"INTERPRETING STRATEGIC ISSUES: MAKING SENSE OF '1992'"

by

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Making Sense of "1992"

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ABSTRACT

Organizations gather and interpret information regarding environmental events that are then validated and prioritized as strategic issues. As strategic issues are by nature uncertain and ambiguous, multiple meanings and multiple ways of knowing are possible. While previous research has demonstrated the influence of organizational strategy and structure on this process, this paper explores the impact of national context by comparing the stories of how two banks, one in Denmark and one in Spain, went about making sense of a strategic issue, "1992". Finally, the role of "broader" institutional pressures, beyond national boundaries, is questioned.

Confronted with rapidly and even radically changing environments, organizations must be able to identify and respond to events that may have a significant impact on business performance. This requires not only sensing that these events are taking place, but also making sense of what these events may mean for the business. In deciding if and how to respond to them, environmental events become strategic issues for the organization (Ansoff, 1978).

However, as multiple events are often happening simultaneously, several strategic issues may emerge that vie for attention, resources, and action. Deciding which issues to act upon and when requires determining which issue has priority and why. This process of identifying, interpreting, and prioritizing strategic issues plays an important role in formulating strategy and is thus critical to company survival. The consequences of not noticing new technologies, new markets, new regulations or new competitors, or of deciding that these events will not have a significant impact on business activities can be fatal. This is how one mechanical calculator company became extinct -- by not noticing the new technology which made possible electronic calculators (Starbuck and Hedberg, 1977). Therefore, it is important to better appreciate how organizations make sense of strategic issues.

The problem with strategic issues is that they are neither clearly structured nor routine. The very nature of strategic issues is one of ambiguity and uncertainty regarding their potential impact which encourages multiple perspectives to come into play. Thus the process of identifying and interpreting strategic issues is not "strictly rational". Not only is it a political process wherein different interests are at stake (Lyles and Mitroff, 1985), but it is more importantly an *interpretive* process in that given similar interests and stakes, actors may still differ in their perceptions and interpretations (Mintzberg, Raisinghani and Theoret, 1976).

For example, managers may use SWOT analysis -- to identify the organizational strengths and weaknesses and environmental opportunities and threats -- in formulating strategy. Yet managers differ in their perceptions of environmental certainty and organizational capability and control, which in turn tend to influence interpretation of strategic issues as "opportunity" rather than "threat" (Dutton and Jackson, 1987). Furthermore, interpretations of opportunity, threat, or crisis, influence behavior such as risk taking, type and amount of resources invested, and paying attention to internal activities rather than external events (Dutton, Stumpf and Wagner, 1990). For example,

psychologists have demonstrated that framing a problem as a possible loss encourages more risk taking behavior and larger resource investments than when the same problem is framed as a possible gain (Tversky and Kahnemann, 1974).

The interpretation of events not only influences specific actions taken but also influences organizational processes. For example, under conditions of threat and, even more so, crisis, information flows are restricted, decision making is centralized, and behavior is less flexible. Well-known routines are repeated rather than taking innovative initiatives (Staw, Sandelands, and Dutton, 1981; Billings, Milburn and Shaalman, 1980). Conversely, it has also been demonstrated that the nature of organizational processes influences interpretation. For example, when the decision making process of the top management team is centralized and formal, strategic issues are more likely to be interpreted as a threat (Thomas and McNeil, 1990). In addition, strategic orientation can influence interpretation. Organizations described as entrepreneurial or as "prospectors" (in search of product/market opportunities) are more likely to interpret issues as opportunities, while organizations with a strategic posture of "defender" (protect product/market niche) are more likely to interpret issues as threats (Meyer, 1982). Thus the content and process of interpreting and responding to strategic issues are interactive.

Furthermore, research has demonstrated that the content and process of interpreting strategic issues may be influenced by nationality. Japanese managers, for example, were found more likely to interpret an issue as a threat and to subsequently restrict information sharing when compared with American managers (Sallivan and Nonaka, 1988). In addition, Latin European managers were more likely to interpret strategic issues as a "crisis" (and to a lesser extent as a "threat") and more willing to invest substantial resources in response to that issue than were Northern European managers (Schneider and DeMeyer, 1991). Differences in interpretation of "crisis" were thought to reflect cultural differences in perceptions of environmental uncertainty and organizational control.

Although distinct national patterns have been found in the process of interpreting and responding to strategic issues, reasons for these differences have not been examined. Culture may be one reason as nations differ, for example, in the importance attached to hierarchy, rules and procedures, and task vs. social orientation (Hofstede, 1980; Laurent 1983). These differences would be expected to influence the degree of centralization, formalization and political behavior in the

process of gathering and interpreting information regarding strategic issues as well as in establishing issue priority. These differences in national culture are expected to result in different models of strategy formulation: 1) a top-down, formal "strategic planning" model; and 2) a bottom up, more informal "adaptive" model (Schneider, 1989). But beyond culture, the national context must also be considered.

National context refers to institutional arrangements such as the role of government or banks in industry (Budde, Child, Francis and Kieser, 1982), the nature of the political and economic systems (Child, 1981), market characteristics, educational systems (Brossard and Maurice, 1976), and history. National culture and context are intricately interwoven creating a "civic culture" (Almond and Verba, 1963) .

France, for example, is considered to be the father of industrial policy as the government has had a strong hand in determining business activities. French culture is also characterized by the patriarchy, the rights and responsibilities of the aristocracy ("noblesse oblige"), the importance of the hierarchy as it embodies power and status, and as a mechanism for conflict resolution (Crozier, 1964). Thus it is not surprising that the government takes a "father knows best" approach and intervenes in managing companies.

Furthermore, it is important to understand not only these institutional arrangements but also the broader institutional pressures beyond the national boundaries (e.g. at the industry level, or regional level associations such as the EEC or NAFTA) which encourage the emergence of certain organizational strategies either by coercion (e.g. regulation or professional norms) or by copying "best practices" to gain legitimacy (Meyer and Rowan, 1977; Scott, 1987).

