

**"ORGANISATIONAL SENSEMAKING: 1992"**

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## Abstract

### Organizational Sensemaking: 1992

Organizations gather and interpret information regarding environmental events that are then validated and prioritized as strategic issues. This sensemaking process is not considered to be "strictly rational" but is interpretive, subject to the influence of individual, group, and organizational factors. This paper explores the impact of the national context on organizational sensemaking. It describes the process by which two banks, one in Spain and one in Denmark, went about making sense of the strategic issue, "1992". The role of the national, organizational, and institutional contexts in organizational sensemaking is discussed. We conclude in wondering what role do issues play in strategic action?

"1992" - the creation of a pan-European market of 320 million customers in 12 countries - represents a strategic issue worthy of study. What "1992" means "objectively" (in terms of specific regulations) may be of less importance than how it is interpreted by different actors, particularly as these actors operate within different national contexts. These national contexts differ both objectively (in terms of economic and regulatory factors), as well as subjectively (in terms of the perceptions and interpretations of those factors). Understanding the influence of national context on interpreting "1992" is important not only for understanding other national markets and customers, but also for anticipating the responses of other national competitors both in those markets and as they begin to pose threats at home. Therefore, we need to explore how the national context affects the way organizations make sense of environmental events which may have significant impact on organizational performance. "1992" is a good example of such a potential strategic issue (Ansoff, 1980).

The identification and evaluation of environmental events (Dutton, Fahey & Narayanan, 1983) is not considered to be a "strictly rational" process but rather an interpretive one. As the problem is ill-structured, as the issues are ambiguous and as the outcome is uncertain, multiple perspectives are possible (Mintzberg, Raisinghani & Theoret, 1976). As noted by Walsh (1988, p.419), "Organizational actions are structured by a collective system of constructs which organizational participants use to interpret and anticipate issues." Not only do the contents of these constructs need to be examined (Mitroff, 1983), but so do the organizational (e.g. sociopolitical) processes involved in sensemaking, as meanings must be negotiated (Mitroff & Lyles, 1981; Walsh & Fahey, 1986).

Different perceptions and interpretations of the nature of both the environment and the organization result in different organizational behavior (Smircich & Stubbart, 1983; Daft & Weick, 1984). For example, perceptions of uncertainty and control lead to interpretations - "threat" vs. "opportunity" or "crisis" - which in turn lead to strategic responses - such as the level of resources invested; internal vs. external focus, and risk taking vs. risk averse (Dutton & Jackson, 1988; Dutton, Stumpf & Wagner, 1990; Tversky

& Kahneman, 1974). Interpretations, as "crisis" or "threat", also result in organizational processes such as behavioral rigidity, centralized decision making and restricted information flow (Staw, Sandelands & Dutton, 1981; Billings, Milburn & Schaalman, 1980; Smart & Vertinsky, 1984). Conversely, centralization and formalization in decision making processes of top management teams has been shown to lead to interpretations of issues as "threat" vs. "opportunity" (Meyer, 1982; Thomas & McDaniel, 1990). In addition, organizational worldviews such as "entrepreneurial" or "prospector" can lead to interpretations of "opportunity" and proactive responses (Meyer, 1982). For this reason, "No decision can be understood *de novo* or *in vitro* apart from the perceptions of the actors and the mindsets and culture of the contexts in which they are embedded" (Johnston, Langely, Mintzberg, Posad & Saint-Macary, 1990:3, emphasis added).

Previous research has demonstrated cultural differences in interpretation and response to strategic issues. For example, Japanese managers are more likely to label an issue as threat and to subsequently restrict information sharing when compared with American managers (Sullivan & Nonaka, 1988). Latin Europeans are more likely to interpret issues as "crisis" and to respond proactively when compared with Northern European managers (Schneider & De Meyer, 1991). While this research begins to explore how the *content* or interpretation may influence strategic behavior, there is a need to explore how the national context influences the *process* of making sense of strategic issues such as "1992"?

The purpose of this paper is to explore the influences of national context on the process of organizational sensemaking, i.e. how information regarding environmental events (in this case, "1992") is gathered and interpreted, and how these strategic issues are subsequently validated and prioritized. First, we summarize a model of organizational sensemaking. Then we describe "objectively" (as is possible) the meaning of "1992" for the European banking industry. The cases of two banks are presented which describe the process of sensemaking with regard to "1992". The influence of the national, organizational and institutional context on organizational sensemaking is then discussed. Finally, theoretical and managerial implications are raised regarding the role of strategic issues.

## Organizational sensemaking

How do organizations gather and interpret information regarding environmental events and how do they validate and **prioritize these** as strategic issues? Figure 1 provides a model for organizational sensemaking (Schneider, 1989; Shrivastava & Schneider, 1984). Although represented in linear, sequential fashion, it is assumed that these processes are iterative and related in a contiguous as well as causal manner.

Insert Figure 1 about here

**Scanning.** Organizations scan their environments to gather information about events that could have impact on their performance. Scanning may be focussed, e.g. domain specific (Hambrick, 1981), or broad-based, and comprehensive (Fredrickson, 1984) or superficial, e.g. general surveillance (Keegan, 1983). Scanning may also be described as proactive - active searching for problems and opportunities, or reactive - in response to environmental discontinuities (Aguilar, 1967). Indicators of the nature of environmental scanning often used are: when aware and level of awareness, time and money spent, and the existence of formal structures, e.g. scanning units.

**Selection.** Information may be gathered from personal sources who provide more subjective or qualitative data or from impersonal sources such as industry reports or "expert advice" which provide more objective and often quantitative data.

**Interpretation.** Once gathered, information may be subject to interpretation via formal models or methodology, e.g. forecasting, market research, econometric models, scenario development, or more informal models and intuitive approaches, e.g. group discussions, brainstorming sessions, and "home grown models".

**Validation.** In order to validate, or confirm, as an issue, both information and interpretations may then be subject to broad discussion and debate across levels and departments within the organization (Nonaka & Johansson, 1985; Kagono, Nonaka, Sakakibara & Okumura, 1985), or discussed more centrally among only the very top decision makers, e.g. the managing board, or decided solely by executive decree (centralized vs decentralized). The process may be highly politicized, as the issue has

different importance for different stakeholders within (Thomas & McDaneil, 1990; Eisenhardt & Bourgeois, 1988), or more consensual.

Past history and well established procedures may also be brought to bear in determining what to do about the issue. These validation methods influence in turn the interpretation, selection and scanning by requests for more information and more analysis, which may be more for symbolic than informational value (Feldman and March, 1981). Criteria for establishing priorities. The issue's priority vis a vis other issues is determined by criteria such as its perceived importance, urgency, certainty, and manageability (Dutton et al, 1983; Dutton et al, 1990). For example, although perceived as important (in terms of potential impact on performance), a strategic issue may not get top attention because it is not perceived as urgent, appears too uncertain, or because the organization is perceived not to have the capability to manage it.

#### National culture

National culture has been shown to influence organizational behavior: power and status is expressed in hierarchy and the chain of command, uncertainty avoidance is expressed in well defined roles, rules and procedures, control over the environment in reactive vs. proactive behavior, political vs. instrumental (task) orientation, and business vs. social concerns (Laurent, 1983; Hofstede, 1980). It has also been argued that national culture influences sensemaking: efforts to avoid uncertainty may result in greater reliance on written documents as sources of information and formal models and methods for interpreting information; emphasis on power and status (hierarchy) may limit the number of people involved, encourage more centralized decision making and more use of expert advice; fatalism vs. control over the environment may influence reactive vs. proactive scanning behavior; political vs. instrumental orientation may result in the process being more or less politicized; while business vs social concerns would affect priorities (Schneider, 1989).

Nordic and Latin European cultures have been shown to differ along some of the dimensions described above (Laurent, 1983; Hofstede, 1980). Based on these differences

we would expect differences in the sensemaking process. Table 1 shows cultural differences and expected differences in the organizational sensemaking process.

- Insert Table 1 about here -

Thus we might expect Latin European organizations when compared with the Northern European, in order to reduce uncertainty, would be more internally focussed (Milliken & Dukerich, 1989), more proactive in scanning (Keegan, 1983), prefer quantitative information and analytic models, more formalized in their approach, rely on history and procedure in validating issues, and emphasize criteria of certainty, and manageability. Due to the importance of power and status, Latin European organizations would defer to seniority and "expertise" for information sources, be more centralized, more political, and emphasize criteria of material gain. Given the importance of relationships, Latin European organizations would tend to rely on personal networks. However, the broader national context may also have an important role.

#### National Context

While cultural explanations are plausible, other aspects of the national context may also play a role. Institutional arrangements (Budde, Child, Francis & Kieser, 1982), the nature of the economic systems (socialist or capitalist) (Child, 1981), the educational systems (Brossard & Maurice, 1976), and history intertwine to form "the civic culture" (Almond & Verba, 1963) which is difficult to separate from pure "cultural" explanations. It is important to understand not only the institutional arrangements (role of government, political and economic systems, and market competitiveness, but also the institutional pressures (for legitimacy, e.g. adoption of "best practices") that shape the perceptions, interpretations and behaviors within the organization (Meyer & Rowan, 1977; Scott, 1987). It could be argued, for example, that high levels of government regulation would result in low levels of scanning, greater reliance on personal contacts as sources of information, more centralized discussion rather than consensus and debate, greater reliance on history and past procedures, and little sense of urgency or concern with manageability as the state is expected to serve as a buffer and absorb the environmental uncertainty (Crozier, 1964).

