceptable behaviours, which boosts their level of discretion. Consistent with previous empirical investigations (Crossland and Hambrick, 2011), this assumption was strongly significant (($p<0.001$) and $F(1, 792) = 44.02$***), and robust by explaining a high proportion of the changes in managerial discretion, with an R-square of 0.47. Thus, the individualism/collectivism cultural dimension has a strong positive/negative relationship with discretion across all the countries and regional clusters studied.

Uncertainty avoidance showed a strong negative relationship with managerial discretion ($p<0.01$; $F(1, 792) = 45.49$***; R-squared= 0.47). Such a relationship is in line with what was hypothesised earlier and complements the previous findings of Crossland and Hambrick (2011). The logic is that societies with little uncertainty avoidance (tolerate more uncertainty) are relatively more accepting of means-end ambiguity and can tolerate unpredictability (Schwartz, 1994). Due to such societal characteristics, it is expected that a broader array of actions would be available to CEOs in those cultures, which has been shown in the empirical analysis. However, a counter argument may arise from the theoretical conceptualisation of the uncertainty avoidance construct. Venaik and Brewer (2010) argue that the uncertainty avoidance practice of House *et al.,* (2004) is more related to the rule-orientation and importance of structure and orderliness in such societies. This construct showed a significant and positive relationship with the World Bank's World Governance Indicators, namely: government effectiveness, rule of law, regulatory quality, political stability and non-violence, control of corruption and voice and accountability (Venaik and Brewer, 2010). As such, if the explanation of Venaik and Brewer (2010) that uncertainty avoidance practices is more related to the rule orientation and the structure of societies holds true, then one could envisage a positive relationship with managerial discretion. The argument is that if societies are characterised by institutional environments that promote good governance and include rule of law, then economic policies and rules will be easily predictable and will not change overnight, which provides more confidence for business leaders and investors (Dervis, 2006). Also, this long-term rule-bounded orientation encourage higher economic dynamics and growth (Freytag and Renaud, 2007). Therefore, CEOs of firms headquartered in high uncertainty-avoidance countries, which have a good governance structure, would be able to take more innovative actions without worrying about external legal changes; as such, the means-end ambiguity still holds but only for the implications of the executive actions. This is like the legal origin argument presented in Crossland and Hambrick (2011). Societies with common law legal origin protect private property rights as opposed to the civil law legal origin which solidifies the power of the state. CEOs in common law countries, which have a greater structure of law (Mahoney, 2001), oversee pursuing a predefined end but with considerable leeway in the means to pursue that end (Crossland and Hambrick, 2011). Therefore, even with the greater governance system, this should not prevent CEOs from having more latitude of actions.

In line with Crossland and Hambrick (2011), the author found that that power distance has a negative effect on managerial discretion. Power distance, another cultural dimension examined, exhibited a negative and significant relationship ($p<0.01$) as opposed to what has been hypothesised. An increase in the power distance practices in a society will lead to a decrease in the degree of managerial discretion provided to CEOs of public firms headquartered in such countries (R-squared=0.48; $F(1, 762) = 45.91$***). As such, the explanation provided by Crossland and Hambrick (2011), that in societies high on power distance leaders' status is elevated due to the recognition that these individuals are figureheads rather than bold strategists, is valid. Another explanation might emerge from the endorsed implicit leadership theory (House *et al.*, 2014). In societies high on power distance, leaders tend more to be self-protective, protecting their positions by following rules and policies to avoid risk, and team-oriented. They care for the welfare of other team members and try to create cohesive working groups (House *et al.*, 2004). Therefore, despite deeming leaders as figureheads, these societies expect executives to behave in a certain manner by avoiding risk and following procedures, and as such they constraint their latitude of actions.

A fourth cultural practice that was examined in this thesis is future orientation, which relates to appreciating time by planning for the future and delaying current gratifications (House *et al.*, 1999). Future orientation has a tight link with time, which differs across cultures. Some societies do not emphasise time or future orientation practices; in these situations, societies tend to enjoy current moments and avoid future anxiety (Keough *et al.*, 1999). People in such cultural environments rely heavily on their past and try to maintain the status quo (House *et al.*, 2004). Committing to the status quo has exhibited a strong negative association with managerial discretion (e.g. Hambrick *et al.*, 1993), thus executives operating in such environments will experience a lower degree of discretion. The findings indicate that CEOs headquartered in societies that promote future oriented behaviour, or in other words encourage future planning to depart from being committed to the status quo, will have higher discretion ($p<0.01$; $F(1, 762) = 41.02$***; R-squared= 0.46).

