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Iederan, O.C.; Curseu, P.L.; Vermeulen, P.A.M.; Geurts, J.L.A.

Published in:
Journal of Organizational Change Management

Publication date:
2011

Document Version
Publisher's PDF, also known as Version of record

[Link to publication in Tilburg University Research Portal](#)

Citation for published version (APA):
Iederan, O. C., Curseu, P. L., Vermeulen, P. A. M., & Geurts, J. L. A. (2011). Cognitive representations of institutional change: Similarities and dissimilarities in the cognitive schema of entrepreneurs. *Journal of Organizational Change Management*, 24(1), 9-28.

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Cognitive representations of institutional change

Cognitive
schema of
entrepreneurs

Similarities and dissimilarities in the cognitive schema of entrepreneurs

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Oana Cătălina Iederan

Department of Psychology, Babeş-Bolyai University, Cluj-Napoca, Romania, and

Petru Lucian Curşeu, Patrick A.M. Vermeulen and Jac L.A. Geurts

*Department of Organisation Studies,
Tilburg University, Tilburg, The Netherlands*

Abstract

Purpose – The purpose of this paper is to examine the cognitive factors explaining how exogenous institutional change (IC) impacts on organizational actions.

Design/methodology/approach – The authors interviewed 121 Romanian entrepreneurs, 69 before and 52 after Romania's ascension to the EU and used cognitive mapping to elicit their cognitive schemas about this macro-IC. Similarities and differences between cognitive structures are explored and the aggregated cognitive maps before and after the IC are created, in order to understand how managerial cognition changed following IC.

Findings – The results show that the richness of the cognitive schemas before the IC is lower than after the IC took place. Furthermore, the entrepreneurs who framed the IC as a threat adopted isomorphic actions and reported less positive organizational outcomes as compared to the entrepreneurs that represented the IC as an opportunity.

Research limitations/implications – The research described is exploratory in nature and opens new interesting research directions in the cognitive pillar of institutional theory. Moreover, a cognitive mapping technique is used to elicit and represent managerial cognition and in this way adds to the methods used in institutional research.

Practical implications – The results presented in this paper help policy makers to understand that the impact of exogenous IC on organizational actions is not direct, but mediated by the cognitive representations developed by strategic decision makers.

Originality/value – The paper integrates institutional theory with the work on cognition and explores how cognitive representations affect the relation between environmental pressures and organizational responses.

Keywords Organizational change, Cognition, Romania, Entrepreneurs, Strategic choices, Decision making

Paper type Research paper



Introduction

Institutional theory has traditionally tried to explain the diffusion of new structures and practices (Meyer and Rowan, 1977; Zucker, 1977; DiMaggio and Powell, 1983). Whereas these have been valuable contributions, especially for understanding the isomorphism in organizational practices and actions, little attention has been paid to a more careful examination of what happens with the organizational actors, especially decision makers, during exogenous institutional change (IC) (Chreim, 2006; George *et al.*, 2006;

He and Baruch, 2009). Our study, addresses this particular research gap by exploring the way in which a situation of exogenous IC at the macro-level influences the cognitive representations of entrepreneurs in small- and medium-sized enterprises (SMEs). We draw on recent work on managerial/entrepreneurial cognition to explain how cognitive representations following change trigger different responses depending on whether institutional pressures are perceived as threats or opportunities (George *et al.*, 2006).

In SMEs, entrepreneurial cognition plays an important role in strategic decision making because often a single actor (the entrepreneur) makes the choice and only few small companies apply decision support systems and routines, mostly used in large companies to support the decision (Iederan *et al.*, 2009). Entrepreneurial cognition filters the ICs and organizational actions occur as a consequence of such interpretation and representation. By analyzing how ICs at the macro-level influence and are acted upon through micro-level cognitive representations, we aim to contribute to the understanding of the cognitive microfoundations of institutional theory (Chreim, 2006; George *et al.*, 2006; Powell and Colyvas, 2008).

To explore how entrepreneurs interpret and make sense of IC, we conducted a qualitative study in an economy in Eastern Europe, Romania. Our paper has three main contributions. First, we explore how entrepreneurs of SMEs cognitively represent the integration of an emerging economy in the EU – as a particular situation of IC – and how these representations impact on decision processes and decision outcomes. Second, we are interested in similarities and differences in the conceptualization of IC by entrepreneurs who made strategic decisions before the integration compared to those who went through a strategic decision process after the integration. The final contribution is the methodological approach we used to explore the content of entrepreneurial cognition. Cognitive mapping is a well-suited method of eliciting and representing cognitive structures (Curşeu *et al.*, 2010) and it was used to represent the web of meaning that entrepreneurs elaborate while trying to understand the environment and industry forces (Schwenk, 1988; Fiol and Huff, 1992; Iederan *et al.*, 2009). However, cognitive maps of institutional environments and change were not extensively used so far. Therefore, we introduce cognitive mapping to the field of institutional theory and argue that it can be used to gain further insights into the cognitive pillar of institutions (Scott, 2001).

Conceptual framework

The role of cognition in institutional theory has received ample attention in the literature. Early works of Zucker (1977, 1987) and DiMaggio and Powell (1983) clearly point at the need for increasing our understanding of the cognitive underpinnings of institutional theory. DiMaggio (1997, p. 266) calls for a further integration of ideas from cognitive psychology since scholars from this field have been able to demonstrate the mediating role of mental schemas in between perception and action (Boland *et al.*, 2001). The most influential cognitive models used to explain organizational decision making are those stressing the impact of activated cognitive representations on the decisional outcome (Boland *et al.*, 2001; Iederan *et al.*, 2009). Through the activated cognitive representations decision makers reduce the environmental complexity and select stimuli in order to create cognitive representations or mental models of the internal and external organizational environment (e.g. the situation of IC) (Iederan *et al.*, 2009). In a similar

vein, Bacharach *et al.* (1996) argued that cognitive interpretations are the critical starting point for fundamental transformations in organizations.

