

# Managing the strategic process : the impact of national/corporate culture on the strategic behavior of European MNC's

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**Managing the strategic process : the impact of national/corporate culture on the strategic behavior of European MNC's**

by

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## **Introduction**

The globalization of competition is necessitating multinational firms to operate in an increasingly turbulent world. The emergence of new markets and competitors; the integration of national markets whether via regional cooperation and/or the development of superior information technologies; shrinking product life cycles are ushering in a new era. The contemporary international environment may be likened to what (Stacey, 1994) describes as a "complex adaptive system". In this environment clear cut causal linkages are conspicuously absent and the long term outcomes only partially controllable by the organizational actors. The organizations never really attain a stable state; on the contrary they keep on moving from one crisis to another. Furthermore as Stacey (1994:479) suggests "Individual free choice plays a vital role in the unpredictable, creative evolution of the system". In sum, the environment within which multinational firms are operating is complex, turbulent, and contradictory. How do managers of multinational firms make sense of or cope with an environment which is complex in character? How does their interpretation shape their strategic posture? How can this strategic posture be best implemented? These are critical issues both from the standpoint of corporate managers, as well as from the perspective of the researcher interested in studying the functioning of a multinational firm. It is the goal of this paper to outline a theoretical framework for

explicating the sense making process in a multinational firm.

### **The Concept of Sense Making**

Definitions of sensemaking abound in the literature (for a review see Weick, 1995).

Weick (1995) suggests that sensemaking is a process which is “grounded in identity construction; retrospective; enactive of sensible environments; social; ongoing; focused on and by extracted cues; driven by plausibility rather than accuracy”. The need for sense making arises when actors are confronted with a discrepancy, *i.e.* a gap emerges between their expectations and the reality that they are confronted with. Thus, as Weick (1995) suggests, ambiguity and uncertainty in organizations are often a prelude to sensemaking. Furthermore the process of sensemaking may be “belief driven”, “action driven”, or both. The managerial cognition school suggests that managerial beliefs as articulated in managers cognitive maps play a crucial role in the process. Implicit in this view is the notion that managers interpretation of their environment is crucial in shaping their strategic behavior (Daft & Weick, 1984). In the action driven view of sensemaking, the latter occurs either through commitment and/or manipulation (Weick, 1995).

### **Sense making in a globalizing world**

Ambiguity and uncertainty are the immediate precursors for sensemaking. Likewise, as has been argued earlier in a globalizing world, ambiguity, and uncertainty are maximised. If so, it would suggest that the need to engage in sense making would be at a premium in this environment. For example, the managers need to decide whether a discrepancy (actual or potential) represents a threat or an opportunity (Dutton & Jackson, 1987) or alternatively whether it is possible and/or meaningful to

control the discrepancy. Discrepancies may arise both in relation to the fundamental strategic posture of the firm, as also in relation to the mechanisms by which the posture is implemented. The strategic management literature suggests that there are two critical issues confronting any firm, namely strategy formulation and strategy implementation (Andrews, 1979). The domain of strategy formulation is concerned with specifying what Hamel & Prahalad (1989) describe as the strategic intent of an organization whereas strategy implementation is the process by which the intent is to be accomplished. Understanding the sense making process requires articulating the primary variables, and the mechanisms, by which they affect the sense making process.

A firm's sense making process is influenced both by the external characteristics of the environment within which the firm is operating as well as by its internal characteristics. The external characteristics typically include the competitive structure of the industry (e.g; Porter, 1985); and the pressures for globalization and national responsiveness (e.g; Bartlett & Ghoshal, 1989), as dictated by the variation in the legal, the sociocultural, and the political environments. The internal characteristics of a firm refer to its prior history, the characteristics of its top management team/s, and the nature of its organizational culture. Our model seeks to articulate the mechanisms by which a firm's organizational culture, and the national culture within which an MNC is embedded, influences the sense making process within a multinational. A natural question is: Why the emphasis on organizational/national culture in lieu of other variables in explaining the sense making process? In our view, there are several reasons for this emphasis. Perhaps most fundamentally, the environment within which MNC's are operating is a very