Thus the broader national context must be taken into account in understanding the process of making sense of strategic issues. The next section describes "1992" as a strategic issue for the European banking industry.

### "1992" and the European Banking Industry

Why banking? Deregulation in the banking industry, beginning in the early 1980's in the U.S. and in Europe, has created pressures for change in an industry which had been protected, and stable. Within that environment, banks operated in a conservative fashion, avoiding risk, emphasizing controls, and relying on trust and long term relationships, both with clients and employees. The banking industry is now faced with radical changes moving from protected environment, with clear geographic and product boundaries, wherein they operated as "payment mechanics" to a deregulated environment, with blurred product and geographic boundaries, and wherein being service-oriented and knowledge-intensive prevails (Bellanger, 1988). In other words, banking needs to understand and respond to a "high velocity environment", one that is dynamic, volatile, and marked by discontinuous change (Bourgeois & Eisenhardt, 1988).

"1992" refers to the official implementation (to be operational by January 1, 1993) of the 1957 Treaty of Rome. The objective is to promote the free movement of goods, people, services and capital among the member states of the European economic community (the EEC), creating a pan-European market. For the purposes of our discussion, "1992" is limited to the deregulation of financial services which is based on three elements:

1) liberalization of the movement of capital across borders; 2) minimum harmonization of legislation, or "level playing field"; and 3) mutual recognition of products and services and home country supervision (see Appendix A).

The acceleration of financial deregulation at home (in the domestic markets) and abroad (in the international market), results in a broader range of services and products that can be offered, and greater availability capital from alternative sources. These factors intensify competition in the banking industry by lowering margins and limiting fees and thereby reducing profitability. In addition, the increasing globalization of financial markets and the developing convergence in financial services, and the demands of more

sophisticated customers (corporate and individual) requires strategic (re)thinking in many banks.

### Method

An exploratory field study was conducted to investigate the process by which two European banks - one in Spain and one in Denmark - gathered and interpreted information about "1992" and how this issue would be validated and prioritized. These countries were primarily chosen due to the large difference in cultural profiles of Spain and Denmark (Hofstede, 1980; Laurent, 1983). Both countries are members of the EEC, but neither is considered to be major player (as compared with France, Germany or the U.K.).

For each bank, the national context is described in terms of: 1) the *economic* indicators in terms of rate of growth and level of development; 2) the *regulatory* environment in terms of the amount of government regulation of the bank's activities and role of the central bank; 3) the *market* characteristics in terms of levels of concentration vs. fragmentation, and competitive pressures; 4) the *political* climate in terms of stability, and pro-integration EEC and pro-business; and, as previously discussed, 5) the *socio-cultural* context. While these indicators are far from exhaustive, they can provide a point of departure for exploration.

The organizational context of both banks is similar in that they both focus on retail banking, and while relatively important in their home markets (among the top 3) are medium-sized by European standards (ranked among the top 50-100) (Bankers' Almanac World Ranking 1987; The Banker, October 1989). Neither bank had significant international experience. Both banks had recently been through a crisis and reorganization, complete with a new CEO and a newly articulated strategic vision (see Appendix B).

Senior executives (7-10) in each bank were interviewed regarding their views of 1992 and how they saw the issue being managed within their bank. This included the CEO (in the Danish bank), the heads of strategic planning, head of different divisions, e.g. corporate, international, and different staff functional heads, e.g. human resources, data processing, budget and control, and marketing. We explicitly stated that we were not interested in the actual strategies being decided, but the process by which these strategies

evolved. The length of the interviews varied (from 45 minutes to 2 hours) with the average interview being about 1 1/2 hours in duration. The interview format was semi-structured (see Appendix C). Interviews were conducted primarily in English, however, as the research associates are native speakers, Danish or Spanish languages were relied upon when necessary. As interviews were conducted in June and July of 1989, the national context indicators described are those relevant to that period of time (see appendices D & E).

### The Danish Banking Case: DANOBANK

DANOBANK is a universal bank, primarily in retail banking. Established in the late 1800s, DANOBANK has a strong domestic presence, but has little international experience. In 1986 there was a loss of 821 million Danish Krone and, perhaps more importantly, the loss of the number one position to their arch-rival, and next-door neighbor. Although downplayed in importance, the loss was attributed to changes in the national macroeconomy that were superficially understood, to political behavior in the bank, and to mismanagement (Laurie, 1989).

From 1986-1987, in what was initially considered to be a "mental exercise", the bank was redesigned by an adhoc organization composed of committees and teams under the guidance of a Scandinavian, service-oriented consultant. The previous functional structure was replaced by a divisional structure - four independent customer organizations or "delivery systems" (e.g. corporate, retail or international) - crossed with product oriented departments, "matrix-like". The previously powerful staff (support) function was split into four departments. Over 200 people in headquarters and 1/3 of the branch network changed jobs. In 1987, the strategic planning unit was created reporting directly to the CEO. In November 1988 a new strategic plan was developed. Profitability became the "raison d'etre". The focus was on the balance sheet.

In March 1989, a new chairman was appointed by the board of directors, (originally brought in in 1987 to assist with changes), chosen, according to him, for having a "broader scope than a banker", for his experience of having engineered the merger of two major mortgage credit banks in the mid 1980's, and for being a "team player". The new chairman

maintains a low profile, and is seen as informal, even "humble"; consequently, the corporate culture became much more informal, less traditional.

The CEO brought a new vision (recorded on videotape): "To be the first organization that springs to mind when money is the essence for the translation of ideas into reality". The overriding goal of DANOBANK is to be "the leading, though not necessarily the biggest, financial service organization, through self development, and by playing an active role in the structural redefinition of the Danish financial sector, while having an open and active attitude to European cooperation, e.g. become part of a larger European Banking Holding company." "Nine Principles of Banking" have been articulated which spell out the goals (e.g. profitability) and the necessary attitudes (e.g. international, customer close and credible).

Organizational sensemaking: "1992"

"1992" seemed to be seen pretty much as "business as usual". While, according to the CEO, "not that important to us", "1992" was considered to be a threat for others, e.g. their customers. Although several executives felt "very cocksure we can manage it", others felt that the implications were far reaching, and that top management was not really aware of them. "1992" was characterized as more political than organizational, "a power field between European and national law makers", and thus considered to have more external than internal relevance.

When aware. According to the Chairman, "By July 1988 it became a necessity to take 1992 into account." The trigger mechanism apparently came from external events, i.e. June 1988 ECOFIN's (European Council of Finance and Economic Ministers) decision to scrap foreign exchange controls by July 1990. This change in awareness and interest was demonstrated when a seminar was organized in May 1988 for 150 managers ("forced to be there"), whereas by November 1988, upon the request of the legal department, another seminar was held with 300 eager participants.

Others felt that there was little awareness of 1992 as it was not very well defined, not very concrete. "A lot of talk in the papers and tv, yet very few know". For the general

public in Denmark the issue seemed to be more related to being able to buy cheaper tvs and autos in Germany. There is no specific program to increase awareness of 1992 among its employees. A video of the CEO created as part of the change program to inform employees of the new vision, made little reference to 1992.

Time and money spent. No particular funds had been set aside to monitor 1992. Key managers did spend time in committees. The Danish Banking Association very recently (that summer) had "upgraded 1992" by forming a standing committee of 20 people, two from each bank which included DANOBANK's head of strategic planning, and which met a couple of times a month. However, participation in committees was viewed more as "giving information to rather than getting information from..."

Lobbying in Brussels, however, was not considered to be "worth the hours or the kroner" at the individual bank level but was done at the national level (the Danish Banking Association was considering setting up a "listening post in Brussels"), and even more so at the European level through Federation Bancaire. "In Denmark, we can chat with the Prime Minister and finance minister, it's a more casual approach." One senior manager had in fact written a book about 1992, but this effort was based on personal rather than organizational interest.

Mechanisms established for dealing with 1992. The planning department (a 12 person unit) was seen as having the responsibility for tracking 1992, although not created specifically for this purpose. The head of strategic planning had very recently been made responsible for corporate marketing and for public relations functions as well (a group of 25 in total). No special units, task forces or committees have been developed to deal with 1992 as "committees tend to grow bureaucratic". They would rather handle the issue on an "ad hoc basis, with no extra set up".

1992 will be treated in the formal framework, i.e. planning department input into the top management and then the board of directors. The legal department would then take over once EEC or local legislation has been passed, while the accounting department follows changes relevant to their function. (The head of accounting is also very involved in committees in the Banking Association). A one to two person unit (primarily a telephone

service) has been set up to provide advice to customers. Others considered "1992" to be part of their daily routines - "Everyone should have this in their backbone."

Sources of information. Despite the existence of the Cecchini report and the Price Waterhouse reports, these reports were not heavily relied upon, particularly as Denmark was not included in either report (Arthur Anderson was developing a similar study on Denmark). The head of strategic planning stated that 10% of information came from written documents and that the reports mentioned above were taken "not as truth but as trends".

Little information about 1992 was disseminated by the planning department to the rest of the bank leaving quite senior managers "to get information on their own initiative". Internal expertise was largely ignored. Personal contacts and networking at the banking association or the government levels, both national and European were stressed. Many of the senior managers have in fact had experience working in the government and banking association.

Models and methods for interpreting information. No formal models or methods were used. Emphasis was placed largely on linking the budget with the business plan, focusing on costs and profitability. An on-line reporting system was being developed linking all branches to accounting and control department. The first business plan (based on the Porter, 1984) had come out a few months earlier, but was seen as "weak, vague and diffuse, ill-prepared, and poorly implemented". Others considered the balance sheet to be the best model, e.g. "given the second directive on solvency ratios and definition of equity capital, analysis was needed to understand the optimal composition of the balance sheet."