Humane orientation, a fifth cultural dimension examined, exhibited a negative relationship with managerial discretion ($p<0.05$; $F(1, 762) = 43.89$***; R-squared= 0.47). This cultural practice refers to the level at which societies value caring, kindness, unselfishness and fairness behaviours (House *et al.*, 1999). In such societies, benevolence is a crucial value that determines the acceptable behaviour of individuals (James *et al.*, 1996). By following this behaviour, people in positions of power or in higher hierarchical levels tend to act as parents to their subordinates, where they often help, support and care about the problems of others (House *et al.*, 2004). Executives in such societies will not be able to take any strategic or bold actions that might harm their employees, therefore the array of acceptable behaviours of executives is limited. Gebert and Steinkamp (1991) showed that in Nigeria, a highly humane-oriented country, organisational leaders tend to recruit new staff without any qualifications just to help them out. Societies promoting such cultural practices tend to be more collectivistic (House *et al.*, 2004), which in turn will reduce the latitude of executives' actions. Thus, executives – particularly CEOs – operating in high humane-oriented countries will experience a lower degree of discretion as opposed to their counterparts who operate in societies that do not encourage humane orientation behaviour.

Moreover, the cultural dimension of performance orientation, which denotes focusing on innovative, rewarding, performance-improvement behaviour and the need for higher achievements, has been neglected in cross-cultural literature. The author has showed the importance of such cultural practices in relation to executives' latitude of actions. The tight link between performance orientation and achievement has made the evaluation and judgment of people's performance an important aspect. Societies with high performance orientation tend to judge and evaluate individuals according to their individual results or accomplishments. Similarly, executives are dismissed based on poor company performance (Crossland and Chen, 2013). CEOs operating in low-discretion contexts cannot be judged on their companies' performance simply because they do not possess enough discretion. Therefore, performance-oriented countries provide fertile ground for greater CEO latitude of actions, and as a result judge them according to their performance. Another important argument that links the performance orientation cultural norm to managerial discretion is that people in high performance-oriented societies believe that they have control over the events happening in their lives (House *et al.*, 2004). In other words, these individuals possess an internal locus of control (Rotter, 1966). Internal locus of control has been empirically tested and showed positive association with managerial discretion (e.g. Carpenter and Golden, 1997). Empirically, performance orientation has exhibited a positive and significant relationship with discretion ($p<0.001$; $F(1, 762) = 39.10^{***}$; R-squared= 0.46). Accordingly, the author found support for the argument that CEOs of firms headquartered in countries that encourage performance/achievement-oriented behaviour enjoy more discretion compared to their rivals who lead firms in less performance-oriented societies.

The cultural dimension related to gender egalitarianism was also supported and indicated a positive relationship with managerial discretion. Empirical results are strong, particularly in terms of the significance of that relationship ($p<0.01$; $F(1, 762) = 45.16^{***}$; R-squared= 0.47). As such, societies that promote greater equality between genders and assign more roles to women provide executives with a wider array of acceptable actions, which in turns increases their latitude of actions. Despite being related to gender equality, societies that encourage and try to lower the gap between men and women increases the acceptance of having more women in higher positions and would also accept seeing women in business leadership positions. Earlier work in management literature showed the importance of gender in the advancements towards the upper echelons of firms (Cook and Glass, 2014). This is because women leaders are seen to lack the traits of successful leadership in certain countries (Eagly *et al.,* 1992). However, not all societies follow this orientation. In societies where there is greater acceptance of women, they assign more roles to women and place less of a taboo on their behaviour. Hofstede (1998) argued that societies differ in gender equality because of the taboo they place on gender differences, particularly regarding women. In such environments, women are minorities and have few roles in society. Also, the norms placed on them are strict and tend to follow a predefined manner. However, if such taboos are lifted, which is the case of countries high on gender egalitarianism (House *et al.,* 2004), societies become more acceptable for actions derived from this minority group and the overall zone of acceptance would be larger. Therefore, executives operating in these countries would be provided with more managerial discretion.

