"STRATEGY FORMULATION: THE IMPACT OF NATIONAL CULTURE"

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Strategy Formulation: The Impact of National Culture

In order to formulate strategy, organizations need to identify and interpret strategic issues. This process involves scanning, selecting, interpreting, and validating information and establishing priorities among issues. This paper argues that national culture can influence this process as it influences the nature of the relationship of an organization with its environment as well as the nature of the relationships among people within an organization. The impact of national culture on the process of formulating strategies is discussed. Implications for research and practice are suggested.

The strategic management process involves assessing environmental and organizational conditions. Key environmental variables often considered are market structure (Caves, 1980); industry characteristics and competition (Porter, 1980); economic systems (Child, 1981); and government (Mills, 1978). Key organizational variables considered are structure (Chandler, 1962; Fredrickson, 1984); climate and CEO personality (Kets de Vries & Miller, 1984); corporate culture (Schwartz & Davis, 1981); CEO values (Guth & Taguiri, 1965); CEO demographics (Hambrick & Mason, 1984); and managerial traits, e.g., locus of control, interpersonal orientation, tolerance of ambiguity (Gupta, 1984). These variables affect the alignment of the organization with its environment (strategy formulation) and the arrangement required within the organization for strategy implementation (Venkatraman & Camillus, 1984). Few studies have explored the potential impact of national culture on the strategic management process. National culture could be a crucial variable mediating this process as it may influence the relationship of the organization with the environment as well as the relationships among people within the organization.

As strategy formulation creates the context of strategic decision and implementation activities (Lyles & Mitroff, 1980), it plays a major role within the strategic management process. Strategy formulation involves identifying and interpreting strategic issues - events that may have a potential impact on organizational performance (Ansoff, 1980). This paper will focus on the impact of national culture on the process by which organizations scan, select, interpret and validate information in order to identify and prioritize strategic issues. While these activities are carried out by individuals, they are constrained by group, organizational and environmental context and, thereby, are considered to occur at the organizational level of analysis (Schneider & Shrivastava, 1984).

The "culture free" argument (Hickson, Hinings, McMillan & Schwitter, 1974) states that size, technology, industry or institutional factors play a more crucial role than culture in determining organizational structure and processes. The notion that "accounting is accounting" reflects the underlying belief that management is a science that can be applied universally and that divergent practices stem from differences in the level of economic development and industrialization (Negandhi, 1983).

The present argument rests on the assumption that <u>despite</u> the technological advances of sophisticated strategy and forecasting models, <u>despite</u> the economic pressures to maximize profits or growth in view of the increasing competitive environment, and <u>despite</u> the rising level of managerial competence through education and training (Webber, 1969), organizations in different nations will approach the task of strategy formulation in different ways reflecting underlying cultural values and attitudes. That is, in different countries, given the same business, e.g. paper products, in similar environments (to the extent possible or controllable), information will be sought, selected, interpreted and validated and issues will be prioritized differently. Although the end result, the strategic decision, may be the same, the process by which it is arrived at will be different. This may be particularly useful in situations where joint ventures cross national boundaries.

The argument put forth in this paper does not intend to negate the important influence of other relevant variables (e.g. product, market and industry characteristics, institutional arrangements) but attempts to shed some light on what is usually referred to as a "residual" variable, i.e. culture. It is important to keep in mind, however, that culture is manifested in institutional arrangements and embedded in the socio-historical context (Child, 1981). For example, the extent of government involvement in business activities may relate to attitudes regarding authority and power. It is also important to separate the notion of culture from that of nation as many nations are multicultural. However, the assumption here is that despite within nation differences, the between nation differences are significant. Thus while characteristics of one nation may be found in another, on the average, differences will be apparent.

This paper will specify apriori what cultural differences are expected and postulate how those differences affect strategy formulation. First, culture will be discussed and the relevant variables delineated. Then the process of strategy formulation will be described and the potential impact of national culture discussed. Examples are provided for purposes of demonstration. These examples are not intended to prove hypotheses but rather to stimulate the generation of hypotheses. Finally, research issues and the implications for management will be outlined. The next section will discuss cultural variables that may affect the process of strategy formulation.