Although scenarios of economic situations by country and the structure of formal markets were developed, little use was finally made of them. According to the head of strategic planning,

"Although simulation models can be created or bought, they don't provide meaning.... What it means can't be described in just two overheads. This doesn't provide competitive advantage for very long. Intellectual mechanisms are needed. Have to bring people around the table and make them work; make the organization and its different parts work together. It depends on organizational capability, not capital and technology".

The CEO "preferred to have a vision, or goals, [which are] more robust, free of external changes and influences, [and] more open to events, [so that we can] can adapt".

Some described the process as "non systematic in our approach", "no coordination", as for example, when they had set up foreign operations in the early 80"s by "muddling through", "done in bits and pieces". In contrast, it was felt that "1992 needed clear strategic reasoning".

Validation. Decisions about 1992 would be made at the top, by the CEO and the board of directors with the main input coming from the planning department and top management team. The issue was perceived as political both externally as well as within the bank. For example, some felt that the flatter organization structure and independent divisions made the decision process more political - "the core of the process is political bargaining and trade offs." However, the process was also described "like the communist party [in that] there was wild debate but once the decision was made there would be loyalty to the conclusion".

Criteria for establishing priorities would be based on "business not people". For example, although it might be "easier for the bank to look to Scandinavia for alliances, from a business perspective it would be better to do so within 'continental' Europe". Also, decisions would be less driven by certainty as there was the need to take the right decision earlier". However, others felt that it was important not to rush, i.e. that they needed time to think so that "if jump on the wagon, jump on the right wagon".

Urgency, however, was clearly felt in the case of possible takeover. The head of strategic planning was quoted in the press as saying, "This is like a shoot out in Dodge City. We're all walking around in the shadow with our guns holstered to our legs, waiting for the first shot." (Laurie, 1989).

The concerns for manageability, were expressed in comments that "the implications of 1992 need to be understood and accepted by the organization, acknowledging that "it is a long process to educate and communicate". While some expressed concern that the implications of 1992 were not well understood, other expressed the feeling "we're pretty cock-sure that we can manage it". According to the head of strategic planning, the recent changes made at the bank have helped to prepare for future change "with joy not with fear". However, he was also publically quoted as saying, "The prospect of being hanged concentrates the mind wonderfully".

### The Case of Spanish Banking: SPANOBANK

Established in the latter part of the last century, SPANOBANK is a universal bank with retail banking accounting for 75% of the bank's total activities. Although among the top banks in Spain, international activities represent only 15% of the group's total operating margins.

In 1984-1985, SPANOBANK suffered a major crisis due to a widespread banking and industrial crisis in Spain, the purchase of two banks in 1983, and mismanagement. On the verge of bankruptcy, no dividends were paid for 1985, for the first time in history of the bank, improving only slightly over the next few years. (Or, according to the current chairman, "Double of nothing is still nothing").

This crisis led to major changes in organization and top management. An oil industrialist, "suggested" by the Bank of Spain (the central bank) became chairman in 1985, for the first time in the bank's history, a non-banker. He proceeded to replace most of the top management team with the exception of two general managers. A new strategy and philosophy was created which led to the bank's recovery, coinciding with a healthy climate in the Spanish Banking environment, the new Socialist government and the general economic recovery.

In the summer of 1988, task forces were created and consultants were brought in around areas such as strategy - "Proyecto Europa 1992", corporate culture, and administration. People were assigned, some full time, to committees across divisions and across levels. The Chairman was quite visibly involved, particularly the task force on corporate culture.

According to the SPANOBANK's chairman speech in March 1989, the strategy of the bank is to strengthen their presence in the domestic market; and to act selectively internationally (attracting private European customers in the Spanish market through offering better services, supporting Spanish companies in trade and financing on the European market, better utilizing their presence abroad, and intensifying cooperation and agreements with a consortium of other European banks, e.g. exchanging shares). The 1988

annual report reinforced this message, including the commitment to develop new products and services, new operational procedures, and to invest in equipment and training staff to put the bank on par with the technology and management of other European banks.

**Organizational sensemaking: 1992**

"1992" generated much enthusiasm, as it was seen as something stimulating, an impetus for change. However, the excitement with regard to "1992" is linked not only with recent membership to the EEC, but also to the World's Fair in Seville and the Olympic games in Barcelona, all scheduled for 1992. Only the head of the strategic planning task force expressed "1992" as a threat, others viewed it as not a threat for them but for other groups within the bank, e.g. corporate vs. retail, international vs. domestic.

When Aware? June 1988 was the date given, apparently triggered by internal events as it marked the startup of the task forces. When asked if people were aware in general, a senior HRM executive said, "They hear about it from the press and the television and they hear about the need for change from the bank so they must put it together". However, those involved in the task forces were more likely to be aware.

Time and effort spent. The "Proyecto Europa 1992" task force which deals with the strategy for 1992, represents a major commitment of time and effort. Many managers were also attending seminars and visiting other banks.

Mechanisms. Only the strategy task force ("Proyecto Europa 1992") is dealing specifically with 1992. This task force consisted of 15 people from middle manager level throughout the bank who were assigned full time, to "outline a strategy vis a vis Europe". A "questionnaire" (or structured interview which could last several hours) was conducted by the task force members with the top 100 managers asking for their input into the strategic plan. Upon conclusion of the report of the "Proyecto Europa, 1992", the task force would become a formal strategic planning department, with a staff of eight, to perform "a gathering and massaging data function".

Other tasks forces were created around the strategic change effort and not 1992 per se, designed to deal with issues such as quality or culture, technology, market and administration, but which in some way address the issue of 1992. For example, "Estilo

Hispano", headed by the chairman, met every two weeks to establish "a way of banking" that would differentiate them from their competitors.

Sources of information were primarily **subjective**, qualitative and expert. Information was gathered by talking to people at meetings, seminars, at other banks, e.g. from their consortium partners. Senior managers were also encouraged to travel and visit other banks where more advanced techniques were being used; one group for example visited Citibank in New York.

Documents available from consulting firms were gathered but were not relied on as "there was no time to read them and they didn't really believe them anyway". The information on Spain in the Price Waterhouse report was considered to be wrong by one manager. External experts and consultants and market research reports were used, specific to various task forces. There was not much emphasis placed on tracking regulation - "two or three guys in the economics department were following EEC activities in Brussels", nor reliance on the Banking Association. Information about the relationship between the Spanish government, Bank of Spain and the EC, although available, was not considered to be of strategic importance.

Models and methods for interpreting information. SPANOBANK used home grown models and matrices, for example, to evaluate economies of scale by domestic/national/global market share and to evaluate profitability per customer segment. The head of the strategic planning task force stated that they did not use econometric models which "can't trust, because the structure changes". GE screen were used to locate offices and to position priorities and some simple customer and "if-then" scenarios were developed. Technology was being developed for marketing rather than cost purposes. There were no budget forecasts.

Most of the information was evaluated informally by "meeting and talking" (to the point of developing meetingitis) and using models that would facilitate this process (Delphi Techniques and Wilson Learning model which structure group decision making). "Setting up work groups is more important than using consultants."

Validation. There seemed to be more discussion and information sharing across and between levels, via the task forces, although it was also acknowledged that some information could not be shared as it was highly sensitive, e.g. plans for acquisitions or mergers. The discussion around 1992 was less political than they had anticipated. For example, in Proyecto Europa 1992, people were assigned full time and were excited and loyal to the project. Members of the task force were also quite explicit in saying that anyone thought to be representing their own department's interests were encouraged to leave. The chairman had also made explicit the rule of "no secrets" - open sharing of information.

Criteria for establishing priorities. The chairman gave 1992 top priority "symbolically" by putting it as item #1 on the agenda of every weekly executive committee meeting. Concern for manageability was expressed as "some decisions may have to be postponed because the bank is unable to manage them". There was also concern for training and development "to get 15,000 people ready to accept the challenge of 1992".

There was less of a sense of urgency in taking action, but timing in terms of the implementation of a sequence of events was considered important. It was acknowledged that they "can't wait for perfect information, but [that they] should get as much information as possible; and otherwise act anyway and evaluate the risk feasible."

### Results: A Comparative Perspective

Our exploratory study indicates similarities and differences in organizational sensemaking in the two banks as shown in Table 2.

- insert Table 2 about here -

The cases are similar in that 1) no corporate story had congealed, i.e. little consensus as to its meaning; 2) recent awareness (summer of 1988); 3) subjective sources of information preferred (seminars, visits, personal contacts); 4) little attention to written documents; 5) little use of formal models and methodologies; 6) greater reliance on home grown models and "discussions"; 7) little use of historical or procedural validation. The cases differ in: 1) level of enthusiasm with regard to 1992 (e.g. business as usual vs. stimulating); 2) amount

of resources invested; 3) internal vs external focus (e.g. trigger events, relevance); 4) centralized vs. decentralized; 5) specialized and formalized vs diffuse; 6) political vs. consensual; 7) manageability; and 8) cost vs. market orientation.