In this paper, we will explore the role of national context in how organizations make sense of strategic issues -- or how information regarding environmental events is gathered and interpreted, and how these events then become validated and prioritized as strategic issues. The process of making sense of strategic issues reflects not only the interpretations and responses of individual managers, but also reflects departmental or functional interests and involvement, as well as organizational structures, processes and strategic orientation. Thus the process of interpreting strategic issues is assumed to be an *organizational-level* process, subject to influences at several levels of analysis: organizational characteristics, such as structure and strategic orientation; national

context of which culture is only one aspect; and the broader institutional pressures that go beyond national boundaries (as shown in figure 1).

--INSERT FIGURE 1 ABOUT HERE--

In order to explore the impact of national context on how organizations make sense of strategic issues we will examine the process by which two banks, in two different national contexts, approached the strategic issue "1992". We choose "1992" as a strategic issue as it provides an ideal opportunity to examine this process. For while "1992" has an "objective" reality, what it means and how it will affect business performance is far from straight-forward, and therefore subject to multiple interpretations and ways of knowing.

First, the process of how organizations make sense of strategic issues is described. Then we tell the stories of how two banks within the EEC went about making sense of "1992". Next, the influence of the national context is explored. Finally, the impact of broader institutional pressures (beyond national boundaries) will be questioned.

INTERPRETING STRATEGIC ISSUES

How do organizations gather and interpret information regarding environmental events and how do they validate and prioritize these events as strategic issues? Figure 2 provides a model for how organizations make sense of strategic issues which is based on the author's previous arguments and which guided the present inquiry (See Shrivastava and Schneider, 1984; Schneider, 1989).

--INSERT FIGURE 2 ABOUT HERE --

Scanning

Organizations scan their environments to gather information about events that could affect their activities. Scanning may be focussed -- narrowly targeting specific domains -- or broad-based, formal or informal, systematic or unsystematic, and comprehensive or more surface, as for example in general surveillance. Scanning may also be proactive -- anticipating problems and opportunities -- or reactive -- responding to environmental discontinuities. The nature of scanning is indicated in the resources allocated to the issue, the timing and level of awareness, the sectors attended to, and the presence of formal structures, such as scanning units (Aguilar, 1967; Fredrickson, 1984; Keegan, 1974; Hambrick, 1981; Kobrin, 1982).

Selection

Information may be gathered from observation through field visits, from personal sources -- friends and colleagues, and/or from impersonal sources such as industry reports, seminars, or expert advice. Information may be quantitative -- numbers oriented as in the case of economic trends or market research, or more qualitative such as in life style descriptions. For example, one Japanese manager spent a year in Spain learning to play the guitar in order to learn about Spanish life style and culture (Keegan, 1983).

Interpretation

Once gathered, information is interpreted by formal models or methods, such as forecasting, econometric models, and scenarios, or by more informal, "home grown" models and intuitive methods such as brainstorming, group discussion and debate. For example, Japanese managers from different levels and units within the organization often engage in extensive face to face discussion and debate of strategic issues in order to improve understanding and enhance organizational learning (Nonaka and Johansson, 1985; Kagona, Nonaka, Sakakibara and Okumura, 1985).

Validation

At some point a strategic issue is validated, or is confirmed as a strategic issue, and becomes part of the strategic agenda (Dutton, 1990). This may be because the "boss says so", i.e. by personal edict, by group discussion and debate of the top management team, or by broader involvement across levels and departments within the organization (centralized/decentralized). This process may be highly politicized as the issue holds different importance for different stakeholders (Thomas and Mc Daniel, 1990; Eisenhardt and Bourgeois, 1988), or more consensual. A strategic issue may also be validated because of past history or established procedures for dealing with similar issues.

Establishing Priorities

As several strategic issues are simultaneously competing for attention and resources, priorities must be established which determine which issues require responses and within what time frame. The criteria for determining priorities are the issue's perceived importance, urgency, certainty,

and manageability (Dutton, Fahey, and Narayanan, 1983; Dutton, Walton and Abrahamson, 1989). For example, although perceived as important (in terms of its potential impact on performance), a strategic issue may not get top management attention nor resources because it is not perceived as urgent, appears too uncertain, or because the organization is perceived not to have the capability to manage it.

Although this model of organizational sensemaking is described in a linear and sequential manner, it must be realized that the process is iterative in that the nature of interpretation and validation will influence the type of scanning and sources of information. For example, econometric models require numbers, or quantitative data. A broad based discussion and debate will encourage the input of personal sources as more people become involved. Nevertheless, requests for more information and analysis may have more symbolic than informational value (Feldman and March, 1981). In the next section we will describe the strategic issue "1992", and then compare the stories of how two banks went about making sense.

"1992" AND THE EUROPEAN BANKING INDUSTRY

In principle, the objective of "1992" is to promote the free movement of goods, people, services and capital among the 12 member states of the European Economic Community (the EEC). "1992" signifies the creation of a pan-European market (aka common market) of 320 million customers and so represents a strategic issue of interest to many companies in Europe as well as the U.S. and Japan. What "1992" means "objectively" in terms of specific regulations may be of less importance than how it is interpreted by different actors -- managers, task or functional units, organizations and nations. As different interpretations will result in different strategic response, the competitive advantage of these different actors is at stake.

We have chosen to look at the European banking industry as it is confronted with an environment that is dynamic, volatile, and marked by discontinuous change (or "high velocity", see Bourgeois and Eisenhardt, 1988). Dramatic changes are created by new technologies, new products and services, new competitors, and new regulations. Banking is changing from a highly protected national environment with clear geographic and product boundaries to a deregulated environment within both the national and European markets, and reregulated in accordance with EEC guidelines.

Thus for our purposes, "1992" refers to the guidelines for financial services aimed at liberalizing the movement of capital across borders, creating a level playing field (harmonization of national legislation), and mutual recognition of products and services with supervision of banking activities provided by the home country (see Appendix A).

The acceleration of financial deregulation in the domestic and European markets results in a broader range of services and products that can be offered, and greater availability of capital from alternative sources. These factors intensify competition in the banking industry lowering margins and limiting fees, and thereby reducing profitability. In addition, the increasing globalization of financial markets, the developing convergence in financial services, and the growing demands of increasingly sophisticated customers (both corporate and individual) require strategic (re)thinking in many banks (Bellanger, 1988).