The last societal practice examined in this thesis from the GLOBE cultural dimensions is assertiveness. Assertiveness is the extent to which individuals in a certain culture tend to be dominant, tough and aggressive in their relationship with others (House *et al.,* 1999). This cultural norm has been linked to individuals' qualities that enable them to occupy leading positions (e.g. Watson and Clark, 1997; Judge *et al.,* 1999). Put simply, individuals with assertive behaviour tend to reach higher hierarchical positions. Besides, assertiveness shows people's ability to be self-confident, in control and forceful (Fagenson, 1990), which means that assertive people are in control (have internal locus of control) of events happening in their environment. Additionally, assertiveness has been linked to people appreciating competition and valuing results over relationships (House *et al.,* 2004), hence assertive societies tend to have a free market structure/economy and support firms' rivalry. In free-market economies, executives are allowed greater latitude of actions to quickly respond to market changes (Makhija and Stewart, 2002). Hence, in societies that urge assertive behaviour, CEOs who occupy elevated hierarchical positions can foresee bold and idiosyncratic actions without taking into consideration stakeholder relationships, which enhances their discretion. Therefore, and as hypothesised, the author found a significant positive relationship between assertiveness and managerial discretion ($p<0.001$; $F(1, 762) = 39.62^{***}$; R-squared= 0.46).

Lastly, the author investigated the relationship between cultural tightness-looseness and managerial discretion. Cultural looseness, which relates to societies' acceptance of deviant behaviour (Gelfand *et al.*, 2006), demonstrated a positive association with discretion ($p<0.001$; $F(1, 762) = 50.67^{***}$; R-squared= 0.46). Countries that tolerate variety and deviant behaviours allow a greater array of strategic actions to be pursued by firms' executives. CEOs operating in these societies can foresee deviant and bold strategies, conversely to CEOs operating in tight cultures that are not able to take any strategic initiatives that do not fall within the zone of acceptance of the overall society norms and behaviours, and are faced with higher isomorphic pressures. Such findings have corroborated the extant research (Crossland and Hambrick, 2011).

Staying in the realm of answering the first research question, the author moved to study intra-cultural variation as another important national-level predictor of managerial discretion. Prior studies (e.g. Crossland and Hambrick, 2007; 2011) examining the association between the institutional environment and managerial discretion concluded that national culture particularly values matter. As discussed earlier, in the first empirical chapter, the author concluded through an empirical investigation that not only cultural values matter but also practices which determine the degree of managerial discretion in each country. The examination of intra-cultural variation takes a step forward and indicates a strong link with managerial discretion. Based on several calls from the cross-cultural literature (e.g. Beugelsdijk *et al.*, 2014), and by using the institutional, stakeholder and upper echelon theories, the author found that greater heterogeneity within countries negatively affects the degree of managerial discretion. This cultural dimension is crucial for our understanding of national culture and particularly useful when assessing managerial discretion, as it may lead to several important implications.

Recent works (e.g. Crossland and Hambrick, 2011; Crossland and Chen, 2013) have suggested that cultural values, as central tendencies, are directly related to managerial discretion. However, despite opening a new horizon in the discretion literature and adding an important antecedent, this research stream often uniformly ignores the heterogeneity/homogeneity that exists in each culture. As such, the author contributes to the discretion literature by showing that intra-cultural variation is an important construct that helps to deepen our understanding of the national-level antecedent of managerial discretion. Also, the researcher shows that intra-cultural variation is an additional national-level antecedent of managerial discretion. Furthermore, from its inception and for several decades, stakeholder theory has mainly rested on the side of the voluntaristic perspective (Freeman, 1984). Managerial decisions and behaviour is the key variable that shapes the relationship between firms and stakeholders (Phillips *et al.*, 2010). Such a perspective implicitly assumes that managers have enough latitude of actions to attend to stakeholders' needs. However, this is not always the case as the degree of managerial discretion is a function of the internal and external constraints facing managers. The author argued that while managerial discretion is a vital intervening variable it also has a powerful role in explaining stakeholder-firm relationships. Therefore, such findings fill in the gap that is currently present in stakeholder theory by including the concept of managerial discretion as an important construct to take into consideration when talking about stakeholder management.