Schemas driven processing is therefore a top down information processing and is especially relevant for recurrent decision situations. Often cognitive schemas contain a core structure, which is resistant to change and peripheral elements, which often adapt under environmental changes. In this way, the core of the cognitive structure is protected and only the peripheral (more specific) cognitive structures change (Fiske and Taylor, 1991). When decision makers are exposed for the first time to institutional pressures, they will develop new schemas and later act on these representations. Peripheral structures in a cognitive schema are dynamic in nature and they can change when the contextual factors change. That is why, it is very likely that as decision makers are directly exposed to the real nature of salient and normative pressures of the institutional context, the complexity of their representations (schemas) about these pressures will increase. Hence, as a first goal we aim to explore whether the richness of cognitive schemas regarding an IC is higher after the IC took place.

George *et al.* (2006) argue that cognitive similarities across actors can explain the isomorphic actions undertaken by organizations within an institutional field. In other words, organizations mimic each other simply because the decision makers develop similar cognitive representations about the institutional pressures. Nevertheless, Zilber (2002, 2008) has argued that decision makers are likely to develop different representations about the same IC, when they differ in terms of their capabilities, logics, interests and agendas. This makes it more likely that institutional pressures to change are not uniformly perceived and experienced by every field constituent. The second aim of our study is to explore to what extent, the same IC leads to similar versus dissimilar cognitive schemas in decision makers. In the particular case of this study, we explore the extent to which the same specific reality of the IC triggered by the integration of Romania into the EU leads to similar or dissimilar cognitive structures.

Research context

Since the collapse of communist regimes many Central and Eastern Europe (CEE) countries (including Romania) have been confronted with radical ICs in their attempt to join the EU. In Romania, after 42 years of communist rule, the end of communism was marked by the removal of Nicolae Ceaușescu. Shortly after the end of communism, EU membership became the main goal of Romanian politics (Iacob and Gavrilovici, 2006). This objective fits into the generalized tendency in former communist countries in CEE to adopt a market economy and adhere to Western managerial practices (Kostera, 1995). Romania signed its Europe Agreement in 1993 and submitted its official application for membership in the EU in 1995. It also submitted the so-called “Snagov Declaration”, signed by all major political parties, declaring their full support for EU membership.

Since then, some of the changes that small and medium-sized Romanian firms have been confronted with have a significant impact on their daily practices. Examples are the strict European requirements regarding environmental and social protection, the rapid pace of technological change, the globalization of the Romanian market, and fluctuating raw material and energy prices. These changes have all contributed to an increase in the complexity of decisions faced by the owners of small or medium-sized firms (Constantin *et al.*, 2006; Grigoruta, 2006).

European Union integration as IC

Over the past two decades most of the CEE countries went through two major shifts in formal and informal institutions. The first process of IC is the abolition of the communism regime and all its major institutions by the beginning of the 1990s, along with the shift towards a free market economy in the following years of the so-called transition (Chiaburu, 2006; Iacob and Gavrilovici, 2006; Magala, 1992). The second process of IC was considered to be “the next logical step”: most of these countries enrolled in the race for joining the structures of the EU. Along with all the major changes this measure affected the core dimensions of the functioning of a state: the social, the economical, the political and the military dimension.

The first process of IC has been subjected to comparative analyses among the two groups of countries that experienced two different trajectories after the fall of the communist regime: the Baltic States, Poland, Hungary, the Czech Republic, Slovakia and Croatia, on the one hand, and Russia, Belarus, Romania, Bulgaria, Moldavia, the Ukraine, on the other hand (Zweynert and Goldschmidt, 2006). However, to our knowledge there is no study regarding the second main process of IC – the process of integration into the EU and its consequences.

Moreover, even more salient to this particular situation of IC – the EU integration – are the particularities that define the emerging economies of the CEE countries. Emerging economies are considered to be fast growing economies (Hoskisson *et al.*, 2000), but they tend to be more volatile than established markets due to the uncertainty within the political scene and domestic currency (Kostera, 1995). However, the accession of the emerging economies in CEE countries to the EU is a long and rigorous process, depending upon each country’s speed of accomplishing the EU requirements. As such, the amplitude of the changes that occur in these emerging economies, in general, and in those of the CEE applicant countries, in particular, is striking. It involves both the adherence to their natural growth tendency as a result of the liberalization (Hoskisson *et al.*, 2000; Kostera, 1995), as well as the implementation of economic, political, social and military regulatory changes driven by the alignment to the EU requirements. This change process includes the implementation of a decentralization process, price liberalization, privatization of large state enterprises, reforming of the legislative and judiciary processes, encouragement of both local and foreign private business initiatives, competition and so forth.

Romania is one of the largest countries in the CEE. It evidenced an economic trajectory fitting the pattern of the emerging economies and also went through the aforementioned processes of IC – the abolition of the communist regime and the EU integration process. Unlike other CEE countries, Romania had a more difficult transition process in many respects. By the late 1980s, due to a strict, rigid economical plan implemented by the central structures for a period of about 40 years, Romania’s economy was on the verge of collapse. After 1999 (when the EU ascension process started), Romania initiated an extensive reform plan along with ICs according to the European norms and policies. This directly affected the economic players in the market. The goal of our paper is to discover how organizations deal with such pervasive changes. Our focus will be directed upon SMEs, in particular upon how entrepreneurs and managers make sense of the IC and strategize, since SMEs contribute significantly to economic growth and are perceived as the engine of economic growth in Romania.

Method*Sample*

A total of 150 SMEs managers and entrepreneurs from five counties in Romania (Cluj, Maramures, Satu Mare, Bihor and Bucuresti-Ilfov) were initially contacted by telephone. We asked them about recent strategic decisions and 121 active decision makers reported making at least one strategic decision in the past three years were included in the operational sample for further analyses. The respondents were active in diverse industries such as retail, construction, architecture and HR service providers. SMEs are defined here as firms engaged in market-based economic activity, with less than 250 employees, autonomous and with a financial balance less than €43 million (The Romanian Agency for Regional Development). A first subsample of 69 respondents (who had indicated to have made at least one strategic decision before the integration of Romania into the EU) was interviewed in 2006. The second subsample of 52 respondents (that made a strategic decision after January 1, 2007) was interviewed in two moments (May-June 2007, June-August 2008). The strategic decisions our respondents were involved in ranged from new product development decisions, change of market strategies, to changes of internal processes, liquidation decisions, decisions related to temporary suspension of activities and so on. Background information of our sample is presented in Table I.