THE TALE OF TWO BANKS

Here we tell the tale of how two European banks within the EEC, one in Denmark and one in Spain, went about making sense of "1992". These banks were chosen because (at the time of the study -- summer 1989) they were of similar size (among the top 3 in their home country, but medium-sized by European standards -- among the top 50-100 according to Banker's Almanac, World Ranking 1987; and The Banker, October 1989), were engaged in similar activities (primarily retail), and had little significant international experience. Both banks had a similar history having recently been through a crisis and reorganization, complete with a new CEO and a newly articulated strategic vision (see Appendix B).

The banks, however, were quite different in terms of national context (as of June/July 1989 and as described in greater detail in Appendices C and D). While Spain was experiencing strong economic growth (5.2%), Denmark was just coming out of a recession (-1% growth). Spain was politically more pro-Europe and pro-business than Denmark, and Spanish banks had more government involvement and regulation. Both countries were overbanked and the market was fragmented with the top 4 banks having less than 50% market share (Denmark 47%; Spain 21%). Furthermore, large cultural differences between Nordic and Latin European countries have been demonstrated in past research. Latin European countries tend to attach greater importance to

hierarchy, formalization, individualism, and upon relationships than do their Nordic counterparts (Hofstede, 1980; Laurent, 1983).

For the purposes of this study, the national context of each bank is described in terms of: 1) economic indicators -- rate of growth and level of development; 2) the regulatory environment -- amount of government regulation of banking activities and the role of the central bank; 3) the market characteristics -- degree of fragmentation and nature of competitive pressures; 4) the political climate -- stability, pro EEC integration, and pro business orientation; and 5) the cultural context -- emphasis on hierarchy, formalization, individualism, and relationship vs task orientation. While these indicators are far from exhaustive, they provide a point of departure.

Method

As the nature of the study was exploratory, interviews were semi-structured, based on the model presented in Figure 2 (see Appendix E). Interviews (lasting from 45 minutes to 2 hours, with an average of 1 1/4 hours) were conducted in June - July 1989 with senior executives representing different functions (e.g. CEO, strategic planning, budget and control, marketing, human resources, data processing) and different lines of business (e.g. corporate, retail, domestic, international, private banking). Interviews were conducted primarily in English, however, the research associates (who were taking notes) were native speakers and intervened when necessary.

At the end of each day of interviewing, notes were reviewed and discussed. As the nature of the study was exploratory, notes were not formally content analyzed, but examined for recurrent themes and to capture the diversity of views and perspectives in order to construct a fuller picture of the process. Research cases were developed from interview notes, company documents, and the business press to provide a more complete and coherent understanding and from which the following case stories are excerpted.

DANOBANK

DANOBANK is a universal bank, primarily in retail banking. Established in the late 1800's, DANOBANK has a strong domestic presence but little international experience. In 1986 it lost 821 million Danish Kroner but, more importantly, the number one position to their arch rival and next

door neighbor. From 1986-1987 in what was initially considered to be a "mental exercise", DANOBANK embarked upon a reorganization moving to a divisional structure based on "delivery systems" (e.g. domestic, international, corporate) in order to become more "customer oriented". Over 200 people in headquarters and one third of the branch network changed jobs. In 1987, a strategic planning unit was created which reported directly to the CEO, and at the end of 1988 a strategic plan was developed which focused on profitability and the balance sheet.

In 1989, a new chairman was appointed who had been involved in the changes during the previous two years. He was chosen, by his own account, for having a "broader scope" beyond retail banking, for having engineered the merger of two major mortgage credit banks, and for being a team player. He is described as low-keyed, friendly, even "humble". His vision for the bank was to play an active role in restructuring the Danish financial sector and to become part of a larger European banking holding company.

Making sense of "1992"

"1992" was for many of the senior managers interviewed seen as "business as usual", although some expressed concern that its implications were far reaching and not really understood by top management. It was taken to represent more of a political event, external to the organization, rather than as an organizational concern.

The summer of 1988 was seen as the moment of awareness triggered by external events - the ECOFIN decision to scrap foreign exchange controls by July 1990 -- but awareness was not widespread. Little time and money had been specifically allocated for gathering information. Senior executives participated in committees outside the bank (Danish Banking Association) but participation was viewed as "giving information to rather than getting information from...". Personal networks, particularly within the government, were the primary sources of information. One executive had written a book about the common market on his "own time" and was permitted to give talks (outside the bank) on the subject of "1992" as long as it "didn't interfere with his job".

Responsibility for 1992 was in the planning department and would be managed within the formal decision making process via input to the CEO and board. Little information was disseminated by the planning department to the rest of the bank leaving quite senior managers to get information on their own initiative. Industry documents (e.g. Cecchini report and Price Waterhouse report on

1992) were not used as they did not include Denmark. According to the head of strategic planning, only ten percent of information came from written reports.

Although scenarios of economic situtations by country and models of 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, ... [nor] provide competitive advantage. Intellectual mechanisms are needed. You have to bring people around the table and make them work; make the organization and its different parts work together.

The CEO preferred to use vision as a framework which he considered to be more open and adaptive to changing events.

"1992" would be validated as an issue at the top by the CEO and board of directors with input from the strategic planning unit and the top management team. Discussion with regard to the issue would be more political since the new organization structure -- being flatter with more independent divisions -- made the decision processes more subject to bargaining and tradeoffs. But despite the anticipated "wild debate", it was believed that there would be loyalty to the decision taken.

In terms of establishing issue priority, "1992" was seen as an emerging trend that was important in providing the general context of banking activities but with little sense of its specific impact on the bank. It was acknowledged that decisions would be taken with less certainty than in the past, and with more emphasis on business considerations than personal relationships (e.g. cooperation with continental European vs. Scandinavian partners).