complex one. Given the inherent unpredictability and uncertainty of the environment, the belief systems and the values which managers bring with them is crucial in shaping how they respond to the environment. The value and belief systems of managers are crucially shaped by their corporate culture (Peters & Waterman, 1982), as well as by their national culture (Hofstede, 1980; Trompenaars, 1993). Furthermore, as Hambrick & Finkelstein (1987) note, managers have discretion in terms of responding to the challenges they are confronted with. In some cases the discretion may be high and in other instances low, but the fact that they have discretion gives them a degree of freedom in formulating their response. How they exercise this discretion is also shaped by their belief and value systems. Consistent with this Schneider & De Meyer (1991) demonstrated that Latin European managers vis a vis other managers were more prone to interpret strategic issues in the US banking industry as a threat. They were also inclined to recommend a more proactive approach in dealing with the problem. This study highlights the role played by national culture in the interpretation and the response to strategic issues. Furthermore, while much of the other work either looks at culture in isolation (be it corporate or national), our work explicitly links culture with strategy formulation and implementation processes (for an exception see Schneider 1989, 1991).

#### **(a) The concept of national culture**

In recent years the concept of national culture has come to acquire increasing prominence in organizational studies (Boyacigiller *et.al.* 1996). In large part this has been due to the pioneering work of Hofstede (1980). His work provided cross cultural researchers with what Boyacigiller *et.al.*(1996) describe as “.....readily accessible set of

universal dimensions from which measures of culture could be derived". For example, using these dimensions Benito & Gripsrud (1992) developed a cultural distance measure. More broadly, a large number of studies have been done using the framework developed by Hofstede (1980). More recently Trompenaars and Hampden Turner (1993) have proposed a seven dimensional typology of culture. Triandis(1995) has focused primarily on the individualism-collectivism dimension of culture arguing that this is the most important kind of difference among cultures. As is apparent there is no one all encompassing definition of culture or a unique set of operationalization of this dimension. Echoing a similar theme Triandis (1995) suggests that the choice of a definition depends upon the goals of the investigator. Although consensus appears to be elusive in the definition and the operationalization of culture, there appears to be widespread agreement that culture has both a content as well as a processual dimension. Culture as content focuses on the prevailing ethos in the given culture, *i.e.* the dominance of one or another set of values. If individualism- collectivism is the most important cultural difference, (see also Markus & Kitayama,1991), then this dimension could be used to characterize content differences across cultures. Individualistic cultures are goal oriented cultures where goal attainment is critical to maintaining and enhancing one's self esteem. This contrasts dramatically with collectivistic cultures where the ability to develop and maintain relationship with one's in group is critical to maintaining and enhancing one's self esteem (Markus & Kitayama,1991). This would suggest that one dimension of cultural variation lies in the degree to which cultures are "tight" or "loose" in relation to the outcomes that they seek to attain. (See also Triandis,1995 for discussion



of “tight” and “loose”). A priori we would expect individualistic cultures to be extremely outcome focused; *i.e.* being “tight” on this dimension. The distinction between “tight” and “loose” is really one of degree. Thus, even within predominantly individualistic societies, there may be a variation in the degree to which different societies are outcome focused. The greater the degree of individualism the greater the “tightness” inherent in a particular culture. Culture as process, on the other hand, focuses on the mechanisms used by members in achieving their objectives. Individualistic societies allow for a greater degree of flexibility and latitude in enabling their members to realize their goals. Thus we could characterize them as being “loose” on process. Collectivistic societies, on the other hand, are preoccupied with the need to maintain harmony. This imposes constraints in terms of what is acceptable and what is unacceptable behavior. Thus one could characterize them as being “tight” on process. Characterizing culture in terms of “tight” and “loose” on the one hand, and in terms of “process” and “outcome” on the other leads us to develop a 2X2 matrix. Conceptually, cultures could either be “tight” on both process and outcome or alternatively at the other extreme they could be “loose” on both process and outcome. What are the advantages to us for using this 2X2 matrix?

Analytically this typology allows us to differentiate among cultures which are either process or outcome oriented, and likewise which are “tight” and “loose”. This distinction is important because it shapes the way that sense making processes operate in these cultures. In a process oriented culture the range of options for sensemaking is going to be relatively circumscribed. For example, Weick’s notion of sensemaking as occurring through arguing is unlikely to occur for conflict is studiously avoided in these settings.