National Culture

Culture has been defined as a system of shared meaning governing collective perceptions, thoughts, and actions. This "worldview" governs the relationships among members as well as the relationship with the environment enabling the group to perform its necessary activities of environmental adaptation and internal integration (Schein, 1985). Culture can be seen as a strategy for solving problems that has developed over time (Van Maanen & Barley, 1983). The notions of culture and strategy may, in fact, be intertwined (Weick, 1985).

The cultural dimensions specifically relevant to strategy formulation are the nature of the relationship of man and the environment which influences information gathering activities necessary for external adaptation and the nature of relationships among people which influences organizational structure and processes, i.e., internal integration. The salient subcomponents of these attitudes are listed in Table 1. These aspects of culture derive from a review of cultural variables discussed in the management literature (Kluckholn & Strodtbeck, 1961 as cited in Schein, 1985 and in Child, 1981; Hofstede, 1980; Hall, 1960).

- insert TABLE 1 here -

External Adaptation

Cultural attitudes towards the relationship of man and the environment will influence the way organizations make sense of and respond to their environments thereby affecting the nature of external adaptation. These attitudes include the following variables: 1) control over the environment - Does man dominate or submit to the laws of nature ?; 2) activity vs. passivity - Is it better to DO than to BE? (acheivement vs ascription)? Is active mastery preferred to passive acceptance (fatalism)?; 3) to what degree can the environment be understood? Are uncertainty and ambiguity avoided, tolerated, reduced or amplified?; 4) what is considered to determine truth and reality? Is it empirical evidence, hard facts, tangible and demonstrable? or based on spiritual or philosophical thinking, and theoretical logic? 5) attitudes towards time - Is the past given more importance than the present or the future? How important is tradition? Is time ordered in a linear fashion or more wholistically? Is time a limited or unending resource?; and 6) attitudes towards change - Is change seen as positive, as evidence of progress and development? or is it seen as threatening to the stability and disruptive of the social order? Is change considered to be linear or cyclical? as in the French expression "Plus ça change, plus c'est la meme chose" (the more things change, the more they stay the same)?

These variables are expected to be interrelated. For example, attitudes regarding uncertainty and ambiguity, the nature of truth and reality, time and change relate to views of the environment as analyzable, which in turn influence the view of organizations as active and/or as capable (Daft & Weick, 1984; Dutton & Duncan, 1987). For example, views of the environment as analyzable and the organization as able to control may result in proactive behaviors. This activity/passivity dimension also depends upon pressures to act (urgency) which relate to concepts of time, notions of individual responsibility, and what is considered to be important (Dutton & Duncan, 1987). Activity is more likely where the environment is seen as analyzable, the organization as in control (capable), time as limited, the individual as responsible and task accomplishement as important. Much anecdotal evidence regarding country differences in terms of passive acceptance vs. active mastery (fatalism vs. "frontier spirit") (Wallin, 1972; Hall, 1960; Nowotony, 1964) needs to be applied and demonstrated in a specific management context such as strategy formulation. It must be kept in mind however, that as these variables reflect a continuum, the interrelationships may not be as straightforward.

Internal Integration

Attitudes towards relationships among people (relational orienation) will influence the nature of internal integration. This includes the following variables: 1) attitudes towards authority, status and power as reflected in hierarchical relationships; 2) attitudes towards the individual vs. the group and cooperation vs. competition as seen in peer relationships; and 3) the importance of relationships over business activities, e.g. people vs. task orientation, or the focus on the quality of work life vs. the maximization of profit. These correspond to Hofstede's (1980) power distance, individualism/collectivism, and femininity/masculinity dimensions respectively. These variables are likely to be interrelated as well. For example, in paternalistic societies, emphasis is placed on the hierarchy, on cooperation and concern for the group, and on the importance of relationships. Again, these variables are expected to be related but other combinations are possible, e.g., the Swedish model where emphasis on the hierarchy is low while emphasis on the group and on relationships is high. In the strategy formulation process these dimensions will affect who is involved in processing the issues.

In this section we have provided a framework for addressing culture and have distinguished the salient subcomponents. In the next section the key variables involved in the strategy formulation process will be defined. We will then specify the influence of the cultural dimensions discussed above on this process.

Strategy formulation and the impact of national culture

Strategy formulation involves gathering and interpreting information in order to identify strategic issues. This, as shown in Figure 1, includes how information is scanned, selected, interpreted, and validated. Issues thus identified are prioritized according to criteria germane to the organization. However, the use of information is embedded in social norms and thereby acquires symbolic value as a function of a particular set of beliefs in a particular set of cultures (Feldman & March, 1981). Therefore, this process cannot be considered "culture-free".