Data collection procedures

A semi-structured interview was used to collect data concerning the specific strategic decision-making processes that our respondents went through in the past three years. Taking into consideration the exploratory nature of the present study, the semi-structured interview technique allowed researchers to explore the most salient concepts used by the respondents to describe the strategic decision as well the links among them.

The interview started with the question: can you give a short description of the company you work in? aimed at activating the relevant concepts concerning the

		Before EU	After EU
Gender	Female	19	26
	Male	50	26
Age	22-29	6	19
	30-39	24	15
	40-49	30	14
	50-55	9	4
Education level	Professional school	2	1
	High school	16	0
	University	36	29
	Masters	11	17
Years of experience in a management position	Doctorate (PhD)	4	5
	1-5	20	37
	6-10	21	11
	11-15	25	2
	16-20	2	2
Legal status of the firm	21-25	1	0
	AF	3	1
	SRL	63	45
	SA	3	6

Table I.
Background information
of respondents

industry and the organizational environment they work in: organizational culture and structure, managerial responsibilities and market conditions. The following item: can you describe the most important decision you made in the last three years, with the most significant consequences for your firm? represented the main stimulus for activating the manager's representation of the strategic decision-making process. It also allowed the elicitation of the main concepts and links concerning the decision and its context. The following questions were: what were the factors that triggered you to make this decision? How was your decision put into practice? When did you actually make the decision? How do you look back at the decision you made? The benefit of these items was that respondents could come up with details concerning the causes, the factors determining the decision, the decision-making process itself and the way it was implemented, the main risk factors and other obstacles that influenced the decision, as well as details concerning the decision's outcomes.

Regarding the situation of IC, no specific question was included to prompt explicit answers. We preferred a more indirect approach to explore the way the integration of Romania into the EU was reflected in the strategic decisions of SMEs. Questions like: did the external environment play a role in your decision? Did governmental or legal issues influence the decision-making process or its implementation in any way?, were meant to elicit links between the decision-making situation and the recent IC, no matter how it was perceived or represented by managers and entrepreneurs.

Data analysis

All interviews were transcribed verbatim. We used cognitive mapping to code the interviews through the content analysis procedure described by Fuglseth and Gronhaug (2002) and Calori *et al.* (1994). The choice for the map analysis procedure is supported by several arguments:

- map analysis subsumes content analysis;
- map analysis allows the examination of the micro-level differences in individuals' maps and it facilitates the capture of the web of meaning spread across the text; and
- it facilitates examining hierarchies of meaning, as it happens when categorizing concepts or types of relationships (Carley, 1993).

The first author carried out the coding of the transcripts. She started by thoroughly analyzing the transcripts. Next we produced the cognitive maps in four steps. The first step is concerned with surfacing first-order concepts and links (Calori *et al.*, 1994). The transcripts of the interviews were analyzed according to five dimensions: organization, decision process, causes, obstacles and consequences. The second step is concerned with weighting concepts, or assessing the importance of each concept for each entrepreneur according to its explicit mentioning during the interview, spontaneity, priority in the interview as well as the relative length of the discussion (Calori *et al.*, 1994). Since the purpose of this study is exploratory, we decided to incorporate in the final output all those concepts mentioned during an interview if, and only if, that were relevant to the topic under discussion: the strategic decision-making process in relation to the EU integration.

In an attempt to classify the first-order concepts and links at a more abstract level, the third step concerned identifying second-order categories. We have accomplished

this step by analyzing the first-order concepts extracted from the transcripts according to the five theoretical dimensions defined *ex ante*. In order to better capture the considerable amount of data concerning each of the strategic decision processes we explored, we created more specific categories of concepts and links. The two main criteria for identifying the second-order concepts and links were:

- (1) at least 80 percent of the transcripts must have made at least one commentary regarding that specific category; and
- (2) each map included a specific second-order category if it comprised at least one first-order concept or link extracted out of the interview transcript.

Eight second-order concepts have been identified: organizational structure, decision-making process, internal causes, external causes, risks, decision alternatives, problems in implementation and the consequences of the decision implementation. The only function of these second-order categories is to organize and provide a structure to the graphic representation of the cognitive maps in the next step of the elicitation procedure so as to ensure a unitary base for further analysis and interpretation.

The output of the final step consists in the cognitive map itself. Each cognitive map is graphically construed by including the output of the first step – first-order concepts and links – and organizing them according to the structure provided by the output of the third step – the second-order concepts and links. Internal and external causes were graphically represented in the top left square, the consequences in the top right square, the risks, alternatives and problems occurred in the top central square, the organizational structure elements in the bottom left square and those connected to the decision-making process in the bottom right square. The strategic decision itself was graphically represented in the centre of the cognitive map (Figures 1 and 2).

As Fuglseth and Gronhaug (2002) have pointed out, a cognitive map can be analyzed with respect to two parameters: the web of meaning (the content) comprised by the particular configuration of concepts and connections – as a subject of qualitative data analysis and its configuration or its complexity – as a subject of quantitative data analysis.

We have mentioned before, the purpose of the current study is to explore the way SMEs managers and entrepreneurs represent the integration of Romania into the EU and the way this representation is reflected in strategic decision-making situations. Therefore, we focused the analysis on the pattern of concepts and the connections among them, irrespective of type, sign or strength. This reveals the cognitive schema an entrepreneur has of a specific situation (Carley, 1993).