In an outcome oriented culture, the processual constraints are much weaker. Anything and everything goes so long as it leads to desirable outcomes. (Although this differentiation between process and outcome is implicit in Hofstede's typology, it is not so explicitly defined). Perhaps even more significantly, whether a discrepancy is problematical or what is to count as a discrepancy is dependent on whether the culture is a process or an outcome oriented one.

### **(b) The concept of corporate culture**

In recent years the concept of corporate (organizational culture) has also come to acquire increasing prominence in organizational studies (e.g; Boyacigiller *et.al*, 1996; Goffee & Jones,1996; Handy,1978). Much of the initial interest in corporate culture was stimulated by the growing success of the Japanese in penetrating Western markets. More recently, as Goffee & Jones (1996:133) observe: "Culture has become a powerful way to hold a company together against a tidal wave of pressures for disintegration, such as decentralization, de-layering, and downsizing". In a turbulent world, corporate culture provides the crucial framework for sensemaking . By defining an organization's identity, and by structuring the interpersonal relations among organizational members, corporate culture helps an organization achieve external and internal integration (Schein,1990). In other words just like national culture, corporate culture has both a content as well as a process dimension. The content of a culture help's an organization to identify it's core mission, while it's process articulates the mechanism for translating the content into practice. In earlier discussions it was assumed that corporate culture was monolithic in character *i.e.* a similar culture was pervasive

throughout the organization (e.g; Deal & Kennedy,1982; Peters & Waterman, 1982). More recently researchers have called into question this implicit assumption (e.g; Martin & Siehl,1983). Whether the corporate culture is “homogenous” or “heterogenous”, is very much an empirical issue. Whether homogeneity is good or bad has also been the subject of many debates. But as Goffee & Jones (1996) point out there is no one ideal culture for all organization. The relationship between national and corporate culture is by no means unambiguously clear (Weber,1996). Laurent(1986) suggests that corporate culture is ultimately constrained by the national culture of the parent organization, but Hofstede *et.al*(1990) suggest that while national culture involves the acquisition of values through socialization, corporate culture implies the acquisition of organizational practices and symbols.

### **SENSE MAKING PROCESS IN A MULTINATIONAL FIRM**

In a globalizing world sense making is a continuous process. Firms have to make sense of, and respond to environmental stimuli which are ever changing. Discerning the significance of ambiguous outcomes is dependent on the “mental model/s” prevalent among the top management team members. The mental model defines for every organization its strategic intent (Hamel & Prahalad,1989). A basic proposition of this paper is that an organizations strategic intent is dependent on the corporate culture prevalent at the top management team level. The strategic intent of a firm may be characterized in terms of its content, character, and the developmental process entailed in its establishment. Content defines the core mission of a firm, and the process by which it hopes to achieve that mission. Thus as Miles & Snow (1978) suggest, firms may either