There was little sense of urgency with the exception of a possible takeover attempt, which was not unlikely given the predicted "shoot out" in the Danish financial community (Laurie, 1989). According to the head of strategic planning, "the prospect of being hanged concentrates the mind wonderfully". Although the implications of "1992" were considered to be far reaching and inadequately understood by top management, one senior executive stated, "We're pretty cocksure we can manage it."

SPANOBANK

SPANOBANK, also established in the late 1800's, is a universal bank with a primarily retail focus. Although among the top three banks in Spain, international activity was limited. In 1984, SPANOBANK suffered a major crisis and was on the verge of bankruptcy. A new chairman, an oil industrialist, was appointed ("suggested" by the central bank) in 1985. He replaced most of the top management team with the exception of two general managers, and pushed forward a "survival" strategy.

In the summer of 1988, the bank created a series of task forces to change the organization. These task forces addressed problems in administration, strategy, technology, and quality, among others. People were drawn from different divisions and levels, and some were assigned on a full time basis. The Chairman was quite visibly involved. In March of 1989, the chairman articulated his strategy -- to strengthen the bank's presence in the domestic market, to act selectively internationally, to invest in developing the bank's technological and managerial capacity, and to remain, above all, independent. The focus was to improve service to the customer in order to gain market share at home.

Making sense of "1992"

"1992" seemed to be generating much excitement and enthusiasm. It was viewed as stimulating, as an impetus for change. Those interviewed considered "1992" a potential threat for other divisions, but not for their own. The importance of "1992", however, went beyond integration with the EEC, given that the World's Fair in Seville and the Olympics in Barcelona were scheduled for 1992 as well.

The initial awareness of "1992" as a strategic issue was linked with the start up of the task forces in the summer of 1988 - one year before the interviews. Awareness of the issue was believed limited to those involved in task forces and not generally widespread. However, many managers were involved in the task forces created around the strategic change effort which although not focussed on "1992" *per se*, did address the issue.

Information, in general, was gathered by talking to people at meetings, seminars, other banks, e.g. consortium partners, and through field visits to observe "best practices". External experts, consultants and market research reports were used, specific to various task forces. Written

documents related to "1992" were available but were not used as "there was no time to read them and they didn't really believe them anyway." Information from the banking association, from the government, or from the central bank was not considered to be of strategic importance. Nor were the "two or three guys in the economics department following EEC activities in Brussels".

Only the task force devoted to strategy which called itself "Project Europe 1992" specifically addressed the issue. This task force consisted of 15 people, assigned full time, from the middle manager level throughout the bank. In order to fulfill their mandate to "outline a strategy *vis-a-vis* Europe", task force members interviewed the top 100 managers using a structured interview format which could last several hours. Upon conclusion of their report to top management, the task force would become a formal strategic planning department, with a staff of eight, to perform a "gathering and massaging data function".

SPANOBANK used home grown models and matrices to evaluate, for example, economies of scale by market share and profitability per customer segment. Econometric models were not used, according to the head of strategic planning, because of structural changes. The emphasis was more on market share and customer profitability and less on budget, or cost concerns. Most information was evaluated informally by "meeting and talking" and process models were adapted to-structure group decision making.

The validation of "1992" as a strategic issue emerged through the work of the task forces and the visible support of the CEO who placed "1992" as the number one item on the agenda of every weekly executive committee meeting. Thus involvement was broad based as these task forces were comprised of managers from different functions and levels. The discussion around "1992" was less political than had been anticipated. Members of the strategic task force were expected to have their first loyalty to "Project Europe 1992" and were asked to leave if it was felt that they were representing departmental views. The chairman also made explicit the rule of "no secrets" and encouraged open sharing of information.

The importance of "1992" was stressed by being given top priority at least symbolically by the chairman. There was little sense of urgency but rather a sense of growing momentum and a concern for timing of implementation. Certainty was preferred as it was acknowledged that although you "can't wait for perfect information, [you] should get as much information as possible" to

minimize risk. The primary concern was manageability and "the task of getting 15,000 people ready to accept the challenge of 1992".

MAKING SENSE OF SENSE-MAKING

Comparing sense-making at DANOBANK and SPANOBANK

What can we learn by comparing the process of making sense of "1992" in these two cases? First, that "1992" as a strategic issue was not clear-cut but rather uncertain and ambiguous. Multiple perspectives were voiced and opinions varied as to its meaning for the bank. "1992" represents a bundle of issues that include new competitors and greater competition, new products and markets, new regulations, and which have important economic and political consequences for the member states. In Spain, "1992" was intricately linked to the Olympics, World's Fair, and the 500 year anniversary of Columbus's discovery of America which enhanced its symbolic importance. In SPANOBANK, "1992" was linked to the change process as stated by the head of the strategy task force, "First we had a survival strategy and then when it was time to make the 5 year plan we realized it was 1992." Thus strategic issues come in bundles, or streams, that are not isolated nor therefore easy to examine separately (Mintzberg and Waters, 1990; Johnston, Langley, Mintzberg, Posad, and St.Macary, forthcoming).

Awareness of the "1992" issue *per se* was relatively recent (to the interviews) in both banks, dating to the summer of 1988, externally triggered in DANOBANK by the ECOFIN decision and internally triggered in SPANOBANK by the reorganization. Awareness was not widespread throughout the ranks but was limited, particularly in DANOBANK, to the top management or senior executive level. There was broader based involvement at SPANOBANK of those managers involved in the task forces.

In both banks, there was little attention paid to written documents, e.g. industry reports, and little use made of formal models and methodology for interpreting information. Information was gathered primarily through personal sources and subjected to "home grown models" and "discussions" for interpretation. Previous research in multinational corporations has found that information gathering tends to rely on subjective vs. objective data, personal sources, and first hand observation and that evaluation, e.g. of political risk, tend to be nonsystematic (Keegan, 1974;

Farmer, 1979; Kobrin, Basek, Blank and La Palombara, 1980). At DANOBANK there was greater involvement with the banking association and personal network within the government. At SPANOBANK information was gathered from experts involved in the task forces, external seminars, field visits, and personal networks within the banking community.

At DANOBANK the models used to frame the issue were more cost and profitability oriented (the budget and the balance sheet) while at SPANOBANK the frame was more market share and customer oriented. At DANOBANK the issue was validated in a more centralized and political manner as compared with a more decentralized and consensual approach at SPANOBANK.