We also analyzed the raw data obtained from the interviews' transcripts to generate aggregated maps. The core concepts were extracted from each transcript. A concept was considered to be relevant if it referred in any way to the strategic decision process, the organization or the context in which the decision took place. Since we had extensive data and we wanted to identify relevant patterns, our next concern was to apply a data aggregation procedure. This involved creating broader categories or themes that would be able to successfully identify similar concepts across different interviews. The main criterion for eliciting the themes assumed that at least three interviews must include at least one concept regarding that specific theme. The common themes included the following aspects of a decision-making process: causes, risks, obstacles and consequences. This action allowed the researchers to have a common grid when

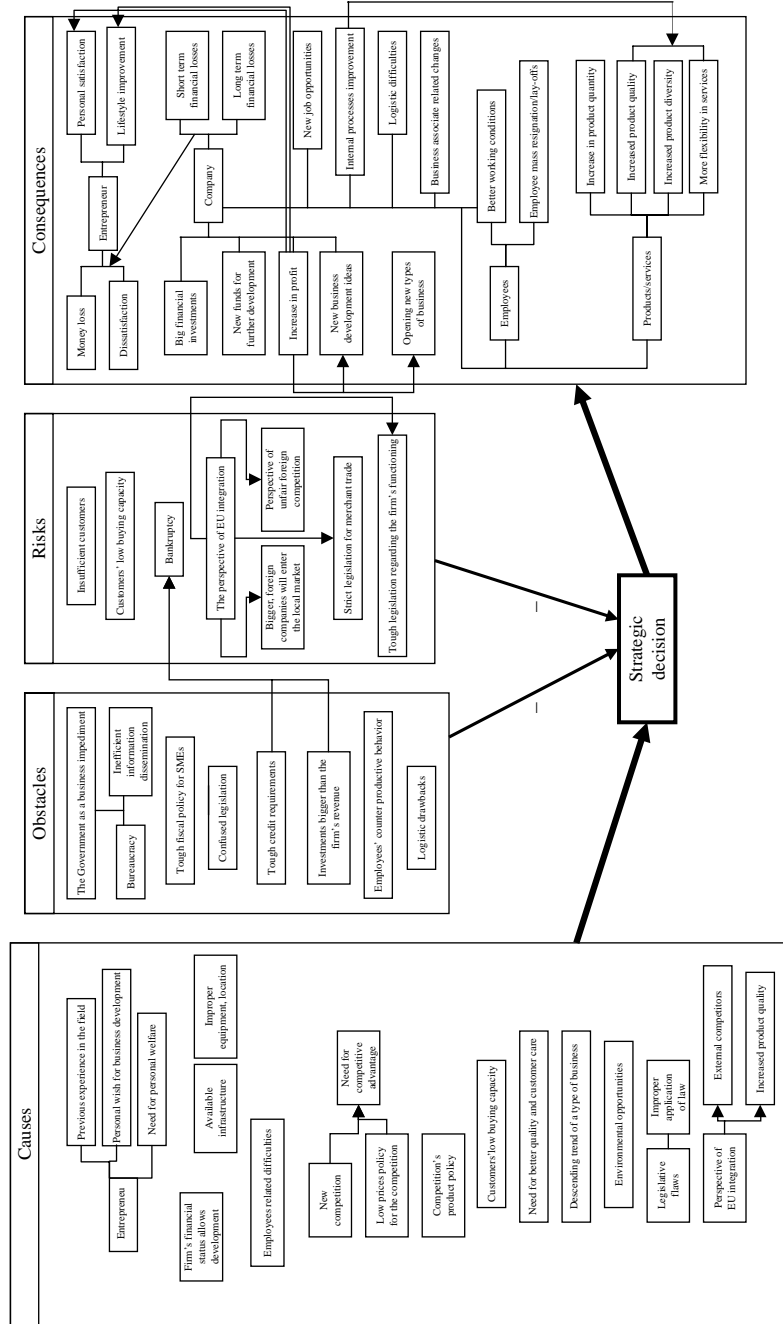


Figure 1.
Aggregate map - before IC

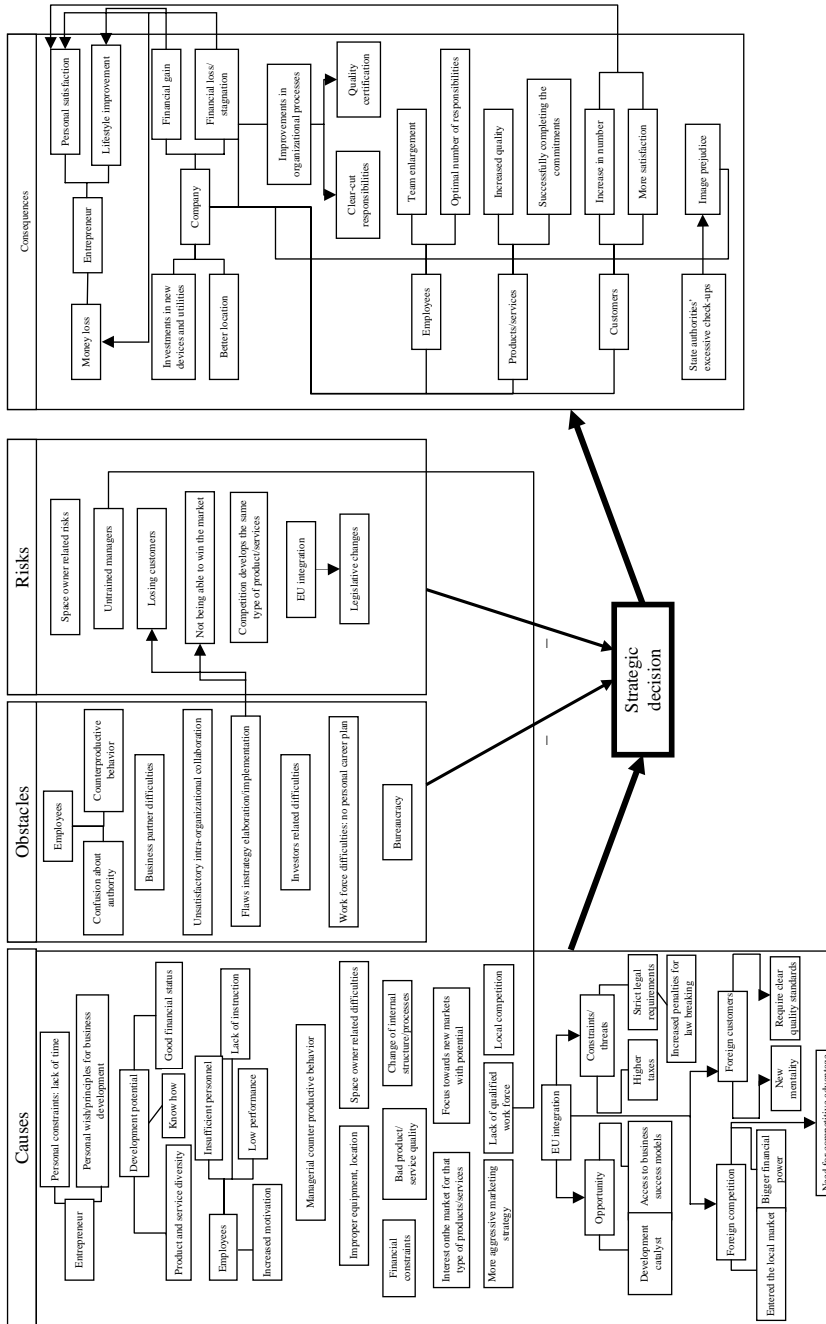


Figure 2.
Aggregate cognitive
map – after IC

analyzing and comparing the way one entrepreneur represented the context and handled the strategic decision-making process with respect to another entrepreneur's interpretation and action. In other words, we used these diagnostic constructs to further classify the previously identified themes, in order to make comparisons between the two sets of interviews. In order to validate this final step, the interviews were read once again to confirm the distribution of the aggregated themes and the subsequent concepts along the diagnostic constructs. The output of this step is shown in Figures 1 and 2.

Findings

The cognitive maps of the two groups of respondents were analyzed based on similarities and differences within as well as between groups. Illustrative quotes for the similarities and differences in the way the IC is represented are presented in Tables II and III. The aggregated maps before and after the IC are shown in Figures 1 and 2.

Similarities and differences in individual cognitive maps before the EU integration

Most of the strategic decisions made by SMEs managers and entrepreneurs before the integration were driven by factors related to the market. Irrespective of new competitors, irrespective of the field of activity or the type of industry of the SMEs included in this study, the entry of new competitors was the main trigger for several types of strategic decisions. A shared motivation of strategic decisions proved to be the desire to increase the firms' total revenue or its profit, mainly because of personal financial needs and only secondary because of an organizational development vision.

Regarding EU ascension, the entrepreneurs show a significant degree of agreement concerning the way the state or the government is diffusing the EU regulations and norms. The lack of transparency and bureaucracy in fiscal policy are perceived as harmful factors or threats to the optimal implementation of strategic decisions. An interviewee from the hospitality industry mentions:

You don't want to know about the Government's role in the decisions we made. The Government doesn't help. There's a lot of nonsense chit-chat on TV, but when there is something important they are just beyond the situation. Like when I wanted to apply for a financing and I read about it in the newspaper. And I did everything they requested, I searched for the forms and did the documentation, but I was still missing something, till everything got canceled.