-Insert Figure 1 about here-

Scanning

Organizations differ in terms of the amount of attention and resources directed at scanning the environment. Scanning may vary in the degree to which it is active (searching) or passive (monitoring) (Keegan, 1983; Aguilar, 1967), focussed or broad (Daft & Weick, 1984), systematic or unsystematic (Kobrin, Basek, Blank & La Palombara, 1980), and comprehensive (Fredrickson, 1984) Environmental scanning activities may be formalized by creating departments assigned this function, yet these departments may have different roles, purposes and influence in strategic decision making (Lenz & Engledow, 1985; Dutton & Ottensmeyer, 1987; Stubbart, 1982).

While the nature of scanning behavior may be determined by the type of issue (e.g., political vs. currency exchange rates), it is also affected by environmental and organizational factors. For example, scanning behavior, e.g., search vs. monitor, is determined by environmental analyzability and organizational activity(Daft & Weick, 1984). These attributes, however, are not necessarily objective but are a function of perceptions and interpretations (Smircich & Stubbart, 1985). For example, under conditions of uncertainty, administrators will spend more time and resources on environmental scanning and forecasting than where they feel confident that they understand (Milliken, 1987). However, this presumes attitudes regarding uncertainty and ambiguity, control and activity.

National differences in scanning behavior have been found and linked to differences in perceived environmental uncertainty, e.g., the Swiss and Norwegians were found to scan less than the Dutch, French, Danes, Swedes and U.S. (Hoffman & Hegarty, 1985). Scanning behavior may also reflect approaches for managing uncertainty. For example, the Japanese have been found to be active, broad and informal scanners with seventy-five percent of strategic information generated by surveillance not search activities (Keegan, 1983). The Japanese highly value peripheral vision (broad scan) as essential to discern changes and distrust a single strategy or any idea that narrowly focusses attention (Pascale, 1984). Broad perceptual filters are attributed to the breadth of corporate vision and lack of specialized education and job function (Nonaka & Johansson, 1985). A Japanese employee of Komatsu reading the local papers of Peoria, Illinois (headquarters for competitor Catepillar) when told to read just what was relevant replied "It's all relevant". Japan, according to Hofstede (1980), ranks high on avoiding uncertainty.

Scanning behavior may also reflect attitudes of organizational control over the environment. This may result in scanning behavior that is more active and focussed (search) in order to find opportunities or as a way of controlling (by reducing) uncertainty (Cyert & March, 1963). Organizations in which control is viewed as low, may engage in scanning behavior that is reactive, guided by the external events rather than solely internally driven. This reflects the belief that "corporate direction evolves from incremental adjustment to unfolding events"(Pascale, 1984, p.64).

The relationship of perceived control and scanning activities may be demonstrated in attitudes towards obtaining specific types of information. The lack of systematic analysis of political environments by American multinationals is attributed to their belief that control is related to gathering information. They fear that in obtaining this information for analysis, they will be perceived as interfering in or trying to control the local political situation. For this reason, European MNCs were found to be better informed than their American counterparts regarding local political environments of their subsidiaries (La Palombara & Blank, 1977).

Generally speaking, environmental scanning will likely to be more active, focussed, and systematic when the environment is seen as analyzable and the organization is seen as in control. Conversely, where the environment is seen as unanalyzable and the organization not in control, scanning may tend to be passive, broad and unsystematic. This would be reflected in the amount of time and resources spent, the number of environmental factors attended to, and the existence of scanning units.

Selection

The type of information. The type of information selected from scanning activities may tend towards being more quantitative or qualitative. While organizations of course use both, preference may be given to numbers and statistical evidence over descriptive examples. Quantitative information may be preferred where "truth and reality" are believed to be determined by what is measureable and tangible. Quantitative information, facts and figures, are believed to reduce uncertainty.

Qualitative information, e.g. descriptive, may be preferred where "truth and reality" is believed to be determined by principles - spiritual or philosophical. The emphasis placed by the Japanese on mission statements demonstrates the importance of philosophical principles. Requests for information and insistence on reports and analyses would be considered signs of indecisiveness or lack of faith (Feldman & March, 1981). Qualitative information tends to be more ambigious and elusive to measurement thereby increasing uncertainty. In organizations where uncertainty is to be avoided, qualitative information may be ignored.