Finally, "1992" seemed to create more excitement in SPANOBANK than at DANOBANK where it was viewed as "business as usual". For SPANOBANK, "1992" was given #1 priority by the chairman. While there was a greater sense of momentum building at SPANOBANK, there was an underlying sense of urgency at DANOBANK due to the potential threat of takeover and mergers. There was a greater concern with manageability at SPANOBANK and a greater investment of attention and resources, particularly in technology and training. The different profiles of making sense are shown in Table 1.

-- INSERT TABLE 1 ABOUT HERE --

The role of national context

The differences in sense-making may reflect different environments, or national contexts as shown in Table 2.

INSERT TABLE 2 ABOUT HERE

In Denmark, the economy was in recession, with little growth anticipated. Politically ambivalent about 1992, there was growing concern that Denmark had more to lose than to gain in the EEC (as later reflected in the vote "no" at Maastricht) despite joining in 1972, and a referendum supporting the common market in 1986. The government was lagging while the banks were pushing for reform that would put them in line with EEC standards. The climate was not "pro-business" given the high individual and corporate taxation, steep social charges, and the social welfare tradition. A consolidation or shakeout in the financial services was expected. The only sense of urgency with regard to "1992" was perceived in the event of a takeover attempt.

This combination of economic, political and market conditions means that the environment could be described as hostile and threatening. Thus DANOBANK, confronted with economic stagnation, political ambivalence regarding EEC integration, and predicted industry consolidation chose to focus on profitability, costs and budgets, and may be considered to have adopted a *defender strategy* (Miles & Snow, 1978).

The hostile environment and defender strategy may explain the process of sense-making. First of all, the issue was largely seen as external to the organization, triggered by external events. Sources of information were also external, i.e. banking association, and personal networks in the government and in Brussels. Internal expertise was ignored. Given that the potential threat was external (takeover), greater external vigilance may have been warranted. Secondly, responsibility for tracking "1992" was centralized in the planning department (as one of its many activities) thereby restricting information flow through formal channels. And thirdly, validation of "1992" as a strategic issue was described as centralized and political. These features of sense-making have been previously argued under conditions of threat and crisis (Thomas and McNeil, 1990; Billings, Milburn, and Shaalman,1980).

Although the environment for DANOBANK could be described as hostile, the strategic orientation as defender, and the sense-making process reflected threat, the "1992" issue was not interpreted as a threat per se. It is rather surprising that the prevalent interpretation of "1992" at DANOBANK was "business as usual", that no special attention nor committees were created to address the issue, and that no more resources were devoted to intelligence gathering given the hostile and threatening environment (Child, 1974; Hedberg, 1981).

DANOBANK's interpretation and response to "1992" may reveal perceptions of environmental certainty or analyzability ("business as usual") and organizational capability and control ("We're pretty cocksure we can manage it.") (Daft and Weick, 1984; Milliken, 1987; 1990). It may be that "1992" was not explicitly interpreted as a threat as it was perceived to be reasonably certain, not too urgent, and manageable. Given this perceived effectiveness and capability to respond to the issue, little time and effort was spent gathering information, and the focus was external as there was less need to reassert control internally (Milliken and Dukerich, 1989).

These perceptions may also explain the more passive,reactive approach taken towards sense-making referred to by Daft and Weick (1984) as "undirected viewing", and characterized by irregular and casual, ad hoc data acquisition, by sources of information primarily being senior manager's personal contacts with colleagues, and by being more political in nature. It may also explain the "surprise" when they merged with (some say "taken over" by) their arch rival and next door neighbor three months later.

SPANOBANK, in contrast, was facing an environment of strong economic growth and development and a political climate that was pro-business and pro-EEC integration. The government was actively seeking foreign investment to develop the infrastructure, particularly with the Olympics and the World's Fair, and was encouraging the banking industry to become more competitive (e.g. by encouraging mergers). The attitude towards business was more entrepreneurial and "enterprising". Integration with the EEC was actively sought as it was symbolically linked with democracy (having been denied entry while under the Franco regime), and the status and prestige of being part of Europe. Spaniards were sensitive to the often quoted comment, "Europe ends with the Pyrenees". This economic growth and a positive investment climate promoted a strategic orientation of a "prospector", i.e. to actively seek opportunities within the domestic market and to develop internal capability (Miles and Snow, 1978).

At SPANOBANK, the sense-making process corresponds to the "enactment" mode of interpretation characterized by Daft and Weick (1984) as proactive, with broader scanning and wider managerial involvement, extensive face to face discussion and use of home grown models, and as decentralized and consensual. This profile is similar to that described in Japanese firms which focus on market growth and on longer term considerations (Pascale, 1984; Nonaka, 1991).

Given the positive environment and the prospector strategic orientation, "1992" was implicitly interpreted as an "opportunity" despite perceptions of uncertainty and concern for manageability. These perceptions may explain the greater internal focus as control can be better asserted inside the organization than outside (Milliken and Dukerich, 1989), and the greater use of experts. Broader involvement and more extensive information sharing also provide richer communication which is better suited to reduce uncertainty and ambiguity (Daft and Lengel, 1986). Thus rather than interpreting and responding to "1992" as a "threat" given perceptions of uncertainty

and low control (Dutton and Jackson, 1988; Staw et al., 1981), SPANOBANK demonstrated an approach to strategy formulation similar to that attributed to the Japanese: by *adaptation to* rather than by *imposing control over* external events (Pascale, 1984; Schneider, 1989).

These perceptions of uncertainty and control at DANOBANK and SPANOBANK were in keeping with national culture, as Nordic cultures tend to be more comfortable with uncertainty and to perceive greater control over the environment than do Latin European cultures (Hofstede, 1980). These differences in perception favor different models of strategy formulation as a top down, "strategic planning" model (DANOBANK) vs.a bottom-up, adaptation model (SPANOBANK) (Schneider, 1989). The process of sense making, however, at DANOBANK was more hierarchical, formalized and political than would be expected and less so than would be expected at SPANOBANK based on previous research of cultural differences (Laurent, 1983).