Interviewees in the retail sector complained about the tough financial regulations:

We need to buy special fiscal documents, although we don't need all of them. And after we bought everything they made us to change them all, to buy new cash registers and new fiscal documents, since they approved the monetary law and introduced the RON. They are nothing but unjustified expenses (Retail).

Finally, interviewees in retail and automotive industry complained about bureaucratic procedures:

I pay all my taxes to the state; we are used to this, but the bureaucratic Government is just pulling us back (Retail).

Dimension	Similarities in representing the IC situation	Dissimilarities in representing the IC situation
Causes	<p><i>Entrance on the market of the external competitors with better products brought along by the upcoming EU integration</i></p> <p>"A bigger internet provider was on the point to enter the local market. And apart for the cheaper internet services, they also prepared a more complex package which included telephone and cable at a very reasonable price. It was therefore essential to do something and remain on the market." (IT)</p> <p>"Western companies bring in new technologies. I went to a medical exhibition and I saw a lot of high quality equipment. I saw them and I wanted them, just like that." (Health)</p>	<p><i>The impact of European trends in business</i></p> <p>"There were no orders from the external (EU) market and in time, all the other firms in the lohn business started to get on a downward trend. I keep in touch with some of the other entrepreneurs in the business and they are not happy at all with what is going on." (Textile)</p> <p>"I said I should close down the stores and focus on construction since it's a sector in full ascent, while the retail will be taken over by larger supermarkets. It is said that the market of construction materials and services will go through an explosion in the following couple of years after the EU ascension and it already started" (Construction)</p>
Threats/ opportunities	<p><i>Foreign competition brought by the EU integration</i></p> <p>"A lot of foreign competitors will enter the market. And they have years of experience and a lot more capital then we do." (Retail)</p> <p>"I don't know if we have a future once we enter the EU [...]. This is the politics. And the big competitors we'll eat us alive, you know the saying. I don't know what will happen to us [...]" (Retail)</p> <p>"After we enter the EU, I don't think we will resist on the market." (Retail)</p> <p>"I don't know what will happen. We, the small firms, will probably disappear" (Retail)</p>	<p><i>Normative and legislative pressures</i></p> <p>"There are many risks [...] and now, if we enter the EU they are going to make some more demands, more rule and requirements [...]. We cannot keep up with all this." (Retail)</p> <p>"We have to comply with new safety regulations now and to improve the working conditions for our employees. We have build up a modern, well-equipped locker, with showers and everything [...] we took care of their (employees') health, because they work in a dusty environment [...] and we care for them. Mainly, we tried to secure optimal working conditions so they can shower after work and go home clean." (Construction)</p>

Table II.
Similarities and
difference in the cognitive
maps before the EU
integration

The most important obstacles were related to getting approvals and licenses [...] bureaucracy [...] approvals from the gas company, from the environment protection and on and on [...] (Automotive).