In the case of Honda's entry into the U.S. market, success was attributed by insiders to the use of qualitative information (intuition and feeling) instead of relying exclusively on facts and past performance (Pascale, 1984; Keegan, 1983). With regard to Japanese - U.S. trade friction, the Japanese companies (e.g., Sony) focus more on reading newspapers and popular magazines than on market research studies and opinion polls (Nonaka & Johansson, 1985). These cases also demonstrate the use of qualitative information to actively manage uncertainty and ambiguity. Under these conditions, managers often prefer to rely on ideology rather than information (Cummings, 1983).

The type of issue involved may also determine the preference or use of quantitative vs. qualitative information. For example, in the case of economic issues, e.g. currency exchange rates and inflation, quantitative information will most likely be used. In the case of sociopolitical issues, qualitative information is likely to be available and more useful. These latter issues, however, may be ignored because the information cannot be quanitifed.

<u>Sources of information</u>. Information scanned and selected may come from personal sources that tend to be more subjective. For example, information from colleagues or friends may be preferred to industry or country experts (Kobrin et al., 1980). Reliance on informal and personal sources of information (Mintzberg, 1975; Kotter, 1976); interpersonal networks and first hand observation (Keegan, 1974), and "man in the street reports" (Farmer, 1979) are often preferred to written reports and documents which objectively detail environmental trends.

While this may be found to be true in many cultures, it is more likely that the preferred sources of information will be personal and subjective in cultures where relationships are emphasized. Personal sources are seen to provide information that is more trustworthy. <u>Who</u> the personal source is reflects attitudes towards authority (hierarchy) or the group (peer). For example, where the hierarchy and authority are valued, the opinions of "wise-men", experts, or those with status are sought. Thus while some executives confer with fortune tellers to determine business direction, others may rely on management consultants. Yet others may rely on the group members. According to Kagono et al. (1985), U.S. firms emphasize the judgement of experienced executives in formulating strategies, while Japanese firms seek more diverse and redundant information involving the interaction of various people.

Wisdom is mobilized at every level and more middle level managers are involved in identifying opportunities and risks.

The importance of personal sources is seen in Japanese firms where information sharing and decision making rely on face to face contact and extensive influence networks (Yoshino, 1979). Nonaka & Johansson (1985) describe processes of intensive exchange of ideas and information between group members as crucial to organizational learning in Japanese firms. Although perhaps these notions are overly romanticized in these examples, we can expect to have more involvement and participation in gathering information for strategy formulation.

In general, then, personal sources are preferred when the importance of relationships is high. That is managers will more likely indicate information gathering from friends and contacts. Conversely, cultures in which business activities take precedence over personal relationships will tend to indicate the use of impersonal sources, e.g. industry experts, external consultants and industry documents and reports.

Interpretation

Information once gathered will be integrated into construct and causal systems that determine how it is interpreted. Smaller problems are interrelated becoming larger issues and cause and effect is attributed. Issues are developed through reiterative processes of definition and redefinition, induction and deduction, and prediction and retrospection (Dutton et al., 1983; Burgelman, 1984). Issues gain labels of threat/opportunity (Dutton & Jackson, 1987), and are framed in terms of gain/loss which may affect response such as degree of risk taking (Tversky & Kahneman, 1974). These construct and causal systems become filters or rules for the type of information subsequently scanned and selected. For example, information is sought that confirms the analysis and justifies decisions while disconfirming information may be ignored or distorted (Janis, 1972; Staw, 1981).

This interpretation process can be formalized through the use of logical or analytic modelling tools such as forecasting systems, or more informal, relying on intuition and "feel". The preference for logical, analytic methods as seen in the use of mathematical models, matrices, and computer programs reflects linear deductive reasoning characteristic of Western society. Here, formal, logical models are relied upon to control uncertainty which may tend to fit reality into preconceived constructs. However, "...the technology of decision analysis must be treated with caution in Asian cultures because of the different forms of subjective probability which appear to exist"(Redding, 1980, p. 133).

Japanese approaches are described as more intuitive than analytic (Keegan, 1983) demonstrating inductive incremental reasoning instead of logical deductive reasoning found in the U.S. (Kagono et al., 1985). In the Honda example, a BCG study defined the motorcycle industry as mature, using quantitative and analytic models that stressed the concepts of market share and learning curve. Japanese use such tools as a stimulus to perception rather than as a frame within which to fit reality. "The Japanese accuse the West of oversimplifying reality" and of "over-reliance on cognitively linear explanations of events which naively imputes coherence and purposive rationality" (Pascale, 1984, p.57).