In summary, the different national contexts of Denmark and Spain in June/July 1989 represented different scenarios for *threat* vs. *opportunity* and corresponded to the different strategic orientations of DANOBANK as *defender* and SPANOBANK as *prospector*. The sense-making processes of the two banks differed accordingly as described above. Interestingly, however, different perceptions of uncertainty and control did not result in explicit interpretations of threat vs opportunity, but seem to be related to different models of strategy formulation. In SPANOBANK perceptions of uncertainty and low control lead to a more proactive bottom-up approach, directed at internal adaptation, while perceptions of certainty and control at DANOBANK lead to a more passive, reactive and top down approach directed at external change.

This challenges the previous formulations in the literature -- that perceptions of uncertainty and low control lead to interpretations of threat, which in turn lead to centralization, formalization and politicization of information flows, and as consistent with a defender strategic orientation result in reactive, internally directed behavior. It also stresses the importance of attending to the national context in future research. But beyond national context, there are a set of forces that must also be considered, particularly in the case of "1992". These are broader "institutional pressures" which goes beyond national borders and includes the EEC, industry, and other actors that would shape the rules of the game of "European Business".

<u>The role of institutional pressures</u>

"1992" was the date set for the completion of the economic and political integration of the twelve member states of the EEC. Thirty five years after the Treaty of Rome (1957), the vision to establish a common market 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, nothing special happened on January 1, 1993 that could not have happened before or after. Thus "1992" has important symbolic value, and may serve as a catalyst by speeding up a process that had been stalled out, and by having fixed a target to stimulate action and to get the actors pointed in the same direction.

Some however, consider "1992" to be a myth perpetrated by the "Eurocrats", just something to keep the bureaucrats in Brussels busy. The discourse had largely been at the level of EEC actors (EEC President Delors, ministers, council members, etc.), national actors - governments and prime ministers (Thatcher's demise is attributed to her holding out on European integration, Bradbury, 1991), and other institutional actors such as business schools and consultants, and the media.

Given the amount of noise about "1992", it seemed that "1992" should have become (by the summer of 1989 at least) a relevant and important organizational issue for banks. However, at the time of the interviews, it seemed that "1992" was not attracting much attention at the national level nor at the organizational level. 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, personal communication). 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). Perhaps 1992 seemed too vague to pay attention to or too big to get a handle on (Weick, 1984). Or perhaps "1992" had not yet become a corporate reality (still in the anticipation stage, see Isabella, 1990).

When does an issue that appears on the horizon in the broader institutional context (in this case the EEC) become an organizational issue? When and how does the issue permeate organizational boundaries? In the cases of DANOBANK and SPANOBANK, internal noise, such as reorganization, seemed to be projected onto external events which in turn, provided the frame to legitimate what was going on inside. "1992" may thus be an excuse, a rationalization for action.

"1992" appeared to be used by someone to do something, to make major even dramatic decisions, and to justify quite important strategic changes. In fact, issues may serve primarily as trigger events that highlight ongoing organizational processes. Thus "1992" may be 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 and Olsen, 1972).

Other institutional pressures were also building. In Spain, the government had been encouraging mergers between banks but there was a strong anti-merger backlash. Following the merger of two large Spanish banks (Bilbao and Vizcaya), there was great discussion among the banking community, academics and the press questioning their value (Ballarin, 1988). Nevertheless, the same pressures were building up in Denmark. In November 1989, DANOBANK merged with its rival and a third bank, quickly following on the heels of another merger among three other Danish banks. And the big insurance companies, poised to enter the financial services arena, were carefully watching. SPANOBANK finally also merged with another large Spanish bank 2 years later (in July 1991). As there is reasonable debate regarding the logic of bank mergers in the name of greater economies of scale or international competitiveness (Ballarin, 1988; Porter, 1990), and as the evidence is far from conclusive, do these mergers indicate some "industry logic" emerging, and are these industry recipes (Spender, 1989) valid?

Take the example of prescriptions for "how to operate in deregulated environments". As discussed by Reve (1990), Norwegian banks not having developed any alternative strategic maps for the newly deregulated environment, followed the old strategic decision rule --"imitate the leading bank". This led to adopting recipes from business "know how" books and consultants, i.e. given deregulation, create decentralized profit centers, and become market driven, risk taking, and entrepreneurial. This resulted in disaster. Thus European banks may be 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).

Where is the line between industry logic and industry myth? "1992" serves to create a readiness for change, by creating the feeling that something is going to happen, while the rules of the game are changing, and profit is declining. Thus "1992", as discussed by Meyer and Rowan (1977), can be considered to be an institutional *myth*, created "under pressure", in an increasingly hostile

environment, which encourages imitative behavior that is not based on "informed choice" but on adopting models from other industries or other banks that may not fit.

The notion of "informed choice" (Argyris & Schon, 1978) assumes that information regarding strategic issues is gathered and interpreted in order to make strategic decisions. However, information gathered in mergers and acquisitions, for example, tends to be highly specialized, fragmented, and poorly integrated due to severely constrained time frames, 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 "rationality" of these decisions is often suspect (Jemison and Sitkin, 1986).

Thus institutional pressures, beyond the national context, can influence the process of interpreting and responding to strategic issues. Key actors such as industry and professional associations, consulting firms and business schools, as well as inter-national institutional arrangements such as common markets or free trade zones can create forces for coercion to adopt certain practices (through regulation) or for imitation to adopt "best practices" (through promoting business "recipes"). The uncertainties and anxieties that surround strategic issues, particularly "1992" in the current environment of economic recession and massive industry restructuring, provide fertile ground for the creation of business "myths" that are difficult to evaluate.

CONCLUSION

In telling the tale of how two banks went about making sense of "1992" we have sought to further our understanding of how organizations gather and interpret information about strategic issues. The different patterns of making sense that emerged provide a starting point to consider how the national context may influence this process.