Most of the interviews mention the EU ascension as a threat. Decision makers acknowledge the fact that EU ascension by 2007 will somehow affect their economical situation in a negative way and strategic position on the market. Just a few of our respondents view the EU ascension as an opportunity for their business.

A first group of managers and entrepreneurs acknowledge the fact that the EU integration of Romania is an irrefutable reality, but they do not have a clear picture of what the implications are for their firms. They are governed by a general sense

Table III.
Similarities and
difference in the cognitive
maps after the EU
integration

Dimension	Similarities in representing the IC situation	Dissimilarities in representing the IC situation
<i>Causes</i>	<p><i>Development opportunities brought by the EU integration</i></p> <p>“We tried to restructure our business according to the international consultancy models after we found out about Roland Berger and other international players. When we made the decision we took a look both at our internal competitors as well as the foreign, giant competitors. We didn’t want to copy them mot-a-mot, though.” (Consultancy)</p> <p>“The EU integration was like a catalyst for our business. Entering the EU meant that we had one year to develop a strong brand and take a deep breath of reality and build some kind of advantage. We also want to enter the European market and this will happen in about 2-3 years if everything goes as planned.” (Consultancy)</p> <p><i>Need for competitive advantage</i></p> <p>“When we heard we were granted the EU membership we foresaw that our competition might increase, since the consultancy market is still largely uncovered in Romania. So we thought we would need to build in and strengthen some kind of competitive advantage. Knowing the local market is one of them.” (Consultancy)</p> <p>“We made European – standard investments in modern equipment and devices.” (Automotive)</p> <p>“The pressure to improve is high; we have to be better than the new competition. I got a good idea from the market. We used to visit clients and they kept complaining and asking us if we also provide post-selling service. So I knew there was an unsatisfied need on the market that we could cover.” (Services)</p>	<p><i>Foreign competitors/customers on the internal market</i></p> <p>“Our multinational competitors provide more or less the same services we provide: personnel leasing, HR consultancy [...] And they are multinationals; obviously they have bigger financial power. When Romania entered the EU, a lot of opportunities arose, especially for those with big financial possibilities. In other words, it brought competition.” (Consultancy)</p> <p>“In the field we are working in there are about 5 big competitors. 3 of them are multinationals and came recently on the market.” (Consultancy)</p> <p>“Once we started the contact with the EU, a lot of firms started to get interested in our services. We started to have foreign, multinational customers for our HR services. Also, when they came, they also switched a little the local mentality, more local firms started to be interested in developing their personnel.” (Consultancy)</p> <p>“We managed to bring on our side the customers who had asked for quality certification and all sort of licenses from the Work Ministry. Some of them needed it for PHARE or all sorts of funds so I understood them.” (Consultancy)</p>

(continued)

Dimension	Similarities in representing the IC situation	Dissimilarities in representing the IC situation
	<p><i>Normative pressures</i></p> <p>“There are very strict norms we must respect now. For example, we must provide the employees with certain facilities, with a special locker-room and so on.” (HORECA)</p> <p>“Our multinational customers asked for certain quality standards. They asked for ISO or other licenses that would certify us as a trustable HR services provider.” (Consultancy)</p> <p>“If we do not follow the rules, we pay. And we pay a lot! The fines are bigger now; you cannot afford to break the law.” (HORECA)</p> <p>“We are in the process of obtaining our ISO certification. We are pressed by the European standards. Let’s say it’s going to be something made to add ad the company’s portfolio.” (Services)</p>	
	<p><i>Threats/opportunities</i></p> <p><i>Lack/exodus of the qualified workforce</i> “We had few applicants, fewer than I expected and even fewer of those who corresponded to our standards. I think they are closed minded and do not seize such a big opportunity to build a corporate career.” (Services) “I think we chose a really bad time for recruiting. It was during the winter exams and probably the students were not that eager to find a job at that point.” (Services) “There are few qualified construction workers on the market. Most of them get qualified inhere and then start to leave for Spain or Italy where they are better paid.” (Construction)</p>	<p><i>Taxes/new tax regulations</i></p> <p>“Once we entered the EU, we do not have to pay customs taxes for imported cars, second hand cars. We only pay a tax for the first-time registration or something. The point is that we are going to have an invasion of imported cars.” (Automotive)</p> <p>“They (EU) increased the taxes, gas cost, food costs, everything because they said they must align our prices to the ones in the EU” (Retail)</p>

Table III.

of uncertainty and insecurity concerning the future of their organizations. This overall impression has a negative effect on strategic decision processes, since they feel that they cannot accurately estimate the outcomes of their choices. They do not know what to expect, yet they did not try to find any information upon this subject; they rather sat back and waited for something to happen. This pattern is especially visible in family businesses in retail. For the entrepreneurs operating in these areas the ambiguity and uncertainty associated with the EU ascension are the main threatening factors. Managers and entrepreneurs, from the textile industry, already sensed the downward trend of the lohn business they were working in and they included this trend in the changes announced by the EU integration. Most of the strategic decisions they made concerned the suspension of the firm's activity, starting a bankruptcy procedure, or a fundamental change in their activities. The causes mentioned in these types of decisions are: the general decline of interest in smaller sized buyers; the interest of external buyers for cheaper labor and the state's policy regarding work conditions and payment.

A second group of managers and entrepreneurs, who were active in different industries, were also aware of the perspective of the EU integration of Romania along with the changes it subsumes. Nonetheless, this particular situation of IC was represented as an opportunity for the development of their lines of business. Factors related to the EU integration like: the globalization of the market, the penetration of external competitors on the Romanian market, the possibility for the local firms to enter the European market, along with the need to gain a competitive advantage were identified as the main triggers for strategic decisions in the SMEs environment.