Furthermore, the second research question, which focuses on the national implications of managerial discretion, is also an important addition to the discretion literature. As mentioned earlier, the managerial discretion literature failed to answer a fundamental question – is discretion desirable? The majority of the work in this field of research has examined the various consequences of managerial discretion at the individual (e.g. CEO risk-taking behaviour (Miller *et al.,* 1982)), compensation (Rajagopalan and Finkelstein, 1992)), organisation (e.g. strategic change (Quigley and Hambrick, 2012)), industry (e.g. attentional homogeneity (Abrahamson and Hambrick, 1997)) or even national levels (e.g. CEO effect on firm performance (Crossland and Hambrick, 2011) as well as regarding CEO accountability (Crossland and Chen, 2013)). However, none have examined if discretion is a desirable construct for better performance. Crossland and Hambrick (2011: 815) mentioned that "discretion is not, per se, necessarily good or bad, but simply refers to the latitude of action available to executives". Additionally, they didn't envision a relationship between discretion and country performance, particularly national competitiveness. The author challenged this proposition and empirically demonstrated that managerial discretion is beneficial for country performance. The findings indicated that managerial discretion has a positive effect on national competitiveness. Countries that provide a greater latitude of actions for CEOs are more competitive than their counterparts who provide less discretion. This is due to the positive impact of managerial discretion on fostering a competitive environment among firms that operate in a country, and by aggregating this to the national level the environment between countries becomes more competitive.

Finally, the third question, which enquired about the role that managerial discretion plays between national-level antecedents and consequences, has also provided interesting findings. Cross-cultural studies postulate evidence that a country's cultural characteristics represent important drivers for its competitiveness (e.g. House *et al.*, 2004; Javidan *et al.*, 2006). The author showed that discretion is driven by a country's cultural practices and in turn it affects national competitiveness. While other mediators may also play a role in enhancing country competitiveness, the findings strongly exhibit that discretion is a prominent conceptual fulcrum that mediates the relationship between cultural practices and national competitiveness. By uncovering this relationship, the author could identify an important mechanism by which cultural practices impact country performance.

6.1. Research Implications and Contributions

As mentioned earlier, this thesis contributes to the strategic management field, particularly strategic leadership and managerial discretion, by moving beyond the narrow focus of the institutional environment and discovering important national-level antecedents by incorporating other cultural aspects and new consequences. As such, the findings of this study have several important implications.

If countries allow more managerial discretion, how then would executives, firms and even industries in these countries differ from their low-discretion counterparts? One of the most notable domains in which the national level of managerial discretion differences will be echoed is in executives' attributions. Logically, executives – and particularly CEOs – of firms headquartered in high-discretion countries, would be accorded more importance than others, simply because they are having a greater effect on firms' outcomes (Quigley and Hambrick, 2015). As such, an important implication of the national level of discretion would be the CEOs' visibility in the media and their role in society. Chatterjee and Hambrick (2007) found that

CEOs' high visibility in internal firm communications (e.g. annual report) may reflect his/her individual level of narcissism. Because of their importance, the concept of CEO celebrity (e.g. Wade *et al.,* 2006) may be applicable in high-discretion countries. On the other hand, CEOs in low discretion countries may not be prominent in the media and may not be considered celebrities due to the attribution (discretion level) assigned to them. This is evident in how often we hear about and see Steve Jobs, Bill Gates, Mark Zuckerberg and many other American CEOs in the media as opposed to Nobuyuki Hirano, the CEO of the biggest Bank in Japan, which is a low-discretion country.