At SPANOBANK, the market driven, "prospector", orientation which was encouraged by a positive business climate for growth and development led to an approach of *proactive adaptation* in which the process of making sense of "1992" was decentralized, informal, and consensual. At DANOBANK, faced with a hostile business climate, the concern for profitability and costs encouraged a "defender" orientation resulting in a "strategic planning" approach in which the process

of sense making was more centralized, formalized, and political. These different approaches reveal underlying differences in perceptions of environmental uncertainty and organizational control and capability that may be influenced by national culture.

In the end, both banks merged -- DANOBANK within a few months of the study, SPANOBANK two years later. Bank mergers, usually within national borders, have been a response in many countries to "1992" as has been the case among U.S. banks in response to deregulation and subsequent increasing competition. Given the lack of proven effectiveness of mergers in general, we are forced to consider the role of broader institutional pressures beyond national boundaries, e.g. industry and professional associatons, supra-institutional arrangements such as common markets and free trade zones, business consultants, education and the media.

Studying the processes by which organizations formulate strategy is not without risks. It is not obvious, for example, to what extent gathering and interpreting information regarding strategic issues lead to strategic decisions, or decisions lead to gathering and interpreting information (Brunsson, 1985)? 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 and need to be examined in greater depth, both *in situ* and *in context*, by interviewing and observing strategy formulation processes at several points in time and to engage in prospective and not only retrospective rationalization. The approach of studying strategic decisions as streams of issues described by Johnston et al. (forthcoming) seems promising.

Perhaps strategic issues such as "1992" can be seen as a Rorschach for companies in that how organization goes about making sense of their environment may be more important than the strategic actions taken. The Rorschach is a projective test (ink blot) used to evaluate how people structure (perceptually and cognitively) their experience and their basic assumptions about the world, themselves, and significant others (Rorschach, 1942; Schafer, 1954). "1992" may serve to reveal how organizations structure their perceptions of the environment (e.g. details vs big picture, sensitivity to nuance) and how this process can create motivation and committment in generating emotional responsivity, or excitement. Response to the Rorschach also reveals underlying assumptions about the environment as hostile or nurturing, and about the organization as strong vs.

weak, active vs. passive, and potent vs. impotent (Schneider & Shrivastava, 1987). These assumptions determine how issues are interpreted (as threat, opportunity or crisis), and the nature of the response (proactive vs. reactive).

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 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.

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 captial 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 etablished 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 (June 1988) no longer in top 200
(by 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);
Six 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

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 for 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
low formalization
collective
social welfare
tolerate uncertainty
control over nature

(Laurie, 1989; Fairlamb, 1989)

APPENDIX D

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 to offer financial products
-disintermediation
Foreign banks restricted to 3 branches;
limited activities
1987: liberalized interest rates

Market context:
overbanked: 138 commercial 80 savings banks
for 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 (status)
formalization
individualism
relationship
avoid uncertainty
low control over environment

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

APPENDIX E

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 structures have been established for managing "1992"?
- What sources of information are being used?
- What methods or models are used for evaluating information regarding "1992"?
- How will "1992" be validated as a strategic issue?
- What criteria will be used in establishing the priority of "1992"?

Interviewed:
DANOBANK (9): CEO, assistant to the CEO, head of strategic planning, head of budget and control, senior manager private banking, senior manager domestic retail, general manager international division, senior manager personnel, head of marketing.

SPANOBANK (8): head of strategy task force, member of strategy task force, assistant general managers of data processing, marketing, corporate, international, director human resources training and development.

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FIGURE 1
FACTORS INFLUENCING MAKING SENSE