Moreover, the consequences associated with these types of decisions concerned the increase in the annual revenue of the firm, substantial financial investments in the quality of services and products improvement with an expected return in the years following the integration, increase in profit and increase in the number of clients. Table II provides a summary of the similarities and differences, illustrated with interview quotes, in the individual cognitive maps of the entrepreneurs interviewed before the EU integration.

Similarities and differences in the individual cognitive maps after the EU integration

The situation of the EU integration is definitely more prominent in the cognitive maps of managers and entrepreneurs that made strategic decisions post integration. More concepts characterize the situation and there are more connectors that tie the integration to the decision process.

All interviewees mention explicitly the process of integration as a contextual factor and there is a wide consensus on the fact that it brought significant changes in the national socio-economical and political environment, changes that affect in various ways the organizational processes and outputs. The specific and more particular manner in which the situation of IC impacts the strategic processes of the SMEs is largely dependent on the industry the firm is active in. It is important to mention though that there is a shared agreement on the immediate changes that the EU integration of Romania brought along. Thus, integration is usually associated with the globalization of the market, and with the penetration of foreign, external competitors in the local market. This triggers the need for creating a competitive advantage in order to survive on the market. Whether this is treated as a cause, an opportunity or a threat to the optimal trajectory of a small or medium enterprise will be discussed further on.

As we have mentioned before, important differences can be identified in the way managers and entrepreneurs made sense of the situation of IC related to the strategic decision processes they were faced with after the integration. In the field of human resources consultancy there is a consensus that the EU integration brought significant changes in the market: increased competitiveness due to the penetration of external players on the local market and in the same time new potential customers. Therefore, the external players are conceptualized in two different ways. Some see them as a main threat due to the fact that they have significant financial power, years of experience and a large discretion in the strategic moves on the market. Others perceive new entrants as an opportunity since they are potential clients as well as excellent providers of successful and inspirational models in the consultancy area. The strategic decisions made by entrepreneurs were concerned with improving or consolidating their strategic positions on the local markets through ISO standardization or involvement in public events in order to gain more visibility among customers and competitors. An illustrative example of opportunity framing and positive decisional outcomes is a respondent from the automotive industry:

Since they keep talking about the integration and since I've travelled a lot outside Romania, I realized that if we stick to this level, to the way we are doing the work at this point, we won't be able to survive. So I thought about improving the business [...] you know, just to cover more of the market [...] I'm satisfied with the decision. We're on the right track with recovering our investment [...]. We managed to win customers we didn't even know they exist. There's a lot of potential in the area we went in [...] All in all, I think we won.

In commerce, especially in restaurant businesses, the EU integration of Romania is conceptualized as a menace and a future cause of their bankruptcy since the SMEs active in this field are small players that lack the financial power to make adequate investments requested by the adoption of European infrastructure norms, work conditions of employees and new taxes. A respondent from commerce mentions:

There are a lot of risks... and now, if we enter the EU they are going to make some more demands, more rules and requirements [...]. We cannot keep up with all this. We are not allowed to sell fake brands anymore, because they say we make unfair competition to the brands. And you can only sell the brands if you have a license from the mother-company. And that is really expensive. [...] I'm not very happy with the decisions I have made so far. Fewer and fewer people come around here and our sales keep dropping. I'm thinking to close down the store. I don't know what type of business could work here.

A few interview quotes illustrating the similarities and differences in the way entrepreneurs represent the IC after it took place are presented in Table III.

Aggregated cognitive maps

In order to better summarize and illustrate the differences in entrepreneurial cognition, the individual maps were aggregated in two cognitive maps reflecting common issues before and after the integration in the EU. The two maps are shown in Figures 1 and 2.

Both groups of managers and entrepreneurs (before and after the change) were aware of the fact that the EU integration will or already took place. The IC is part of the explicit managerial cognition in both instances. A very important aspect differentiating the way the EU integration is perceived by the two groups of decision makers is that the group that was interviewed before the integration represented it mainly as a threat and major

risk for their strategic choices, while the interviewees of the second group perceive it both as a threat as well as an opportunity. Only a small part of the sample interviewed before the integration represents this as an opportunity. Furthermore, the IC is much more salient after the integration took place. In other words, entrepreneurs and managers that made strategic decisions after the EU integration represented it more vastly, by using more concepts to describe it and more links to connect it to the strategic decision-making process than CEOs who made the strategic decisions before the integration. Another important aspect concerns the fact that after the EU integration all respondents referred explicitly to it and had a very clear picture of what the EU integration means to them. Therefore, the representations upon the decisional processes that occurred after the integration contained a much more detailed picture of what the EU integration is, what kind of factors related to it are of main concern for the SMEs economical trajectory or how, when and in which way are they expected to impact the organization.

Although they mentioned the perspective of Romania being granted the European membership, interviewees in the pre-integration group varied dramatically in their representations. Their conceptualizations of the EU integration ranged from threat, potential problem or cause for future problems, to a possible opportunity for development, or just an uncertain future due to the lack of information of what the integration will mean for SMEs.

Another important finding is the fact that the richness of cognitive schemas about the IC seems to be positively associated with the decisional outcomes. Entrepreneurs who had a clear and detailed representation of the changes brought by the integration also tended to conceptualize them as an opportunity for the development of their lines of business. As a consequence, of this representation their strategic decisions ranged from: organizing a public event in order to gain more visibility, changing the internal functioning schema according to the international success models – as a starting point for future penetration of the external market, to making significant investments in infrastructure or starting an ISO standardization process in order to increase the quality of the provided products or services. The registered consequences were also more positive in nature: increase in the quality of products or services, satisfaction with the decision, increase in the number of clients, increase in profit, fulfillment of a step in the strategic business plan for the following five years.

Although the integration of Romania in the EU is not reflected entirely in the same manner in all the representations of all SME entrepreneurs, the most salient and frequent aspects concerning the changes brought by the integration into the EU and identified both in the cognitive maps are: the market globalization: the access of external economic agents on the internal market; increased competition: better quality – price balance offered by external competitors; ISO – European quality certificate requirements; the decline of the Lohn industries (textile especially), so, the perspective of major layoffs in this industry; the increased probability of bankruptcy in the first years after the integration, according to the international statistics regarding the economical behavior of other new Member States of the EU.