Interpretation may rely on theoretical discussion and debate based on principles or logic or on active experimentation, a learning by doing approach. The French like to apply Cartesian logic and engage in theoretical discussion of business issues much to the chagrin and impatience of the more pragmatic, action oriented American businessperson. Interpretation may also depend upon the importance placed on the hierarchy and a task vs. people orientation. In Southeast Asia, "Computational analytic management techniques have difficulty being accepted as they lack inspirational, charismatic power of direct and personalized decision making." (Lassere, 1983, p.41). Thus, the use of analytic vs intuitive modes of interpretation will differ as a function of how truth and reality are determined and by whom. This could be gauged by the presence and utilization of information or forecasting systems.

Validation

Through the interpretation process, issues are identified. Emerging issues are thus subject to validation which determines their relevance, focuses attention and resources, and directs future information gathering activities. Issues may be validated by personal edict of leaders ("I say so"), bureaucratic procedure ("it has been written"), historical precedent ("it has been done"), political coalitions, and/or consensus ("we agree") (Shrivastava & Schneider, 1984). Cultural attitudes may encourage the use of some of these methods over others.

Personal edict. Validation may occur by personal edict, i.e., the boss says so. In countries where authority, status and power are valued, issues are likely to be validated in this manner. In these countries we would expect more autocratic styles of leadership and therefore expect the leader to have a very central role throughout most of the strategic management process.

Bureaucratic rule. Strategic issues identified may be compared with and thus validated by "what it says in the book", i.e., as indicated in operating manuals. Bureaucratic rules are more likely to be found in countries in which uncertainty is managed (avoided) through formalized policies and procedures. For example, France's bureaucratic system is linked to avoiding uncertainty (Crozier, 1964). Sometimes issues may get ignored or not validated because of the "go by the book" syndrome.

Historical precedent. The way things have been done in the past may determine the validity of present concerns. Historical precedent may be found in countries that place more emphasis on tradition. The U.S. is considered to be less bound by tradition and less constrained in action than its European counterparts (Nowotny, 1964). Therefore U.S. firms may be less likely to use historical precedent to validate the present issues. In Europe, for example, issues may be ignored because of the "it's never been done that way before" syndrome.

Political coalition. Political coalitions and bargaining will characterize the nature of validation in countries which emphasize power and status, the individual and the importance of relationships evident in the presence of strong, informal interpersonal networks. Research has shown that managers in France and Italy tend to view organizations as political systems whose purpose is to maintain power relationships and the social order, while managers in Northern Europe and in the U.S. tend to view organizations as instrumental systems whose purpose is to accomplish tasks (Laurent, 1983). This view of organizations by the French managers may derive from cultural emphasis on power and status and strong individual orientation (Crozier, 1964). While strategy formulation involves political processes (McMillan, 1978), these views of organizations can result in issues becoming more readily politicized.

Consensus. The use of consensus for validation is likely to be found in different cultures for different reasons, e.g., emphasis on the group vs. emphasis on the individual. Consensus is seen as central to Japanese decision making because people are perceived as capable of contributing, and because of the emphasis on the group. However, the American ideological basis for participative (consensus) management approaches may be based on different values, for example, the importance of individual opinions. As such, the same method may be preferred for different reasons.

Establishing Priorities

Once validated, issues are prioritized depending upon criteria relevant to the organization. These priorities are determined by the issues' perceived importance, urgency, and certainty (Dutton et al., 1983). These priorities affect the amount of attention issues receive, subsequent information gathering, and the organizational response to these issues (Dutton & Duncan, 1987).

Importance. Which issues are considered to be important is very much a function of social values. Issues such as job security, employee welfare, maternity leave, health and safety and product quality may take priority over maximizing efficiency and/or profit. For example, in Sweden, concern for quality of work life led to restructuring the assembly line in automobile assembly plants at Volvo-Kalmar and Saab-Scania (Dowling, 1973; Tichy, 1974). Profit and efficiency, although of concern, were not the primary motives behind these innovations. In England, problems with introducing new technology in the coal industry led to an emphasis on the importance of relationships and the group (Trist & Bamforth, 1951). As in these cases, issue importance would be determined by the importance of relationships, of quality of work life instead of profit and efficiency, and of people over task.