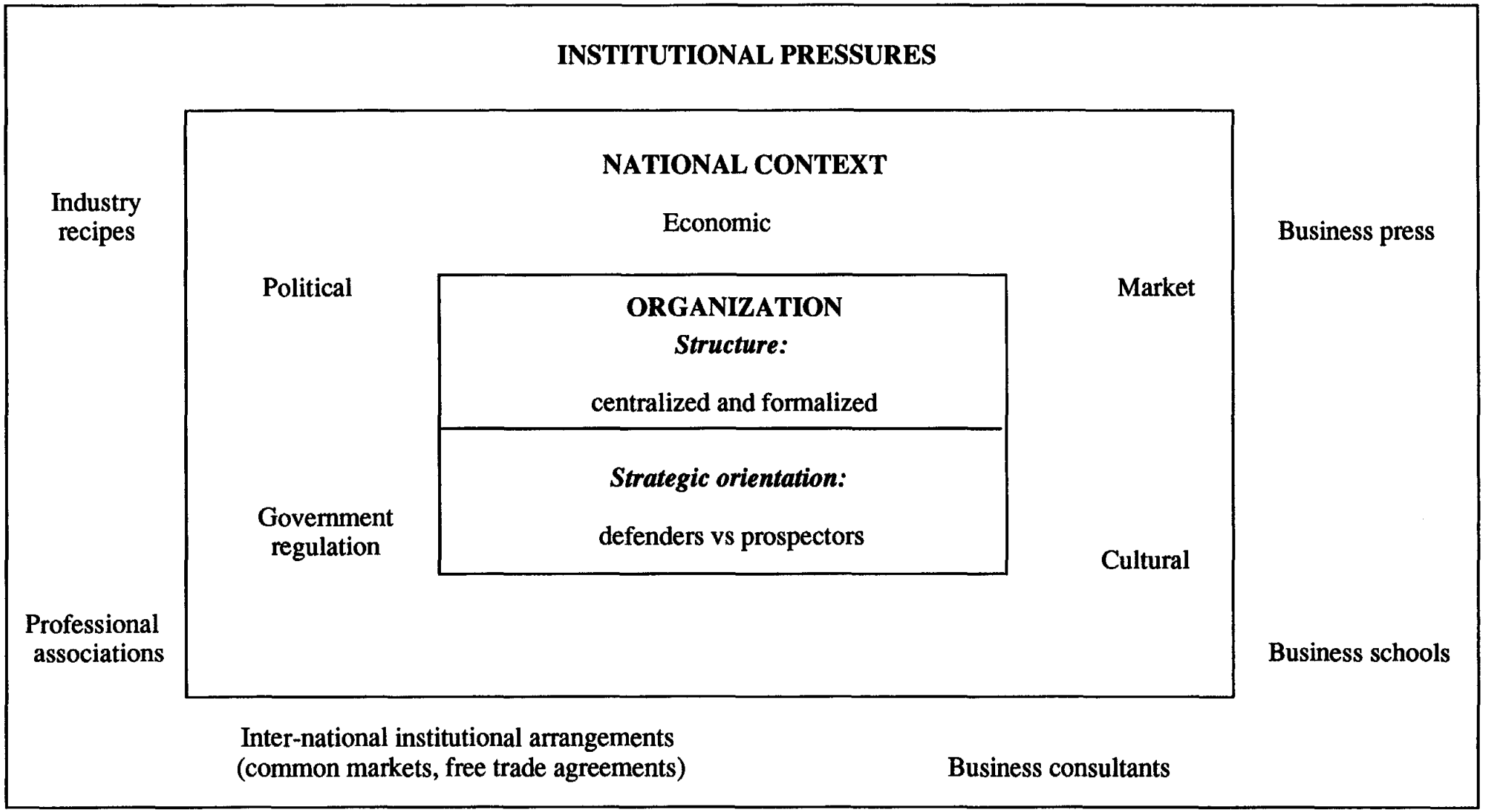

FIGURE 2
MAKING SENSE OF STRATEGIC ISSUES

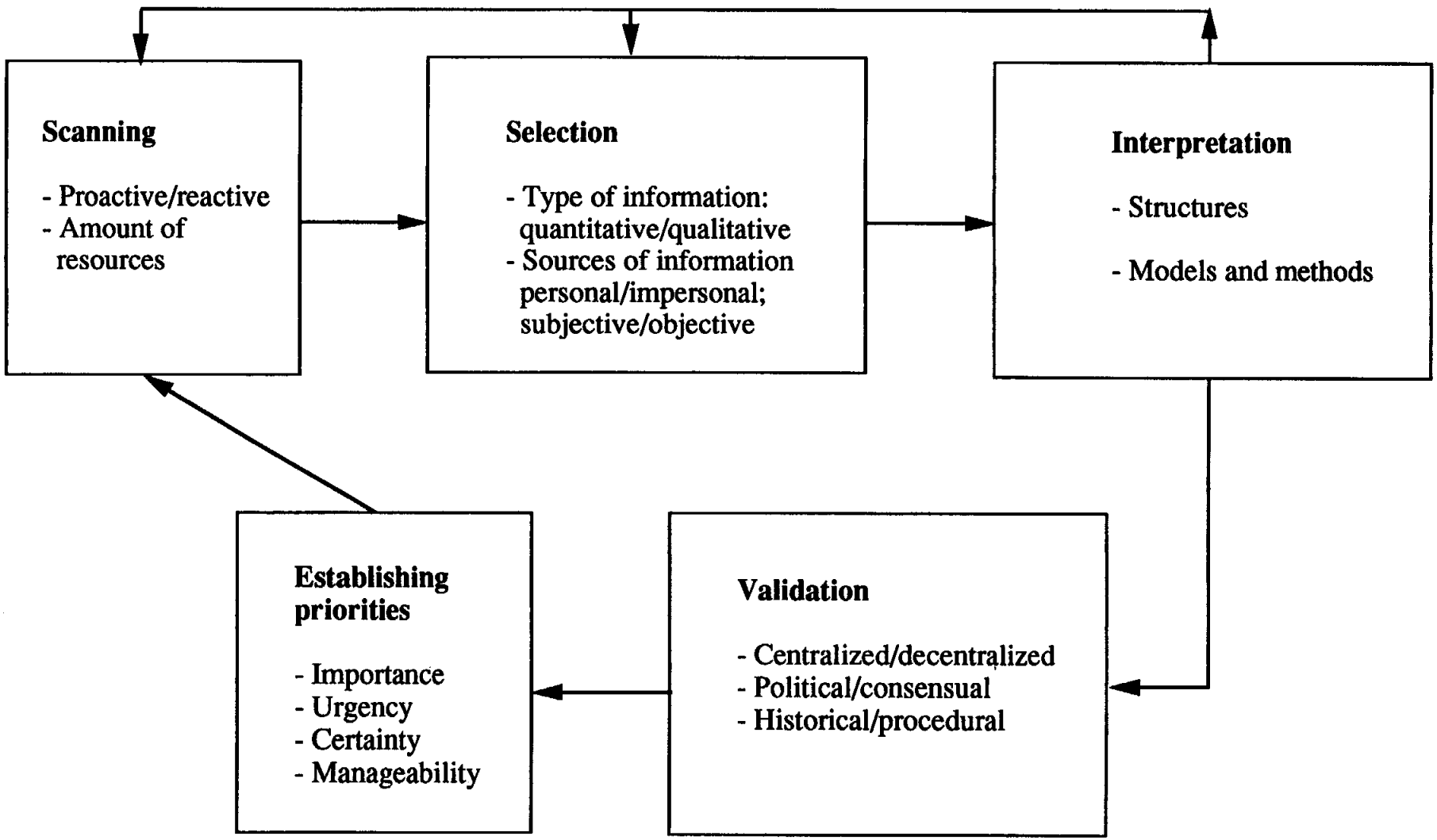

TABLE 1
MAKING SENSE: A COMPARISON

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

TABLE 2
COMPARISON OF NATIONAL CONTEXT DENMARK AND SPAIN (1989)

	DENMARK	SPAIN
ECONOMIC		
Growth	- 1%	+ 5.2%
Level of development	+	-
Trade balance	negative	negative
Inflation	3.5%	6.8%
REGULATORY		
Degree	+	++
Role of central bank	+	+
Capital requirements	8% on liabilities	5%
POLITICAL		
Stability	+/-	++
Pro-business	+/-	++
Pro-EEC	+/-	++
MARKET		
Concentration	low	low
Key players	insurance	savings
Forces	pro merger	anti
SOCIOCULTURAL		
Hierarchy	low	high
Formalization	low	high
Task vs Social	task	social
Individual/collective	collective	individual
Financial margins (EEC average: 2.75%)	na	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).