Cross-cultural differences in managerial discretion could also have implications at the firm level. The concept of competitive dynamism (e.g. Smith *et al.,* 2001) may be better explained by managerial discretion. Competitive dynamics refers to the speed at which firms can make strategic responses (e.g. Hambrick *et al.,* 1996). These firms would act strategically fast and in a way that is predominantly associated with more radical innovation (Adner, 2002). As such, executives of firms headquartered in high-discretion countries are more likely to have fast strategic responses due to the continuously changing nature of the external environment and the availability of a wider array of actions, which results in hypercompetitive behaviour (D'Aveni, 1994). In contrast, in low-discretion countries, companies may be more likely to follow other competitors and have a stable strategy due to increased institutional isomorphic pressures. For instance, there is increased homogeneity amongst firms in Japan compared to other countries (e.g. the US) (Porter *et al.,* 2000). Furthermore, national-level managerial discretion could be related to the strategic orientations of firms. Managerial discretion could explain the variance in Miles and Snow's (1978) strategic typology across countries. As discretion provides more leeway for executives' actions, executives in high-discretion countries may be more innovative and consistently upgrading and looking for new opportunities, which falls within the 'Prospector' type of strategic orientation. On the other hand, firms in low-discretion contexts would have an inward alignment where they focus on the efficiency of their operations and ignore external growth opportunities, which falls within the 'Defender' type of strategic orientation.

Other important implications appear to have emerged following the discovery of the relationship between intra-cultural variation and managerial discretion. These findings could shed light on the stakeholder orientation of firms. Stakeholder orientation refers to managers' behaviour towards stakeholders (Berman *et al.*, 1999), which considers the totality of firms' approach to managing stakeholders. Phillips *et al.* (2010, 2011) conceptualised stakeholder management into two types: narrow and broad orientation. At one extreme, managers could hold a narrow orientation by constantly honouring and focusing on the interests of a given stakeholder group (i.e. a few shareholders) over the interests of other stakeholder groups. At the other extreme, managers could exhibit broad orientations in which they focus on a wide range of stakeholder groups. If, as found in this thesis, greater heterogeneity within a given culture (having a wider range of stakeholder groups) reduces executives' latitude of actions, then we may expect that this would result in executives following a broader stakeholder orientation. When a CEO is faced with greater constraints from several stakeholder groups, he/she will not be able to take actions that favour one group over the other and should focus on attending to the needs of these groups to limit or reduce those constraints. In this case, the CEO is expected to put more effort into serving a wider set of stakeholders (e.g. community service, well-being of employees, community, customers) and not take any initiatives that do not benefit all stakeholders. On the other hand, having a smaller number of stakeholder groups would accord the executive more discretion and in turn he/she would be able to categorise those stakeholders and attend to the most important and influential group (i.e. shareholders) at the expense of others, thus having a narrow stakeholder orientation. In such situations, the CEO can maximise the benefits and well-being of an individual stakeholder group and could take more action at the expense of other groups.

Scholars in the stakeholder research stream have admitted that how managers perceive their environment can have an important implication on how they prioritise and address stakeholder needs (Mitchell *et al.*, 1997). Also, scholars in the discretion literature are aware that how executives perceive their environment may well affect the level of discretion they believe they have and in turn their behaviour (Carpenter and Golden, 1997). Executives may over or under-estimate the discretion accorded to them and as such may underperform. In heterogeneous cultures, executives may find themselves constrained by the claims from an increased number of stakeholder groups and therefore, by controlling for executives' individualities (i.e. locus of control), would believe that they are more constrained by the external environment and perceive less discretion. In contrast, executives in homogenous cultures may find themselves more capable of attending to the needs of a smaller number of stakeholder groups and thus perceive themselves to have greater discretion. The mechanism in which intra-cultural variation affects the degree of managerial discretion may well be related to how individual CEOs perceive themselves to have discretion.

Another implication could be related to the attribution of CEO effect on firm performance. In countries with more managerial discretion, CEOs have a greater effect on their firms' outcomes (Crossland and Hambrick, 2011). However, this direct relationship ignores the construct of intra-cultural variation and the fact that in any given country, CEOs may experience different degrees of managerial discretion subject to the number of stakeholder groups they are exposed to. CEOs that are exposed to fewer stakeholder groups are thought to have greater discretion, thus their effect on firm outcomes should be higher than those who are exposed and attend to the needs of a wider set of stakeholder groups. Future research should consider the interplay between intra-cultural variation, managerial discretion and CEO effect on firm performance. Staying in the vein of firm performance, an important avenue of research could be related to stakeholder trust. Stakeholder and strategic organisation literature both emphasise the importance of firm-stakeholder relationships in developing high levels of trust. Trust is a crucial firm resource associated with competitive advantage (Harrison *et al.*, 2010). When an executive encounters a greater number of stakeholder groups, he/she will only be able to attend to the needs of a small number of these stakeholders and as such may be at risk of losing the trust of others. Therefore, this could lead to deteriorating firm performance.