These findings are in line with previous research in multinational corporations which has demonstrated that information gathering tends to rely on subjective vs. objective data: personal sources and first hand observation, e.g. field visits (Keegan, 1974; Farmer, 1979) and that evaluation, e.g. of political risk, tends to be nonsystematic (Kobrin, Basek, Blank & La Palombara, 1980). It also supports findings that the more centralized the process, the more political (Bougeois & Eisenhardt, 1988) as was found in DANOBANK. Although executives at DANOBANK did not interpret "1992" as threat per se, given the economic conditions and the competitive forces at play (consolidation through mergers and acquisitions) the environment did appear hostile and threatening which may have influenced the process to become centralized, with information flow restricted (Staw et al, 1981). There was no evidence, however, that more resources were devoted to intelligence gathering given a hostile and threatening environment (Child, 1974; Hedberg, 1981).

That "1992" appeared to mean "no big deal" for DANOBANK, may reflect less perceived uncertainty and more perceived control as is characteristic of Nordic culture (Schneider & DeMeyer, 1991), and thus more perceived effectiveness and capability to respond to the issue (Milliken, 1990). Given these perceptions, little time and effort was therefore spent in gathering information (Milliken, 1987). Also, given these perceptions, the focus was external as there was less need to reassert control (Milliken & Dukerich, 1989). Given conditions of threat, perhaps there was a greater need for vigilance (external). However, the focus on profitability and cost supports predictions that under threat the focus will be internal (Dutton & Jackson, 1987).

In line with Daft & Weick's (1984), DANOBANK acquired information in ways (conditioned viewing) that would indicate a passive approach and the assumption of high analyzability. However, DANOBANK's interpretation approach in many ways fits best with "undirected viewing": irregular and casual, "ad hoc", data acquisition; the sources of information in scanning being primarily senior managers' personal contacts with colleagues

in the environment; and the more political nature. Given this approach, there is less extensive discussion towards consensus than would be expected. SPANOBANK's approach suggests assumptions of low analyzability but activity as its interpretation mode appears to be one of "enact", given its trial and error approach, developing home grown models, its proactive scanning, extensive discussion and consensual approach.

These different modes are associated with different strategic positions (Miles & Snow, 1978). DANOBANK's cost/profitability focus would fit with a defender position associated with this mode, while for SPANOBANK, the focus on market fits the prospector position as predicted by Daft & Weick (1984). Perhaps the outcome (i.e. the "merger" with their arch rivals), however, reflects a reactor strategy in line with this approach, and could therefore be considered less effective (Weick & Daft, 1983). So it seems that DANOBANK is operating with assumptions of low analyzability and passivity, while the SPANOBANK although also operating as if there were low analyzability, is more active in interpretation. The question remains, however: How do we know what their assumptions are? By observing the behaviors and inferring them? or by what they seem to say? DANOBANK seems to see 1992 as certain and analyzable from what they say; but can that be inferred from what they do?

Although those interviewed at DANOBANK admitted little uncertainty and little equivocality (Daft & Lengel, 1986), everyone had a different story. Less perceived uncertainty (by the Danish vs. Spanish) could explain the more formalized approach in DANOBANK. While perceptions of more uncertainty and less control did not result in threat or crisis interpretations at SPANOBANK, these perceptions may explain the internal focus. The broader involvement and information sharing may be a way of managing perceived uncertainty and low control by using richer communication media to reduce uncertainty and equivocality (Daft & Lengel, 1986). Perhaps the use of experts also reflects perceptions of uncertainty. Thus for the most part, findings are in line with previous research on the relationship of interpretation to organizational processes and behavior. However, the findings do not entirely support predictions of the relationship of national culture and organizational sensemaking.

Does national culture matter?

Although previous research (Schneider & DeMeyer, 1991) has demonstrated that Latin European managers interpret strategic issues interpretation as "crisis" or "threat" when compared with Nordic managers, this was not found in the case of SPANOBANK. The main difference between the two banks seems to be related to the extent that the issue is seen as "stimulating", or energizing which had been demonstrated (and which confirms stereotypes of the excitable latins and the cool nordics). Perhaps what is more important is the arousal function, or attention getting mechanism, of strategic issues rather than the interpretation per se as neither bank explicitly interpreted the issue as crisis, threat or opportunity. In fact, Dutton, Walton & Abrahamson (1989) have questioned whether managers tend to use these or other labels in interpreting issues.

The process of organization sensemaking in Latin European as compared with Nordic organizations was expected to be characterized as centralized, formalized, limited information sharing, political, with greater use of experts and analytic tools, internally focussed and proactive. However, organization sensemaking at SPANOBANK was less centralized and political than expected, although quite systematic in their approach. While there was a greater use of consultants and analytic tools at SPANOBANK, this may have had more to do with the change process than "1992" per se. SPANOBANK also could be described as more proactive or "entrepreneurial" while concerned with developing internal capability. At DANOBANK, the process was more centralized, specialized, and political than expected, and characterized by an external focus and a more reactive, "wait and see" approach.

Thus to some extent these cases tell a story that contradicts the cultural argument, although, given the sample size of one bank per country, it would be difficult to argue that these stories confirm or disconfirm our argument. As such, it is impossible to ascertain whether the DANOBANK was a typically "Danish" bank, or the SPANOBANK typically "Spanish". Supporting evidence would have led us to testing on a larger sample size per country, in several countries, and then in several industries to obtain generalizability of

results. The present findings encourage us to seek alternative explanations and thus push us to examine other aspects of the national and organizational context, as well as the institutional context of 1992. It also forces us to ask some questions about the relationship of issues and actions and outcomes. The following sections will address these concerns.

What about organizational context?

These banks were chosen because of their similarity in: having previously operated in fairly traditional fashion in a protected, stable environment; the nature of their activities - domestic retail banking focus; limited international experience; their size relative to their market (top rankings at home and similar rankings in Europe and globally); their relative profitability (shaky); and their recent history of crisis and reorganization, complete with a new CEO (both non bankers), a new strategy articulated, and a new culture.

It was evident, however, that these major change efforts were more driven by the crises experienced around 1985 - 1986 and not specifically driven by 1992. As one general manager in SPANOBANK said, "First we had a survival strategy then when it was time to make the 5 year plan, we realized it was 1992". What may have been relevant to the stories told was the time period. The impression was that although both crises occurred at about the same point in time, change at DANOBANK was in process of "refreezing", while at SPANOBANK was still very much in process (Isabella, 1990). Thus the task forces active in SPANOBANK may have corresponded to the adhoc committees used during reorganization at DANOBANK.

One could argue that the differences in organization sensemaking were due to different managerial styles of the CEO, the demographics of the senior executives (Hambrick & Mason, 1984); or the corporate culture. However, the Spanish CEO was described as "authoritarian" and the Danish CEO was seen as "a team player" and the corporate culture at DANOBANK was described as much more informal than that at SPANOBANK. In both cases, the senior executives interviewed were young and well educated, which at DANOBANK tended to be in economics or political science while at

SPANOBANK in economics or law. The old guard had disappeared in the reorganization. Perhaps the proactive behavior in SPANOBANK, e.g. greater resources invested in seminars and task forces, represents the realization of the managerial talent gap and the need to play catch-up, fast. Also, given the limited resources in terms of managerial talent in Spain, perhaps an explicit effort was made to involve the top 150 in the process for purposes of motivation and development.

The strategic agendas were also different. DANOBANK's CEO was chosen for his with experience in mergers to facilitate, perhaps, cross industry and cross national pairing. The current focus was on profitability and the bottom line was preparation for these pairings and defense against undesirable ones. SPANOBANK's Chairman was an industrialist, brought in to restore profitability - (dividends), however, the present agenda in SPANOBANK was market and service oriented which fit with the new strategic visions espoused. These visions differed in terms of focus on external vs internal; diversification vs. "niche", and developing linkages vs. developing internal capability.

At DANOBANK the focus was external, as emphasis was place on becoming part of a broader, European financial service organization, involving cross border linkages, while protecting the Danish customer base (retail and corporate) both abroad and at home. At SPANOBANK, there was greater emphasis on developing internal capabilities within the bank while seeking opportunities in the domestic market which fits with the greater information generation and sharing (Pascale, 1984). DANOBANK's intention to develop linkages requires constriction of information flow, centralized decision making, and more formal ("rigid") behavior (Staw et al, 1981) given the threat of hostile takeovers and the need to maintain secrecy and control.

But what about the national context?

Table 3 provides a summary of the comparison of the national contexts of Denmark and Spain as of June/July 1989.

Insert Table 3 about here

In some ways, both banks operated in similar environments in terms of: degrees of deregulation in the domestic market, supervision and control by government agencies or the central bank (more strict in Spain), market concentration and saturation, tax structure (in the process of becoming similar), and political stability.

There were important differences, however, in the economic situation and the attitude towards business and EEC integration. The Danish economy was just recovering from a two year recession, while the Spanish economy had been booming with annual rates of growth at 5% expected to continue. The Danish economic infrastructure is well developed compared with Spain, where massive investment was expected with the coming of 1992 Olympics in Barcelona and World's Fair in Seville.

The business environment in Denmark is considered to be more hostile to investment: high corporate and personal taxes; high social and labor costs; and a greater concern for general welfare than business enterprise. Attitudes in Denmark towards EEC integration are also more ambivalent, given a stronger sense of Scandinavian vs European cultural identity and in terms of national sovereignty. In Spain, in contrast, the government, although socialist, is very pro-business, and is actively seeking for foreign investments to develop the infrastructure. Also, the culture is far more entrepreneurial or "enterprising". Integration with the EEC is symbolically linked with democracy (as previous membership had been denied due to the Franco regime) and is therefore viewed very positively. Being part of Europe has status and prestige, as Spaniards were sensitive to the often quoted comment, "Europe ends with the Pyrenees".