<u>Urgency</u>. In establishing priorities, issues will be perceived as urgent as a function of orientation towards time. The notion of time as something to be saved, spent or wasted (monochronic) creates a sense of urgency. When time is seen as expandable, ongoing and unlimited (polychronic) (Hall, 1960), the sense of urgency will be much less. When the future is given greater value than the past, a sense of urgency is increased. Where the past is emphasized, there will be a slower approach to change, less pressure to act and hence there will be less of a sense of urgency. These differences are apparent in Latin American vs North American countries (Hall, 1960; Davis, 1969). In negotiations, the sense of urgency may not be shared by both parties. Stalling may be used as a pressure tactic to gain advantage in negotiations (Adler, 1985). As mentioned before, urgency will also be a function of individual and task orientations.

<u>Certainty</u>. Certainty is also used as a criteria for establishing priorities. However, issues considered certain in one culture may seem highly uncertain in another. While planning horizons may be a

function of institutional arrangements and ownership (e.g. banks and shareholders), the use of short-term versus long-term plans may reflect the perceptions of issue certainty and the tendency to avoid or tolerate uncertainty. Long-term issues are more uncertain and may therefore be avoided by focussing on short-term plans. For example, English firms were found to use longer range planning than German firms which in turn had longer range than French firms (Horovitz, 1978). The emphasis on operational versus strategic issues also reflects uncertainty avoidance as strategic issues tend to be more uncertain. In German firms as compared with their English counterparts, planning tends to focus more on operational than strategic issues (Horovitz, 1978). This may reflect differences in uncertainty avoidance as France is rated higher than Germany which is rated higher than England on this dimension (Hofstede, 1980).

Two models of strategy formulation

Implicit in the above comparisons are two models or themes that run through the strategic management literature as shown in Table 3.

-insert table 3 about here-

One is the notion of strategy formulation as a top down process, controlled by the dominant elite. Scanning is search oriented: focussed, active and systematic. Quantitative information, e.g., facts and figures, are sought from objective sources. Information is interpeted through analytic tools, e.g. strategic forecasting tools, and validated through personal edict, historical precedent or bureaucratic rules. Issue priorities will be determined by what is certain, urgent and task related. Here strategies are planned and behavior is proactive in an effort to control the environment (Hofer & Schendel, 1978).

Another model is that of strategy formulation as a more bottom-up activity involving people at multiple levels. Scanning is monitoring oriented: broad, reactive, and non-systematic. Qualitative information is more often sought from personal, subjective sources through intense interactions and personal networks. Interpretation of information is more intuitive, based on "feel"; and validation is more likely based on consensus and political processes. Issues will generally be seen as uncertain, less urgent, with importance placed on social issues e.g., quality of life and relationships. Strategies evolve or emerge in the form of adaptive and reactive behaviors given the organizational (administrative and bureaucratic) and environmental context (Mintzberg, 1978; Burgelman, 1983). Overall, the former model reflects a strategic planning approach, while the latter model reflects a more incremental, adjustment oriented approach (Kagono et al., 1985; Pascale, 1984; O'Shaughnessy, 1985; Lassere, 1983).

The first model is likely to be found in cultures where the uncertainty is reduced, organizations are seen as in control and are active and where the hierarchy, the individual and the task are stressed. The latter is likely to be found in cultures where uncertainty is tolerated, organization is seen as having low control and is reactive, where the emphasis is placed on the group and relationships. While these models are presented here as extremes, these differences are meant to indicate ends of a continuum, with actual practices (as opposed to romanticized idealized notions) occurring somewhere in between.

Conclusions and Implications

This paper has discussed the potential impact of national culture on strategy formulation. Strategy formulation is influenced by the manner in which organizations scan, select, interpret and validate information from the environment in order to identify and prioritize issues that become the context for strategic decision making and implementation. This process, it is argued, will be affected by cultural assumptions regarding the relationship with the environment and the nature of relationships among people.

Further theoretical work could pursue the relationship of how cultural assumptions regarding the environment and the organization affect the the content of strategic responses. These assumptions may perpetuate the nature of the issues explored and may limit the range of alternatives considered. More specifically, assumptions regarding control and uncertainty may result in behaviors that are proactive or reactive and that are directed more towards the external or internal environment. The

Miles & Snow (1978) typology of organizations as defenders, analyzers, prospectors and reactors may be useful in differentiating the strategic response tendencies of organizations in different cultures.