Additional implications are echoed in the domain of leadership effectiveness. Recent additions to the leadership literature have made interesting advancements in its theoretical conceptualisation by illuminating what can be considered as emic (culture specific) or etic (universal) in terms of leadership attributes and effectiveness (Aktas and Sargut, 2011; House *et al.*, 2014). This research stream has shown that leadership is culturally dependent and that the perception of effective leadership not only depends on the central tendencies of a given society but also on its tightness-looseness dimension (Aktas *et al.*, 2016). Similarly, one may expect intra-cultural variation along with managerial discretion to be associated with the perception of effective leadership. For instance, in heterogeneous (high intra-cultural variation) societies, executives are faced with a greater number of stakeholder groups and are accorded lower discretion; as such, they try to attend to the needs of all or most these groups and are constrained in the number of actions they can take. In such situations, it is expected that participative leaders would be perceived as having the most effective leadership style because it reflects the degree to which executives take into consideration the needs of others (Jago, 1982) and involve stakeholders in their decision-making processes (House *et al.*, 2004). By doing so, executives would be able to lower the extent of the constraints exerted on their actions. On the other hand, in homogenous cultures in which executives enjoy more managerial discretion, the autonomous leadership style would be more appropriate, because such leaders tend to work without collaboration or feedback from others and independently, and tend to be more assertive (House *et al.*, 2014). This all seems to be acceptable in a society where leaders are faced with fewer constraints arising from fewer stakeholder groups.

Moreover, the extant research examining the association between national culture (including intra-cultural variation) and innovation has concluded that culture does indeed matter (Puia and Ofori-Dankwa, 2013). Other works in the discretion literature (e.g. Rajagopalan and Finkelstein, 1992; Sahaym *et al.*, 2012) also suggest a strong link between the latitude of actions and innovation. Therefore, one may expect a role, particularly a mediating role, of managerial discretion in driving national innovativeness. Future research is encouraged to empirically assess such a proposition.

The results presented in this thesis have additional important management implications as well. With business becoming increasingly globalised and internationalised, the profile of countries becomes of great importance and can become a tool for strategic corporate choices. National differences have shown a strong influence on market-entry strategies (Hennart and Larimo, 1998) and discretion has also demonstrated varied levels across countries (Crossland and Hambrick, 2011); managerial discretion could therefore shed light on entry modes of foreign direct investment and in locating target markets. CEOs operating in high-discretion countries may wish to internationalise via entry modes that involve more control and risk (e.g. greenfield investment). These strategies offer more latitude of actions and considerable options that the executive can choose from. Executives who are used to less discretionary environments may choose to carry out international expansion using less risky strategies such as joint ventures. Also, the location of the target market may be related to the levels of discretion of that country. Executives operating in countries that provide considerable leeway to their actions may logically internationalise to similar countries rather than countries that impose more constraints on their actions.

Moreover, managerial discretion could have an important implication on the CEO appointment process. Despite relying on the national pool (DiNardo *et al.,* 1996), the CEO labour market in our current globalised world could be affected by cross-national differences in managerial discretion. For instance, transferring a CEO from a low-discretion country to a high-discretion environment might lead to substantial negative effects on performance. CEOs in high-discretion countries are used to taking bold strategic actions that do not necessarily comply with the overall cultural norms. When such a CEO moves to a low-discretion setting, implementing idiosyncratic actions is objectionable, thus any decisions that deviate from the cultural boundaries of that environment will lead to negative results on performance.