Perhaps Denmark, a post-industrial society, can afford to be more concerned with social welfare than business enterprise as compared with Spain, an industrializing society, that is worried about getting 21% of its people over the poverty line. Developing the

infrastructure and attracting foreign investment, provides jobs and raises per/capita income, which in turn develops domestic market opportunities for banks despite market saturation. Also, Denmark, having a longer history of democracy is perhaps not as concerned with the process being democratic, whereas in Spain they are more sensitive to "authoritarian" rule.

While not explicitly labelled as an opportunity, 1992 generated excitement and activity, positive affect in SPANOBANK vs. no affect in DANOBANK. Greater enthusiasm is understandable in a context of economic growth which would also explain a market vs. cost orientation. Growth and a positive investment climate creates opportunities and encourages a broader information generating and sharing approach, and less political behavior (as described by Pascale (1984) in Japanese firms, as fitting their market share and long term orientation). This is in contrast to situations of stagnation or decline (under threat of merger) where costs and profitability are the key concerns, time horizons are shorter, and where coordination and control must be emphasized, decision making becomes more centralized, and political behavior more likely given limited resources.

And, what about the institutional environment?

"1992" was created in Brussels, by the EEC, to set the date for completion of the economic and political integration of its member states; to establish a common market begun in 1957 with the Treaty of Rome. Thirty five years later, this vision seems to be shaping into a reality. However, what form it will finally take and when it will finally happen (if ever) remain to be seen as it is an ongoing process as opposed to a fixed-time event. There is nothing special that will happen on January 1, 1993 that could not happen yesterday or in 2002 (as I was repeatedly reminded by my informants.)

Thus in many ways, 1992 has more symbolic value than functional purpose. 1992 appears to serve as a catalyst, to speed up a process that had been stalled out. The purpose is to fix a target, or a goal that will serve to motivate or to get the actors pointed in the same direction. Some consider "1992" to be a myth perpetrated by the "Eurocrats", just something to keep the bureaucrats in Brussels busy. The discourse has largely been at the level of EEC actors (President Delors, ministers, council members, etc.), at the national

level - governments and prime ministers (Thatcher's demise is attributed to her holding out on European Integration) (Bradbury, 1991), and in the press.

At the time of the interviews, there was evidence that at the political level and at the organizational level, 1992 was not an issue that was attracting much attention. In Denmark, it was said that the politicians, not very sure of what it meant, were avoiding it. Many believed that this "Brussels thing" would never happen (Martens, 1990). Surveys conducted by the business press indicated that very few business executives were aware of its implications (Bruce, 1988). "Spanish executives appear not to be concerned about the consequences of 1992. Either they are highly optimistic or are not paying sufficient attention." (Evaris, 1990).

This raises the issue: when does an issue that appears on the horizon in the institutional environment (i.e. made up of politicians and would be regulators) become an organizational issue? When and how does the issue permeate organizational boundaries? Given the amount of noise in the institutional environment about "1992", I had assumed that "1992" had become (by the summer of 1989 at least) a relevant and important organizational issue. As I began interviewing, I worried, in fact, that I was too late in the questions that I was asking, that the issue was no longer "ambiguous" but clear-cut, already translated into corporate policies, and that all I would get would be the "official story on 1992".

However, as the study progressed, I began to wonder whether I had picked the right issue (or had I sinned by suggesting an issue that seemed so obvious to me but would not have made it on the top five list of issues salient to these executives). It seemed that "1992" was not all that relevant or that they were not all that concerned. Perhaps 1992 seemed too vague to pay attention to or too big to get a handle on (Weick, 1984). Perhaps I was wrong, or naive, in interviewing senior executives and should have only spoken to the managing board. Perhaps had I called it something else, like "deregulation", I would have gotten a more coherent story. Or perhaps "1992" had not yet become a corporate reality (still in the anticipation stage, Isabella, 1990).

If 1992 was more myth than reality, then there were some other curious "institutional" pressures building. By the summer of 1989, there had been a merger of two large Spanish banks, Bilbao and Vizcaya. The Spanish government had been "encouraging" of mergers, although not with these partners in particular. The "institutional environment" surrounding the banks had become such that there were pressures mounting for merger and the final partnership appears to have resulted from "less than rational" forces (approaches, rebuffs, other approaches). In fact, the anti-merger backlash following these events attests to felt pressures. There was great discussion in the press and among academics as to the value of these mergers, and that concentration did not promise economies of scale (Ballarin, 1988).

Nevertheless, the same pressures were building up in Denmark, likened to "a shoot out at Dodge City". Everyone was waiting for the "shakeout" to happen; but nobody knew when it would happen or with whom. By November 1989 (a few days after a follow up interview), the DANOBANK "merged" with its next door neighbor and arch rival, joined shortly after by a third bank. This happened in the wake of another major merger among three other Danish banks. So much for cross industry or cross national borders. And the big insurance companies, one year later were carefully watching each other. When asked why this merger happened, I was told "because of 1992". However, as this did not seem to be considered of real concern a few months before, I was perplexed. Was this due to the obvious secrecy required or was this evidence of retrospective sense-making? Are issues convenient excuses to explain (after the fact) what happens? Or was this evidence of some "industry logic" emerging.

In the case of Norwegian banking (Reve, 1990), deregulation at the national level had resulted in changes in banking similar to those described elsewhere: more decentralized decision making, less formalized procedures, e.g. credit and risk analysis, more aggressive marketing, and more rewards for risk taking. By following the prescription for "how to operate in deregulated environments", the patient almost died; the banks did not have any alternative strategic maps for the newly deregulated situation, followed the old strategic

decision rule "imitate the leading bank", and adopted maps from business "know how", books and consultants.

The mimetic behavior described in the Norwegian banking case can be observed across countries. As there is more and more deregulation at the national level, and regional deregulation pending ("1992"), there is more and more dramatic behavior occurring, such as mergers and acquisitions, that seems based on limited information, if not questionable logic. Are these industry recipes (Spender, 1989) that are emerging valid? There is reasonable debate regarding the logic of mergers in the name of greater economies of scale or international competitiveness (see Porter, 1990), and the evidence is far from conclusive. Does it make sense for banks, for example, to adopt the model of the entrepreneurial, risk taking, market driven, profit center, retail-type firm? According to Reve (1990), "The major difference which was mostly forgotten was that selling a loan is not the same as selling a customer product or service which is consumed there and then." Are European banks not adopting the very models developed in the early 1980's in the context of U.S. deregulation that have proven far from satisfactory (considering the present condition of the U.S. airline and banking industry). And what happened to the promise of the great financial supermarket? Where is the line between industry logic and industry myth?

"1992" serves to create a readiness for change, by creating the feeling something is going to happen, while the rules of the game are changing, and profit is declining. Thus "1992" can be examined as an institutional myth, created "under pressure", in an increasingly hostile environment, which encourages behavior that is not based on "informed choice" but on "copy cat", adopting models from other industries or other banks, that may not fit.

The notion of "informed choice" (Argyris & Schon, 1978) assumes that information is gathered and interpreted in order to make strategic decisions. While not arguing for complete rationality, given our interpretive approach, we begin to wonder to what extent is information gathered and interpreted, or used in making some of these decisions. For example, information gathered in mergers and acquisitions tends to be fragmented, highly specialized and poorly integrated; because the process of gathering and interpreting

information is done within time frames that are extremely short, given the need to maintain secrecy, and the use of external experts, consulting firms and investment banks, whose input is circumscribed to a particular expertise. As there is little time or possibility to develop consensus and little attention paid to organizational integration post acquisition, the quality of these decisions is often suspect (Jemison and Sitkin, 1986).

To what extent does gathering and interpreting information regarding strategic issues lead to strategic decisions, or do decisions lead to gathering and interpreting information? To what extent are strategic decisions related to actions taken. and to what extent is what is said related to what is done (Schwenk, 1989)? Furthermore, what is the relationship between those actions and what happens? The links seem somewhat tenuous. Have we discovered in "1992" another garbage can - a container wherein actors, problems, solutions, decisions and actions float around and hook onto events, in a somewhat serendipitous manner. (Cohen, March & Olsen, 1972)?

Internal noise, such as reorganization or reorientation, seem to be projected onto external events which in turn, provide the frame to make sense of what's going on inside. "1992" appears to be an excuse which legitimates, a rationalization for action. "1992" seems to be used by someone to do something, to make decisions that are major and drastic and to justify quite important strategic changes? In fact, issues seem to serve primarily as trigger events that highlight ongoing organizational processes.

Perhaps 1992 can be seen as an industry Rorschach in that how the organization goes about making sense of their environment may be more important than the response per se. The Rorschach is a projective test (ink blot) used to evaluate how people structure (perceptually and cognitively) their experience (Rorschach, 1942) and their basic assumptions about the world, themselves, and significant others (Schafer, 1956). "1992" may serve to reveal the process of how organizations make sense of strategic issues, e.g. attention to small, irrelevant details vs more holistic view, or sensitivity to nuance, which is relevant to scanning behavior, and emotional responsivity, relevant to generating commitment or motivation. It also reveals underlying assumptions about the environment (as hostile or nurturing or dangerous) and about the organization (as strong vs. weak, active

vs. passive, potent or impotent) (Schneider & Shrivastava, 1987), which is relevant to issue interpretation, i.e. threat or opportunity or crisis, and to proactive vs. reactive strategic response.