This discussion provides a broad agenda for empirical research. However, many methodological problems are anticipated arising from the level of analysis - i.e. the organizational and national. Strategy formulation, in terms of information processing, is being discussed here at the organizational level of analysis. While it is true that these activities are being carried out by individuals of particular nationalities, the organizational and environmental context cannot be ignored. Therefore, collecting and interpreting data must go beyond aggregating individual responses to truly arrive at these levels. For example, this would require a field study design assessing how national firms in different countries but in the same business respond to a specific strategic issue and then tracking how that issue has been managed. Specifically, it would have to be investigated how the issue was noticed, how and what kind of information was sought, from which sources, what systems were used for interpretation, who was involved in gathering and interpreting that information, and how priorities were assigned. The size of the firm and the nature of government regulation would need to be controlled. Such research requires interviews with key players at different levels and different functions, observations of strategic decision-making groups, as well as analyzing archival and historical information (Burgelman, 1984). It would also require a culturally mixed research team to avoid ethnocentric biases.

Implications of this research for management are the need to recognize that different nations will approach the strategic formulation task in different ways. This questions the use of universal methods that are exported, for example, by U.S. consulting firms. The use of learning curve concepts, and portfolio matrices may not apply across countries for cultural as well as economic reasons (O'Shaughnessy, 1985).

The discussion may also provide insight into the needs of multinational corporations in gathering information from their foreign subsidiaries. Headquarters needs to understand how, at the local level, information is gathered, from what sources, and how it is interpreted in order to determine its value for corporate level strategic planning. It is important to know what information may have been ignored or not transmitted. In addition, strategic issues perceived at the headquarters level may not be similarly appreciated by the subsidiaries. For example, headquarters' concerns regarding organizational flexibility or stimulating entrepreneurship in their subsidiaries may not readily be embraced at the local level. These issues may be perceived as important to headquarters, while less so locally.

Host government responses and political repercussions may also be better anticipated by understanding how strategic issues are perceived and interpreted. For example, what may be interpreted as an opportunity for a foreign multinational may be interpreted as a threat to the host country. Host government responses, e.g., expropriation, can depend on their perceptions of multinational involvement as facilitating or hindering local economic policies (Fayerweather, 1975).

Understanding the influence of national culture on how strategic issues are interpreted can aid in anticipating actions of the international competition. The same issue may be perceived differently resulting in different responses. The propositions suggested may help to explain different approach strategies of foreign firms to the U.S. market, as in the automobile industry examples of Volkswagen, Renault, and Honda.

National culture could affect approaches to innovation and technological change. Perhaps underlying attitudes can help to explain product vs. process innovation found in the U.S. and Japan, respectively (Kagona et al., 1985). Differences in incremental or radical approaches in manufacturing strategies were found in a survey of European, American, and Japanese firms. Different time orientations were also found to affect priorities regarding product quality vs. delivery goals which conflicted with concerns regarding cost and productivity (Ferdows, Miller, Nakane

& Vollmane, 1985).

The propositions suggested may also have practical implications with regard to negotiations. An important aspect of negotiations involves understanding how issues are perceived by the other party. By understanding the process by which issues are interpreted, negotiators can provide the type and sources of information that are more congruent with the local culture and can gear their arguments to the mode of interpretation preferred. Effective negotiators need to have the ability to empathize, i.e. to see the world through the eyes of the other party. By understanding how that occurs, negotiators as well as managers can be more effective in cross-cultural settings and better prepared to meet the global competition.

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Table 1

Dimensions of National Culture

A. Relationship with environment (external adaptation):

1. Control (domination/submission)
2. Activity (active/passive)
3. Uncertainty and ambiguity
4. Nature of truth and reality
5. Time orientation
6. Change

B. Relationships among people (internal integration):

1. Hierarchical: authority, status, and power
2. Individual vs. group orientation
3. Importance of relationships: people vs. task orientation