According to Howard and Wellins (2008), CEOs have identified working across cultures and team mobilisation as the top two crucial leadership competencies in their enterprises. National differences have resulted in numerous failures in cross-cultural business phenomena such as market penetration and mergers and acquisitions (Stahl and Javidan, 2009). The national level of managerial discretion could also help in interpreting and understanding these cultural differences and their strategic implications. Cross-border merger and acquisitions are complex business phenomena (Collins *et al.,* 2009) that involve higher levels of uncertainty (Shimizu *et al.*, 2004). Also, such large strategic actions are dependent on the cultural profiles of the countries of the firms involved in these transactions (Basuil and Datta, 2015). Managerial discretion provides a clearer framework for executives to interpret cross-border mergers and acquisitions and could predict the success and failure of such deals. For instance, Daimler-

Benz has been widely cited by analysts as a failure (The Economist, 2000), stating that culture has been one of the important triggers of this failure. The differences in the managerial discretion levels between Germany (country of origin of Benz, low-discretion) and the US (country of origin of Daimler, high discretion) could better explain the failure of this deal. Executives operating in high-discretion countries are used to taking bold strategic actions due to the greater zone of acceptance they enjoy, whereas executives in low-discretion countries tend to focus more on implementing symbolic actions based on market signalling. Therefore, initiating M&A transactions between countries that differ in their discretion levels (high and low) could lead to unsuccessful outcomes.

Despite its critical importance in driving country competitiveness, managerial discretion could also have financial implications. It is worth noting that the idea of competitiveness is not only related to economic performance but also related to the ability of countries to compete on an international level. Managerial discretion has shown a significant correlation with country economic performance, measured by GDP per capita (Pearson coefficient= 0.526, $p<0.05$). As such, and from this simple statistical relationship, it is expected that discretion also plays a role in driving the economic productivity of a country. This investigation could open an interesting research stream later and have a significant impact on policy makers. Also, it will be interesting for future research to consider the mechanisms through which discretion could drive countries' economic performance. The logic behind such a stipulation would be like the one employed in this thesis. Discretion allows executives to take actions from a broader array of choices; it drives their attentional heterogeneity (Abrahamson and Hambrick, 1997) and enables them to move from their status quo to foresee strategic change, which has a positive impact on firm performance (Quigley and Hambrick, 2012). Taking these characteristics into consideration, the competition scale would increase in a country allowing firms to become more productive and seek more efficient actions, which all fall under the umbrella of boosting a country's economic status.

Finally, the positive influence of managerial discretion on country competitiveness may provide an interesting framework to examine the influence of firms over public policymaking, for instance in the establishment of rules and regulations. This interesting question may be important for non-market strategy research. Public policymaking literature often emphasise the impact of firm size, industry competition, country-level institutional determinants and the interaction between these as proxies for firm influence over public policymaking (Macher and Mayo, 2015). However, discretion may present a better theoretical fit for explaining public policymaking. Policy-makers are generally interested in achieving greater national performance and always seek to put their country on the global competitive map. The results show the positive impact of managerial discretion in accomplishing these goals. As such, policy makers should provide flexible institutional environments, particularly formal institutions, which allow for greater latitude of actions. By incorporating managerial discretion in non-market strategy research, answers for the relative success or failure of firms' efforts to influence public policymaking may be provided.

6.2. Research Limitations

Like any other academic research, this thesis has several limitations that should be noted. First, the author focused primarily on the discretion available to CEOs without taking into consideration other top management members, for instance the CFO, and the interaction between TMT members. It is in line with the original conceptualisation and arguments of managerial discretion (Hambrick and Finkelstein, 1987), and consistent with the focus of the mainstream work in managerial discretion literature (e.g. Crossland and Hambrick, 2011, Quigley and Hambrick, 2015). However, other board members are worth taking into consideration. This thesis did not address the discretion of other executives, if the level of leadership centrality – the extent to which CEOs are the most influential actor within the TMT – is high. Future research, could investigate the extent to which leadership centrality is static across countries and if the discretion levels of other TMTs and the interaction with CEO discretion could lead to distinct outcomes.