### Conclusion

By studying the process by which organizations gather and interpret information about strategic issues, we can gain insight into their experience of the world, what is attended to and what is not, what kinds of information are useful, how situations are analyzed, what interpretations are possible, and, perhaps, what behaviors are likely. This has implications for the types of information made available, the channels for disseminating that information, developing and integrating both formal, e.g. decision support systems, and informal methods, and the types of processes used to validate issues. It also encourages the explicit surfacing of the criteria used to determine when issues will be acted upon.

By understanding the national and organizational context within which information is gathered and interpreted we will avoid assuming universal models, and provide context relevant types and sources of information and methods for interpreting that information. By understanding the institutional context, we can question the usefulness of glorifying "best practices", of pre-packaged management education, of importing management consultants, and can expose industry myths in searching for industry logic. By understanding the symbolic aspects of strategic issues, we can begin to appreciate how meaning is constructed and how the environment gets enacted. Perhaps believing that "1992" is going to happen, makes it happen. Or perhaps "1992" is like a mirage, which disappears as we approach it.

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Figure 1

Organizational Sensemaking

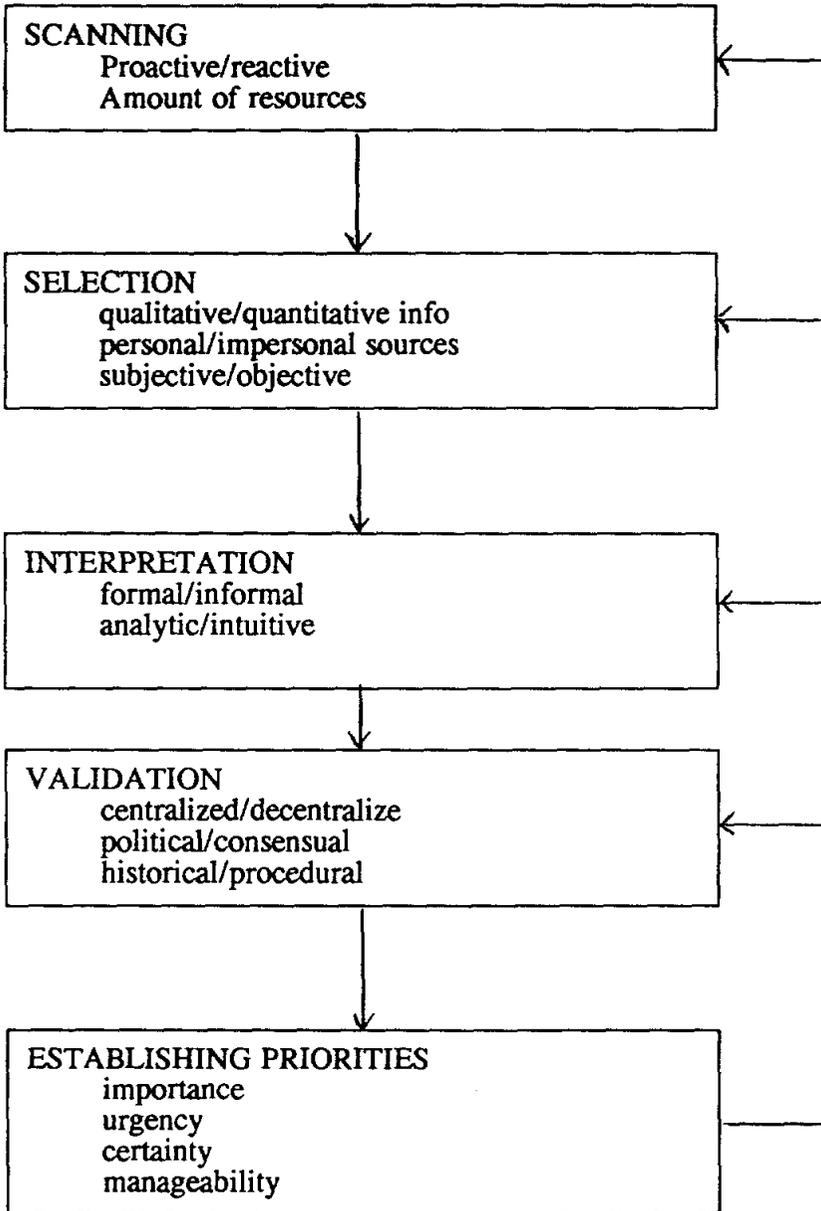


Table 1  
Organizational Sensemaking and National Culture

	NORDIC	LATIN EUROPEAN
<b>"CULTURE"</b>		
Hierarchy	low	high
Formalization	low	high
Uncertainty avoidance	low	high
Fatalism	low	high
Individual/collective	collective	individual
Political/Instrumental	instrumental	political
Business/welfare	welfare	business
<b>SENSEMAKING</b>		
Reactive/proactive	reactive	proactive
Subjective/objective	objective	subjective
Formal/informal	informal	formal
Centralized/decentralized	decentralized	centralized
Political/consensual	consensual	political
Historical/procedural	less	more
Importance	welfare	earnings
Urgency	more	less
Certainty	less	more
Manageability	more	less

Table 2

## Organizational Sensemaking: A Comparison

DANOBANK	SPANOBANK
<u>"1992"</u> business as usual not a threat external	enthusiasm, stimulating threat for others internal
<u>When aware:</u> July 1988 ECOFIN external trigger limited awareness	June 1988 task forces internal trigger broader awareness
<u>Time and money:</u> no money no lobbying external committees personal contacts personal interests	seminars, field trips no lobbying task forces
<u>Sources of information:</u> no reports banking association personal networks (in government and EEC)	meetings seminars, visits impersonal, experts
<u>Mechanisms:</u> planning department "Part of our backbone"	strategy task force
<u>Models and methods:</u> no formal models or methods link budget to business plan "balance sheet is best model" profitability/cost intellectual mechanisms vision	home grown  market oriented customer/profitability
<u>Validation:</u> centralized political not historical or procedural	centralized consensual not historical
<u>Establishing Priorities:</u> "not that important to us" business vs. relationships urgency in case of takeovers less certainty more manageable	important #1 on agenda relationships(consortium) no urgency just speeds up less certainty accepted less manageable

Table 3

## Comparison of National Context Denmark and Spain in 1989

	Denmark	Spain
<b>ECONOMIC</b>		
Growth	- 1%	+ 5.2%
Level of development	+	-
Trade balance	negative	negative
Inflation	3.5%	6.8%
<b>REGULATORY</b>		
Degree	+	++
Role of central bank	+	+
Capital requirements	8% on liabilities	5%
<b>POLITICAL</b>		
Stability	+/-	++
Pro-business	+/-	++
Pro-EEC	+/-	++
<b>MARKET</b>		
Concentration	low	low
Keyplayers	insurance	savings
Forces	promerger	anti
<b>SOCIOCULTURAL</b>		
Hierarchy	low	high
Formalization	low	high
Task vs Social	task	social
Individualism	collective	individual
Financial margins (EEC average: 2.75%)		3.76%
numbers of inhabitants/branch (EEC average: 4,900)	2,400	2,300
number of employees/ branch (EEC average: 22)	16	9

(EEC Federation Bancaire, 1988).

## Appendix A

"1992"

Liberalization of capital movements means the free flow of capital across national borders according to directives (first put forth in 1960 and 1962 and adopted in November 1986 and June 1988) which allow for direct investment, commercial credit, movement of private capital, purchase and issue of securities, current and deposit account operations and financial loans and credits, effective as of July 1990, with delays granted until 1992 for Spain and Ireland and until 1994 for Portugal and Greece.

Minimum harmonisation of legislation concerns requirements for both establishment of services and capital adequacy. Five million ECU minimum and a national bank license is required for establishing subsidiaries but not branches with no start up capital and no bank license required from host authorities. Capital requirements, for example, include: solvency ratios (own funds 8% of relevant assets - primary and supplementary) as proposed (at that time) by the Cooke Commission; definition of banks own funds; and limits on the participation of banks in non-financial institutions, e.g. industry.

Mutual recognition refers to the right of banks and credit institutions (registered and controlled in the home country) to offer all products and services approved by the EEC across borders as permitted by home country regulations. Home country rule means that banking activities in host countries are supervised and remain under the jurisdiction of the country of origin. This refers only to prudential requirements (such as solvency and accounting) and not to monetary instruments (reserve requirements, credit restrictions). This applies to EC bank branches established abroad within the EC but not to EC banks' subsidiaries established in the EC.

## Appendix B

## DANOBANK

Nature of activities:

Universal bank, predominantly retail;  
 6,318 employees  
 Domestic: 300 branches;  
 International: 1/3 balance sheet; 3.5% employees;  
 6 subsidiaries and 6 representative offices

Rankings\*

National: #2 by size; #7 by profitability  
 Europe: #72 by size; #98 by assets  
 Global: #185 (6/88) no longer in top 200 (6/89)

Recent history and changes:

1986: Loss of 821 million DK and #1 position  
 1986-1987: reorganization. "service oriented";  
 decentralized p&l, centralized coordination and control  
 1987: Strategic planning unit created.  
 Nov. 1988: First strategic plan  
 March 1989: New CEO and new "Vision"

## SPANOBANK

Nature of activities:

Universal bank, predominantly retail (75%)  
 Strong domestic: 1500 branches; 17,908 employees  
 International: 15% of balance sheet  
 largest source of funds coming from Europe and America  
 6 branches, 2 affiliates, 16 representative offices.