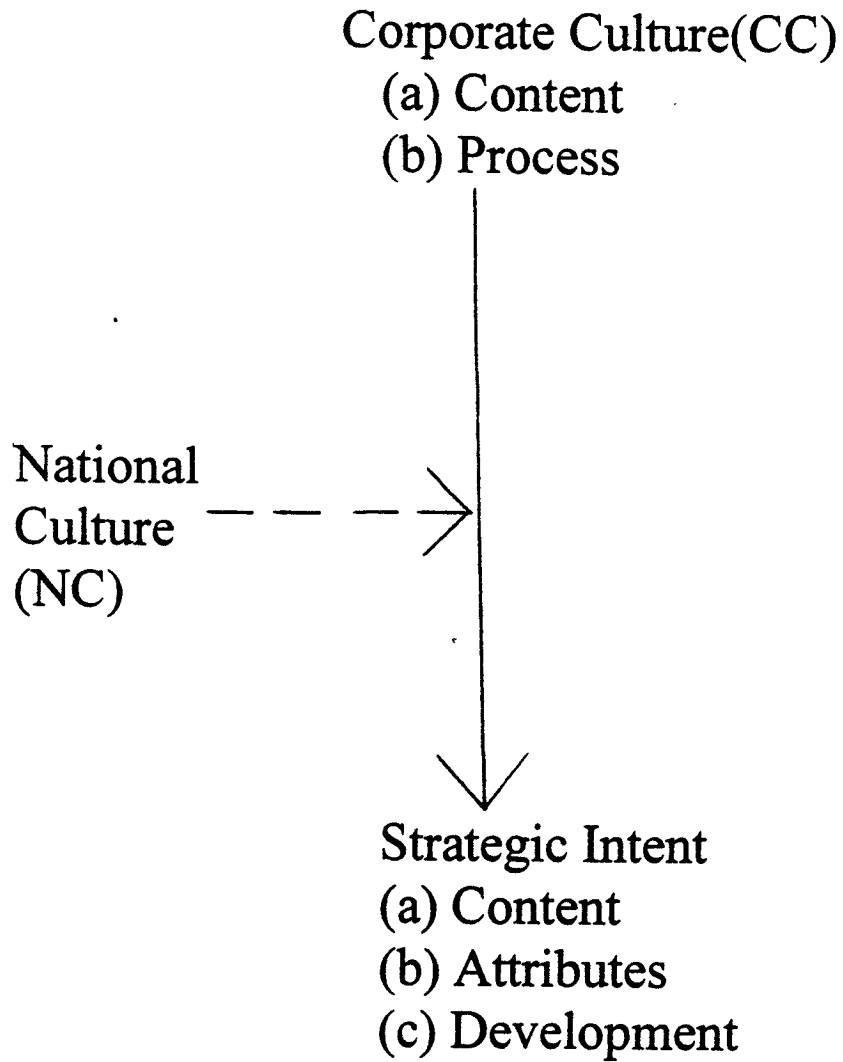
be prospector, analyzer, defender, or a reactor. For example, a prospector is always on the look out for and is willing to speedily exploit emerging opportunities. A reactor by contrast responds only when faced with the inevitable necessity of doing so. Character refers to the consistency, commitment, and flexibility, of the intent. Thus, multinational firms may vary in terms of the consistency, commitment, and flexibility that they demonstrate in their intent. Finally, the developmental process pertains to the mechanism by which a multinational firm formulates its intent. The development of an intent may be primarily internally or externally determined; it may be more or less easy to formulate an intent in the first place; and likewise the formulation of the intent may be a controlled or an uncontrolled process. We argue that the content of a multinational firms intent is shaped by the content of its corporate culture, whereas the character and the developmental process entailed in the formation of intent are shaped by the homogeneity and the heterogeneity of its top management team. The content of a corporate culture is defined by the Greek God which is the most dominant in that culture (Handy,1978). Handy(1978) identifies four gods, namely the Zeus, Apollo, Athena, and Dionysous, each of which is associated with a particular culture. Furthermore, while corporate culture serves as the primary independent variable, the national culture takes on the character of a moderating variable. In national cultures which are tight on process and outcome (e.g; Japan), the corporate culture cannot be expected to deviate substantially from the imperatives imposed by the national culture. Thus the range of variation in the content of, and the mechanisms by which intent is established, is not going to be particularly high among multinational firms based in these cultures. Quite in contrast,

in cultures which are loose on process as well as outcome the variation is going to be at a maximum.

## **CONCLUSION**

The paper has attempted to develop a conceptual framework for analyzing the interrelationship between corporate culture, national culture, and a multinational firm's strategic behavior. In a globalizing world sense making is crucial even as it is ambiguous. How multinational firms make sense of, and respond to the ambiguity is critically dependent on their corporate culture, and the national culture within which they are embedded. Understanding the content of the corporate culture, and its heterogeneity or homogeneity is crucial in understanding a firm's strategic behavior. It is our goal to conduct an empirical study with European multinationals to understand their sensemaking behavior.

# CONCEPTUAL MODEL



## **NATURE OF STRATEGIC INTENT**

### **\*Content**

- (a) prospector
- (b) analyzer
- (c) defender
- (d) reactor

### **\*Attributes**

- (a) consistency
- (b) commitment
- (c) flexibility

### **\*Development**

- (a) internal vs external
- (b) ease of establishment
- (c) controlled vs uncontrolled

**CONCEPTION OF NATIONAL CULTURE**

**PROCESS**

**OUTCOME**

	Tight	Loose
Tight		
Loose		



## **DEVELOPMENT OF PROJECT**

- \*Study to be conducted with Top Management Teams(TMT's) , and middle level management of European MNC's.**
- \*Multiple methods(interviews, case scenarios etc...) to be used.**
- \*Validating and testing our conceptualization of national culture ,in terms of tight/loose,and process/outcome.**

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