Second, although this PhD has a wide geographical spread including six different regional clusters, other important countries exist with a growing global presence and with firms competing on an international scale. The sampling in this thesis has resulted in the omission of significant countries such as Russia, Brazil, India, China, etc. which are becoming increasingly influential in today's global economy. The theoretical reasoning presented in this thesis would support the idea that the association between cultural practices and managerial discretion could be applicable to other institutional contexts. However, there is a need to determine whether such findings in terms of the antecedents and consequences of discretion are also generalisable to other countries. As such, researchers are also encouraged to broaden the discretion context even further by including sample of other countries.

Third, the empirical examination focused on publicly listed firms and the discretion of CEOs leading such organisations. The author did not address whether CEOs leading large private firms, family firms or even government-owned enterprises would also be provided with similar levels of discretion. There may well be other firm-specific factors that could affect the applicability of the country ratings, but it is interesting to see how the findings of this thesis would apply to CEOs of other types of firms. The reasoning would be very like the one employed in this research, as even CEOs of private firms are constrained by the institutional environment, which could be an interesting avenue for future research.

Moreover, consistent with the mainstream literature of managerial discretion (Wangrow *et al.*, 2015), this thesis examined discretion as a static concept. Because of its link to national culture, which changes very little over time, the examination did not take into consideration the interplay between discretion and time. It is true that some changes in the external environment, particularly the industry context, such as the deregulation of a given sector, would significantly alter the discretion levels provided to CEOs in that environment, but how this may also apply to the national level. Despite the somehow static nature of culture, at least in the short term, there exists other national changes, for instance changes in rules and regulations or even in the political system. Thus, future research might consider how such changes in formal institutions affect managerial discretion over time.

Lastly, one might argue that the research has some potential limitations in terms of measurement of managerial discretion, including population and respondents. As extensively discussed in section 4.4.2.2 of the methodology, this research follows the main stream literature and studies that were published in four star journals and have been inspired by the work of prominent scholars in the field such as: Donald Hambrick and Craig Crossland. The author wanted to establish a measurement technique that directly measures the construct of managerial discretion instead of relaying of secondary measures. Also, gathering secondary measures would not be appropriate as the examination refers to the impact of culture on managerial discretion, thus any measures indicating the degree of discretion in a country would relate to cultural dimension, which is the core examination of the these. Second, the direct measurement involved in this research is an extension of the seminal work of Crossland and Hambrick (2011), Abrahamson and Hambrick (1995) and Crossland and Chen (2013); these authors have developed such direct approach to assess discretion, using either industry analysts or international fund managers. The remarkable step involved in this thesis was the selection of management consultants as the appropriate panel to rate discretion scores across countries. These panellists possess extensive knowledge of various factors (from individual to country-level) that would either hinder or enable the freedom of decision making for chief executives. Also, statistical analysis showed the reliability and validity of their answers, as such it is considered as an appropriate panel. Furthermore, the population of respondents is very well positioned as opposed to earlier studies, Crossland and Hambrick's (2011) population of respondents were eight, and the population of Crossland (2008) was 26, therefore the 57 respondents constituting the overall population of this thesis is acceptable and way above earlier studies. Finally, one might argue that the respondents didn't measure the construct of managerial discretion instead, they measured perceived discretion. Such argument holds to be incorrect. It is well documented that individuals in a specific environment are observers of their society if they possess enough knowledge (Javidan *et al.,* 2006). These consultants possess at least 15 years of experience in consultancy and at least 10 years of experience handling projects in specific environments within the sample of this study, therefore they are very well informed and knowledgeable. At the end, we are all better observers of others than ourselves (Hofstede, 2001), indicating appropriateness of the consultant panel.

6.3. Conclusion

This doctoral thesis contributes to the strategic management and particularly managerial discretion literature by examining the inter- and intra-cultural antecedents and the national-level implications of managerial discretion across countries. The author provided a deeper understanding of the factors that yield managerial discretion and how discretion contributes to national performance. Also, the author showed the important mediating role that discretion plays between those antecedents and consequences.

Understanding how discretion functions at the national level remains an under-researched topic in the literature. Though this thesis represents an attempt to address this gap, there are several avenues for future research to consider. A greater understanding of the antecedents, consequences and the role managerial discretion that plays at the national-level, sheds fresh lights on the cross-cultural differences in managerial practices and the transferability/generalizability of these practices.

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