Rankings:\*

National: #3 in size; #13 profitability  
 European: #52 in capital; #67 in assets  
 Global: #142

Recent history and changes:

1984-1985: crisis  
 1985: New CEO and "survival" strategy  
 1988: task forces (reorientation)

\* (Bankers' Almanac "World Ranking", 1987; The Banker, October 1989)

## Appendix C

### Interview Format

- What does 1992 mean to you? to the bank?
- How and when did you become aware of "1992"?
- How much time and effort is spent monitoring 1992?
- What mechanisms have been established for managing 1992?
- What sources of information are being used?
- What methods or models are used for evaluating 1992?
- How will decisions be taken with regard to 1992?
- What criteria will be used in making those decisions?

## Appendix D

## DANISH BANKING ENVIRONMENT

Economic Context:

Growth rate: Recession 2 years, decline GNP 1%  
 Foreign trade deficit: negative - 40% GNP  
 Current accounts deficit: negative - 5.2% GNP  
 Currency: DKrone weak. tied to EMS  
 Inflation: 3.5%  
 Unemployment: 9%

Political Context:

Government: minority coalition: stable but stuck  
 Social welfare concerns override business concerns  
 Public opinion towards EEC: ambivalent

Regulatory context:

Capital requirements: 8% on liabilities  
 Taxation: high, but decreasing. Individuals 68% -> 52%  
 Corporations from 50% to 35%  
 Labor and social costs: high  
 Supervision (central bank and gov't agencies): strong  
 National Deregulation:  
 lifted capital controls (1983-1984)  
 lifted foreign exchange controls (October 1988)  
 liberalized definition of banking activities  
 (New Banking Act July 1989)

Market context:

Overbanked: 83 commercial and 140 savings banks  
 /5.1 million people  
 Fragmented: top 4 banks have 47% marketshare.  
 Foreign banks: 1% market share  
 Key competitive threat: Insurance  
 Pressures: consolidation, "shakeout"

Sociocultural context:

egalitarian  
 informal  
 consensus  
 collective  
 social welfare  
 quality of working life  
 quality of life and relationships

(Laurie, 1989; Fairlamb, 1989)

## Appendix E

## SPANISH BANKING ENVIRONMENT

**Economic context:**

Growth: BOOM. 5.2% annual growth.  
 Foreign trade deficit: negative  
 Current accounts deficit: negative  
 Currency: Peseta, strong; tied to EMS by June 1989  
 Public sector deficit: from 7 to 4.5% GNP  
 Government spending: from 32% to 36%  
 Inflation: from 12% in 1984 to 6.8% in 1988  
 Unemployment: 21%

**Political context:**

socialist government: stable  
 pro business  
 pro EEC integration

**Regulatory context:**

capital requirements: 5%  
 Taxes: increased to 56% personal; 35% corporate  
 National regulation:  
 liberalized in 1974: freedom of branching;  
 non banks offer financial products  
 disintermediation  
 Foreign banks restricted to 3 branches;  
 limited activities  
 1987: liberalized interest rates

**Market context:**

overbanked: 138 commercial 80 savings banks  
 /40 million people  
 fragmented: top 4 have 21% of market  
 foreign banks: 15% market share  
 key competitive threat: savings banks  
 pressures: away from mergers

**Sociocultural context:**

hierarchy  
 formal  
 individualistic  
 political  
 status, money and prestige  
 entrepreneurial

(Rocco, 1988; Caminal, Gual & Vives, 1989)

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90/13 TM	Soumitra DUTTA and Shashi SHEKHAR	"Approximate Reasoning about Temporal Constraints in Real Time Planning and Search", January 1990.	90/24 FIN/EP	Lars Tyge NIELSEN	"Positive Prices in CAPM", January 1990.
90/14 TM	Albert ANGEHRN and Hans-Jakob LÜTHI	"Visual Interactive Modelling and Intelligent DSS: Putting Theory Into Practice", January 1990.	90/25 FIN/EP	Lars Tyge NIELSEN	"Existence of Equilibrium in CAPM", January 1990.
90/15 TM	Arnoud DE MEYER, Dirk DESCHOOLMEESTER, Rudy MOENAERT and Jan BARBE	"The Internal Technological Renewal of a Business Unit with a Mature Technology", January 1990.	90/26 OB/BP	Charles KADUSHIN and Michael BRIMM	"Why networking Fails: Double Binds and the Limitations of Shadow Networks", February 1990.
90/16 FIN	Richard LEVICH and Ingo WALTER	"Tax-Driven Regulatory Drag: European Financial Centers in the 1990's", January 1990.	90/27 TM	Abbas FOROUGHI and Tawfik JELASSI	"NSS Solutions to Major Negotiation Stumbling Blocks", February 1990.
			90/28 TM	Arnoud DE MEYER	"The Manufacturing Contribution to Innovation", February 1990.

90/29 FIN/AC	Nathalie DIERKENS	"A Discussion of Correct Measures of Information Asymmetry", January 1990.	90/40 OB	Manfred KETS DE VRIES	"Leaders on the Couch: The case of Roberto Calvi", April 1990.
90/30 FIN/EP	Lars Tyge NIELSEN	"The Expected Utility of Portfolios of Assets", March 1990.	90/41 FIN/FP	Gabriel HAWAWINI, Itzhak SWARY and Ik HWAN JANG	"Capital Market Reaction to the Announcement of Interstate Banking Legislation", March 1990.
90/31 MKT/EP	David GAUTSCHI and Roger BETANCOURT	"What Determines U.S. Retail Margins?", February 1990.	90/42 MKT	Joel STECKEL and Wilfried VANHONACKER	"Cross-Validating Regression Models in Marketing Research", (Revised April 1990).
90/32 SM	Srinivasan BALAK- RISHNAN and Mitchell KOZA	"Information Asymmetry, Adverse Selection and Joint-Ventures: Theory and Evidence", Revised, January 1990.	90/43 FIN	Robert KORAJCZYK and Claude VIALLET	"Equity Risk Premia and the Pricing of Foreign Exchange Risk", May 1990.
90/33 OB	Caren SIEHL, David BOWEN and Christine PEARSON	"The Role of Rites of Integration in Service Delivery", March 1990.	90/44 OB	Gilles AMADO, Claude FAUCHEUX and André LAURENT	"Organisational Change and Cultural Realities: Franco-American Contrasts", April 1990.
90/34 FIN/EP	Jean DERMINE	"The Gains from European Banking Integration, a Call for a Pro-Active Competition Policy", April 1990.	90/45 TM	Soumitra DUTTA and Piero BONISSONE	"Integrating Case Based and Rule Based Reasoning: The Possibilistic Connection", May 1990.
90/35 EP	Jae Won PARK	"Changing Uncertainty and the Time-Varying Risk Premia in the Term Structure of Nominal Interest Rates", December 1988, Revised March 1990.	90/46 TM	Spyros MAKRIDAKIS and Michèle HIBON	"Exponential Smoothing: The Effect of Initial Values and Loss Functions on Post-Sample Forecasting Accuracy".
90/36 TM	Arnoud DE MEYER	"An Empirical Investigation of Manufacturing Strategies in European Industry", April 1990.	90/47 MKT	Lydia PRICE and Wilfried VANHONACKER	"Improper Sampling in Natural Experiments: Limitations on the Use of Meta-Analysis Results in Bayesian Updating", Revised May 1990.
90/37 TM/OB/SM	William CATS-BARIL	"Executive Information Systems: Developing an Approach to Open the Possibles", April 1990.	90/48 EP	Jae WON PARK	"The Information in the Term Structure of Interest Rates: Out-of-Sample Forecasting Performance", June 1990.
90/38 MKT	Wilfried VANHONACKER	"Managerial Decision Behaviour and the Estimation of Dynamic Sales Response Models", (Revised February 1990).	90/49 TM	Soumitra DUTTA	"Approximate Reasoning by Analogy to Answer Null Queries", June 1990.
90/39 TM	Louis LE BLANC and Tawfik JELASSI	"An Evaluation and Selection Methodology for Expert System Shells", May 1990.	90/50 EP	Daniel COHEN and Charles WYPLOSZ	"Price and Trade Effects of Exchange Rates Fluctuations and the Design of Policy Coordination", April 1990.