Table 2

The Interaction of Strategy Formulation and National Culture

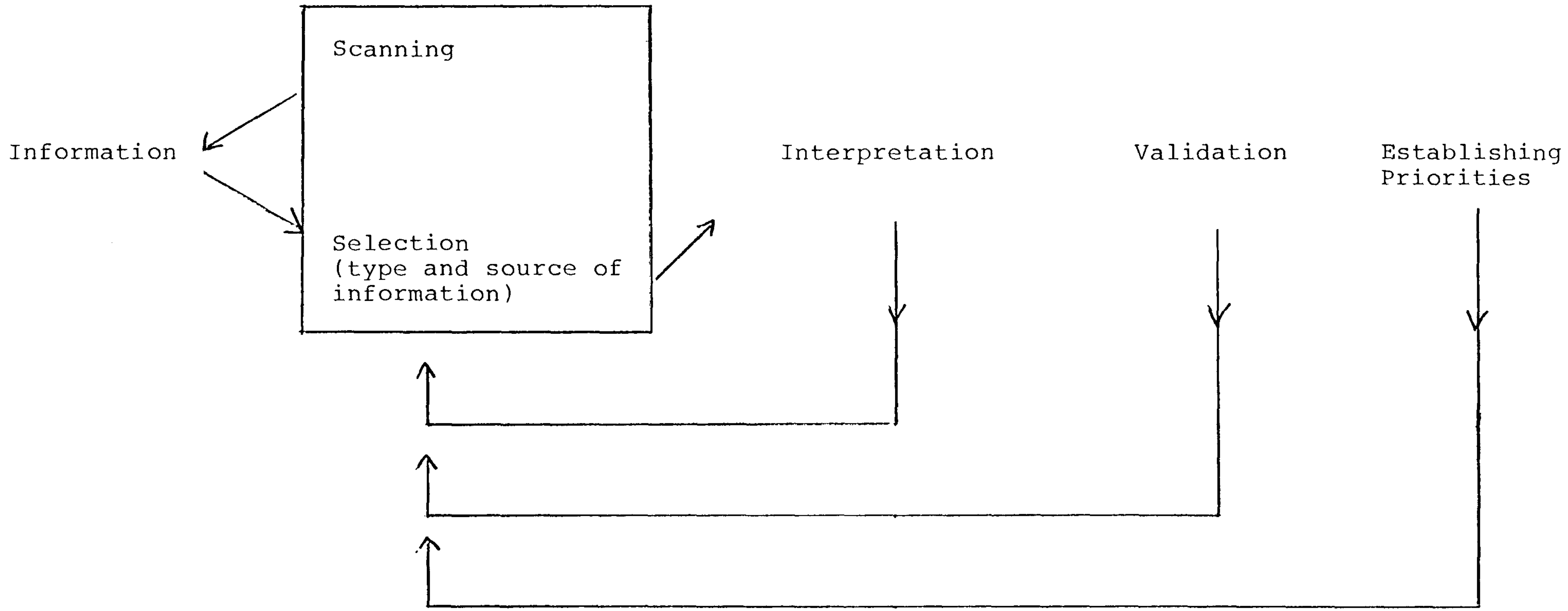
Strategy Formulation	National Culture
1. Environmental Scanning active vs passive broad vs focussed systematic vs nonsystematic	Relationship with environment control, activity and uncertainty
2. Selection -Type of information sought quantitative vs qualitative	nature of truth and reality (facts vs principles) uncertainty avoidance
-Sources of information personal vs impersonal subjective vs objective	importance of relationships power and status individual or group
3. Interpretation analytic vs intuitive	"truth and reality" uncertainty avoidance
4. Validation: personal edict bureaucratic historical precedent political coalition consensus	hierarchy uncertainty avoidance time orientation individual vs. group relationship oriented
5. Establishing priorities importance urgency certainty	relationships time orientation uncertainty avoidance

Table 3
Two Models of Strategy Formulation

	Model 1	Model 2
Scanning behavior	search: active, focussed, systematic	monitor: passive, broad, non-systematic
Selection: type of information sources	quantitative objective,expert	qualitative subjective,personal
Interpretation	analytic	intuitive
Validation	personal edict bureaucratic rules historical precedent	consensus political
Priorities	urgency, certainty task orientation	less urgency or certainty people orientation
Overall	top down elite dominated "strategic planning" intended	bottom up consensus based "evolutionary" adjustment, emergent
Cultural Variables: -control -uncertainty -activity -hierarchy -peer -relationships	 high reduction proactive high individual task oriented	 low tolerance reactive low group people oriented

FIGURE 1

The process of identifying and prioritizing strategic issues



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