Several expected effects of the EU ascension, like the exodus of the qualified workforce, the strict requirements for environmental protection or the state requirements with respect to the increase of salaries of the employees were also mentioned in the representation of the strategic decisional processes after the integration. However, there is no recorded

mentioning of the protection measures that the state asserts to have taken in order to ease the process of adherence to the strict European norms of the SMEs. Instead, most of the respondents conceptualized the state either as ignorant to their problems and difficulties, or as a distress factor impeding the optimal implementation of the strategic processes in SMEs. Or, like several of the managers put it “a necessary bad”, “the vigilant institution” and so on.

Discussion

Our study used a cognitive framework to explore the way in which a macro-IC impacts on organizational decision making. We extend the research on IC in that we argue that cognition partly explains organizational responses to institutional pressures. We began by noting that organizational actions are not directly influenced by institutional pressures. It is the way these pressures are perceived and represented by decision makers that makes the difference.

We explored the richness (complexity) of the cognitive representation developed by entrepreneurs in relation to a macro-IC. In a situation of IC, decision makers use their pre-existing schemas to make sense of the institutional pressures and ultimately a new schema emerges (Bacharach *et al.*, 1996). This schema guides information processing and ultimately shapes organizational actions. Previous research shows that the complexity of these cognitive structures is influenced by the attributes of the decision makers (Iederan *et al.*, 2009). We add to these insights and show that that the richness of these new schemas related to the IC is influenced by the extent to which the decision makers are exposed to the institutional pressures. Before the EU ascension, the conceptual cluster around the IC is rather poor and entrepreneurs mostly viewed the change as a threat and associated it with high ambiguity and uncertainty and only a few conceptualized it as an opportunity. Entrepreneurs know that soon their companies will be exposed to a series of institutional threats, yet they are not exactly sure what these threats will be. The representation of the IC is therefore rather scarce in terms of conceptual relations. In the sample of entrepreneurs interviewed after the EU ascension, the representation of the change is much more complex. Decision makers mention the legislative/normative pressures as well as the market changes and the opportunities associated with the EU ascension.

Another important aim of our study was to explore whether the second proposition advanced by George *et al.* (2006) would hold. They argued that when decision makers perceive IC as a threat they would have a tendency to rely on isomorphic actions. This prediction is supported by our results, at least for some of the industries. In the textile industry, the perceived threat of the EU integration leads to the initiation of bankruptcy procedures and this action seems to be generalized across the industry. Moreover, consultancy companies face the threat of external competition and one of the most common actions undertaken by the decision makers in this field is to copy successful models implemented by Western companies. Through these mimetic actions, these companies aspire to gain legitimacy in their field. The results are similar with the ones reported by Newman (2000) showing that East European companies facing high levels of environmental turbulence have a tendency of copying the actions of Western companies in an attempt to gain legitimacy and a sense of control over their environment.

Our results also show that when decision makers represent the EU integration as a threat, the reported outcomes of the decision are less satisfying for the decision maker.

In line with the threat-rigidity hypothesis we show that under threats, decision makers have a tendency to oversimplify the incoming information (Staw *et al.*, 1981) and reach lower benefits and outcomes (Curşeu and Schruijer, 2008; Jackson and Dutton, 1988). Moreover, based on our results it can be argued that decisions in which an IC is framed as a threat lead to less positive outcomes as compared to the ones in which it is framed as an opportunity.

Concerning the similarities versus dissimilarities in the cognitive schemas associated with the IC, our study shows that the same environmental change can lead both to similar and dissimilar representations. In line with George *et al.* (2006) we argue that after the IC and through interpersonal interactions, schemas can be shared within specific organizational fields. An illustrative example is the textile industry in which the entrepreneurs explicitly mention that by discussing with others in their field they think that the only solution to the downward trend in the Lohn industry is closing the business. This action becomes generalized within the textile industry and it is most likely rooted in the shared representation developed through interpersonal interactions. Another illustrative example is the consultancy field. Here, actors often copy successful Western models in trying to build a competitive advantage to the predicted inflow of competitors. Decision makers, however, also seem to develop dissimilar representations about the same IC. An illustrative example is the perception of the new tax regulations. Some decision makers perceive it as a beneficial change (diminish in taxes), while others seem to perceive it as detrimental (introduction/increase of taxes). These differences are probably determined by several field-specific factors as well as individual traits and are very likely to generate within field differences in the way companies will behave. Although we cannot argue based on our results what these factors are, our study shows the potential of the cognitive approach to shed light on organizational responses to institutional pressures.

Limitations and future research directions

Next to the contributions, the present study has several limitations too. First, the link between the framing of the IC and the complexity of the cognitive schemas was not explored in this study. A fruitful way to extend the results of our study is to explore the extent to which the complexity of cognitive schemas relates to the framing of an IC. We argue therefore for a positive association between the complexity of cognitive schemas and decision effectiveness. So far, this association received only limited empirical attention and the link between threat framing and cognitive complexity was not explored in empirical research. Future studies can explore the extent to which the impact of framing as threat on decision outcomes is mediated by the complexity of cognitive schemas.

Second, our study is based on two sets of interviews, approximately one year before and one year after the EU integration. We should note however, that the EU norms and regulations concerning the functioning of SMEs are not to be implemented all at once. Therefore, a longitudinal approach would shed more light on the dynamics of the cognitive schemas related to the IC. In the same line of reasoning, our sample of entrepreneurs interviewed after the change was not the same as the one interviewed before the change, therefore the study cannot make claims concerning the real cognitive change induced by an IC. We have tried to keep the samples comparable, yet further research should explore the cognitive dynamics related to IC using the same sample.

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Corresponding author

Petru Lucian Curşeu can be contacted at: p.l.curseu@uvt.nl