90/51 EP	Michael BURDA and Charles WYPLOSZ	"Gross Labour Market Flows in Europe: Some Stylized Facts", June 1990.	90/63 SM	Sumantra GHOSHAL and Eleanor WESTNEY	"Organising Competitor Analysis Systems", August 1990
90/52 FIN	Lars Tyge NIELSEN	"The Utility of Infinite Menus", June 1990.	90/64 SM	Sumantra GHOSHAL	"Internal Differentiation and Corporate Performance: Case of the Multinational Corporation", August 1990
90/53 EP	Michael Burda	"The Consequences of German Economic and Monetary Union", June 1990.	90/65 EP	Charles WYPLOSZ	"A Note on the Real Exchange Rate Effect of German Unification", August 1990
90/54 EP	Damien NEVEN and Colin MEYER	"European Financial Regulation: A Framework for Policy Analysis", (Revised May 1990).	90/66 TM/SE/FIN	Soumitra DUTTA and Piero BONISSONE	"Computer Support for Strategic and Tactical Planning in Mergers and Acquisitions", September 1990
90/55 EP	Michael BURDA and Stefan GERLACH	"Intertemporal Prices and the US Trade Balance", (Revised July 1990).	90/67 TM/SE/FIN	Soumitra DUTTA and Piero BONISSONE	"Integrating Prior Cases and Expert Knowledge In a Mergers and Acquisitions Reasoning System", September 1990
90/56 EP	Damien NEVEN and Lars-Hendrik RÖLLER	"The Structure and Determinants of East-West Trade: A Preliminary Analysis of the Manufacturing Sector", July 1990	90/68 TM/SE	Soumitra DUTTA	"A Framework and Methodology for Enhancing the Business Impact of Artificial Intelligence Applications", September 1990
90/57 FIN/EP/ TM	Lars Tyge NIELSEN	Common Knowledge of a Multivariate Aggregate Statistic", July 1990	90/69 TM	Soumitra DUTTA	"A Model for Temporal Reasoning in Medical Expert Systems", September 1990
90/58 FIN/EP/TM	Lars Tyge NIELSEN	"Common Knowledge of Price and Expected Cost in an Oligopolistic Market", August 1990	90/70 TM	Albert ANGEHRN	"Triple C': A Visual Interactive MCDSS", September 1990
90/59 FIN	Jean DERMINE and Lars-Hendrik RÖLLER	"Economies of Scale and Scope in the French Mutual Funds (SICAV) Industry", August 1990	90/71 MKT	Philip PARKER and Hubert GATIGNON	"Competitive Effects in Diffusion Models: An Empirical Analysis", September 1990
90/60 TM	Peri IZ and Tawfik JELASSI	"An Interactive Group Decision Aid for Multiobjective Problems: An Empirical Assessment", September 1990	90/72 TM	Enver YÜCESAN	"Analysis of Markov Chains Using Simulation Graph Models", October 1990
90/61 TM	Pankaj CHANDRA and Mihkel TOMBAK	"Models for the Evaluation of Manufacturing Flexibility", August 1990	90/73 TM	Arnoud DE MEYER and Kasra FERDOWS	"Removing the Barriers in Manufacturing", October 1990
90/62 EP	Damien NEVEN and Menno VAN DIJK	"Public Policy Towards TV Broadcasting in the Netherlands", August 1990	90/74 SM	Sumantra GHOSHAL and Nitin NOHRIA	"Requisite Complexity: Organising Headquarters- Subsidiary Relations in MNCs", October 1990

90/75 MKT	Roger BETANCOURT and David GAUTSCHI	"The Outputs of Retail Activities: Concepts, Measurement and Evidence", October 1990	90/87 FIN/EP	Lars Tyge NIELSEN	"Existence of Equilibrium in CAPM: Further Results", December 1990
90/76 MKT	Wilfried VANHONACKER	"Managerial Decision Behaviour and the Estimation of Dynamic Sales Response Models", Revised October 1990	90/88 OB/MKT	Susan C. SCHNEIDER and Reinhard ANGELMAR	"Cognition in Organizational Analysis: Who's Minding the Store?" Revised, December 1990
90/77 MKT	Wilfried VANHONACKER	"Testing the Keyck Scheme of Sales Response to Advertising: An Aggregation-Independent Autocorrelation Test", October 1990	90/89 OB	Manfred F.R. KETS DE VRIES	"The CEO Who Couldn't Talk Straight and Other Tales from the Board Room," December 1990
90/78 EP	Michael BURDA and Stefan GERLACH	"Exchange Rate Dynamics and Currency Unification: The Ostmark - DM Rate", October 1990	90/90 MKT	Philip PARKER	"Price Elasticity Dynamics over the Adoption Lifecycle: An Empirical Study," December 1990
90/79 TM	Anil GABA	"Inferences with an Unknown Noise Level in a Bernoulli Process", October 1990			
90/80 TM	Anil GABA and Robert WINKLER	"Using Survey Data in Inferences about Purchase Behaviour", October 1990	<u>1991</u>		
90/81 TM	Tawfik JELASSI	"Du Présent au Futur: Bilan et Orientations des Systèmes Interactifs d'Aide à la Décision," October 1990	91/01 TM/SM	Luk VAN WASSENHOVE, Leonard FORTUIN and Paul VAN BEEK	"Operational Research Can Do More for Managers Than They Think!," January 1991
90/82 EP	Charles WYPLOSZ	"Monetary Union and Fiscal Policy Discipline," November 1990	91/02 TM/SM	Luk VAN WASSENHOVE, Leonard FORTUIN and Paul VAN BEEK	"Operational Research and Environment," January 1991
90/83 FIN/TM	Nathalie DIERKENS and Bernard SINCLAIR-DESGAGNE	"Information Asymmetry and Corporate Communication: Results of a Pilot Study", November 1990	91/03 FIN	Pekka HIETALA and Timo LÖYTTYNIEMI	"An Implicit Dividend Increase in Rights Issues: Theory and Evidence," January 1991
90/84 MKT	Philip M. PARKER	"The Effect of Advertising on Price and Quality: The Optometric Industry Revisited," December 1990	91/04 FIN	Lars Tyge NIELSEN	"Two-Phase Separation, Factor Structure and Robustness," January 1991
90/85 MKT	Avijit GHOSH and Vikas TIBREWALA	"Optimal Timing and Location in Competitive Markets," November 1990	91/05 OB	Susan SCHNEIDER	"Managing Boundaries in Organisations," January 1991
90/86 EP/TM	Olivier CADOT and Bernard SINCLAIR-DESGAGNE	"Prudence and Success in Politics," November 1990	91/06 OB	Manfred KETS DE VRIES, Danny MILLER and Alain NOEL	"Understanding the Leader-Strategy Interface: Application of the Strategic Relationship Interview Method," January 1990 (89/11, revised April 1990)

91/07 EP	Olivier CADOT	"Leading to Insolvent Countries: A Paradoxical Story," January 1991	91/19 MKT	Vikas TIBREWALA and Bruce BUCHANAN	"An Aggregate Test of Purchase Regularity", March 1991
91/08 EP	Charles WYPLOSZ	"Post-Reform East and West: Capital Accumulation and the Labour Mobility Constraint," January 1991	91/20 MKT	Darius SABAVALA and Vikas TIBREWALA	"Monitoring Short-Run Changes in Purchasing Behaviour", March 1991
91/09 TM	Spyros MAKRIDAKIS	"What can we Learn from Failure?", February 1991	91/21 SM	Sumantra GHOSHAL, Harry KORINE and Gabriel SZULANSKI	"Interunit Communication within MNCs: The Influence of Formal Structure Versus Integrative Processes", April 1991
91/10 TM	Luc Van WASSENHOVE and C. N. POTTS	"Integrating Scheduling with Batching and Lot-Sizing: A Review of Algorithms and Complexity", February 1991	91/22 EP	David GOOD, Lars-Hendrik RÖLLER and Robin SICKLES	"EC Integration and the Structure of the Franco-American Airline Industries: Implications for Efficiency and Welfare", April 1991
91/11 TM	Luc VAN WASSENHOVE et al.	"Multi-Item Lotsizing in Capacitated Multi-Stage Serial Systems", February 1991	91/23 TM	Spyros MAKRIDAKIS and Michèle HIBON	"Exponential Smoothing: The Effect of Initial Values and Loss Functions on Post-Sample Forecasting Accuracy", April 1991 (Revision of 90/46)
91/12 TM	Albert ANGEHRN	"Interpretative Computer Intelligence: A Link between Users, Models and Methods in DSS", February 1991	91/24 TM	Louis LE BLANC and Tawfik JELASSI	"An Empirical Assessment of Choice Models for Software Evaluation and Selection", May 1991
91/13 EP	Michael BURDA	"Labor and Product Markets in Czechoslovakia and the Ex-GDR: A Twin Study", February 1991	91/25 SM/TM	Luk N. VAN WASSENHOVE and Charles J. CORBETT	"Trade-Offs? What Trade-Offs?" April 1991
91/14 MKT	Roger BETANCOURT and David GAUTSCHI	"The Output of Retail Activities: French Evidence", February 1991	91/26 TM	Luk N. VAN WASSENHOVE and C.N. POTTS	"Single Machine Scheduling to Minimize Total Late Work", April 1991
91/15 OB	Manfred F.R. KETS DE VRIES	"Exploding the Myth about Rational Organisations and Executives", March 1991	91/27 FIN	Nathalie DIERKENS	"A Discussion of Correct Measures of Information Asymmetry: The Example of Myers and Majluf's Model or the Importance of the Asset Structure of the Firm", May 1991
91/16 TM	Arnoud DE MEYER and Kasra FERDOWS et.al.	"Factories of the Future: Executive Summary of the 1990 International Manufacturing Futures Survey", March 1991	91/28 MKT	Philip M. PARKER	"A Note on: 'Advertising and the Price and Quality of Optometric Services', June 1991
91/17 TM	Dirk CATTRYSSE, Roelof KUIK, Marc SALOMON and Luk VAN WASSENHOVE	"Heuristics for the Discrete Lotsizing and Scheduling Problem with Setup Times", March 1991	91/29 TM	Tawfik JELASSI and Abbas FOROUGHJI	"An Empirical Study of an Interactive, Session-Oriented Computerised Negotiation Support System (NSS)", June 1991
91/18 TM	C.N. POTTS and Luk VAN WASSENHOVE	"Approximation Algorithms for Scheduling a Single Machine to Minimize Total Late Work", March 1991			

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**MKT**

**Wilfried R. VANHONACKER and**  
**Lydia J. PRICE**

**"Using Meta-Analysis Results in Bayesian Updating:  
The Empty Cell Problem", June 1991**

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**FIN**

**Rezaul KABIR and**  
**Theo VERMAELEN**

**"Insider Trading Restrictions and the Stock  
Market", June 1991**