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Summaries**

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Pierre Batteau  
EDAMBA President



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# *FIRST AWARD*

## **Organizing for Ambidexterity: Studies on the pursuit of exploration and exploitation through differentiation, integration, contextual and individual attributes**

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### ***Abstract***

*To prosper, firms need to explore future market shifts as well as exploit current market dynamics. Research has pointed that developing and integrating exploration and exploitation, or ambidexterity, is critical to achieve such capabilities. The studies in this dissertation contribute to our understanding of critical factors that foster appropriate allocation of resources and achieve ambidexterity. An overarching insight from these studies is that depending on several contingencies, such as hierarchical level and individual attributes, different integration mechanisms should be employed. This underlines the strategic importance of organizing for ambidexterity as a key driver for current and future firm performance.*

**Keywords:** exploration, exploitation, ambidexterity, formal and informal mechanisms, multilevel.

Organizational ambidexterity, or the balancing of high levels of exploration and exploitation, is a topic that has received ample attention in the literature (Gupta et al. 2006; O'Reilly en Tushman 2008; Raisch en Birkinshaw 2008). Ambidextrous organizations are better able to adapt to future market shifts, while at the same time being able to capitalize on current product/market combinations and improve efficiency (Gibson en Birkinshaw 2004). These two benefits ensure that ambidextrous organizations are supposed to perform better than their one-sided counterparts (He and Wong 2004).

It is however not easy to develop ambidexterity. The supporting pillars exploration and exploitation are juxtaposed in structure, mindset, and intent. *Exploration* involves exploring new product/market combinations (Benner and Tushman 2003). It builds on tacit knowledge and latent customer demand (Lubatkin et al. 2006), and is associated with experiment, flexibility and deviating behavior (March 1991). *Exploitation* on the other hand concerns exploiting current product/market combinations (Benner and Tushman 2003). Exploitation involves explicit knowledge about the fulfillment of existing customer demand (Lubatkin et al. 2006), and is associated with efficiency, refinement and focus (Zahra and George 2002). The co-existence of both exploratory as well as exploitative activities within the same firm inherently leads to tension. At first, this tension was deemed irresolvable, unless exploration and exploitation were separated over time (Duncan 1976). In this perspective, exploration and exploitation follow each other in a continuous cycle. This means that organizations need to constantly decide whether to pursue exploration or exploitation at any given time.

However, recent inquiries into ambidexterity have postulated that the simultaneous pursuit of exploration and exploitation can yield synergistic outcomes (Tushman and O'Reilly 1996; Raisch et al. 2009). These synergies are such that ambidextrous firms should be able to attain superior performance over longer periods of time (Uotila et al. 2009). In order to create such value, tensions between exploration and exploitation need to be resolved. As such, an important goal of the integration process is to create a vision of exploration and exploitation as complementary instead of opposites. This may be achieved in two ways.

Structural ambidexterity prefers integration at the top-management level. They will need to bring exploration and exploitation together from separate organizational units. Then,

they will return ideas for development of both exploration and exploitation to their respective units (Benner and Tushman 2003).

Contextual ambidexterity also envisions a key role for management, but solely in the creation of a context within which employees are stimulated to develop a complementary vision on exploration and exploitation themselves (Gupta et al. 2006).

Even though there are several mechanisms to achieve these goals, they share one great communality: they stimulate viewing the tension between exploration and exploitation as a *paradox* (Andriopoulos and Lewis 2009; Smith and Tushman 2005). In order to handle the exploration-exploitation paradox, organizational members need to be able to develop a deep understanding of the workings and challenges of both exploratory or exploitative activities to be able to reflect on their own activities in a critical manner (Andriopoulos and Lewis 2009). Therefore, firms need to stimulate a positive learning environment, where information flows freely across exploratory and exploitative boundaries, and, rather than viewing exploration and exploitation as opposites, members are inclined to seek out common grounds and pursue collective goals (Gittell 2002).

This marks the importance of integration mechanisms in the process of achieving ambidexterity. While differentiation by itself may help create operational capabilities within organizations that are beneficial for either exploration or exploitation (Gilbert 2006), it is through the integration of exploration and exploitation that value is created (O'Reilly and Tushman 2008).

### **Research aim**

The way firms organize for ambidexterity is not only dependent on conceptual grounds (i.e. structural or contextual ambidexterity), but also on organizational level (i.e. top-management level or lower hierarchical levels), context (i.e. tight or loose organization) and the external environment. Given the demarcations and views mentioned above, this dissertation seeks to accomplish the following:

*To gain insight in the way organizations may shape their pursuit of organizational ambidexterity, by managing differentiation and integration across multiple organizational levels and contexts, in accordance with both internal and external demands.*

### **Three studies on ambidexterity**

The remaining body of this dissertation consists of three studies. The three studies in this dissertation appreciate the paradoxical nature of integrating exploration and exploitation to achieve ambidexterity, and propose and test antecedents that have distinct influences on the way firms can achieve integration of exploration and exploitation. Yet they differ in their level of analysis, focus or theoretical grounding. See Table 1 for a summary of the studies and their approach, and Table 2 for an overview of the employed methods.

***Study 1: Structural Differentiation and Ambidexterity: The Mediating Role of Integration Mechanisms (Ch. 2).*** In the first study, we examine the role that both differentiation and integration play in creating a dynamic capability that governs the ability of firms to create and maintain ambidexterity. We refine conceptions of the interrelationship between differentiation and integration, by proposing and testing integration mechanisms as mediators of the differentiation-ambidexterity relationship. Furthermore, we distinguish between both the top management level and organizational level, and formal and informal integration mechanisms (see Figure 1 for our model and results).

The central thesis in this study is that differentiation and integration are proportionally related to each other when organizations seek to become ambidextrous, meaning that each level of differentiation should be followed by a certain level of integration. The nature of this relationship constitutes a mediation model with integration mechanisms mediating the structural differentiation-organizational ambidexterity relationship. We find evidence for a relationship between hierarchical level and type of integration mechanisms: at the top-management level informal integration in the form of top management team social integration has a significant mediating influence, whereas at the organizational level, cross-functional interfaces positively mediate the relationship between structural differentiation and ambidexterity. We find no evidence for senior team group contingency rewards. Finally, we find a separate, non-mediating influence of connectedness on organizational ambidexterity.

***Study 2: Embeddedness and Ambidexterity: The Joint Effect of Internal and External Social Capital (Ch. 3).*** The deviating influence of connectedness on organizational ambidexterity in study 1 provided an avenue for further investigation. In study 2, we examine joint effects of relational and structural social capital (i.e. trust and connectedness) on

organizational ambidexterity. In addition, we incorporate the perspective that the ability to strike a balance between exploration and exploitation may be contingent on external factors, and we examine how the effects of internal social capital are moderated by client social capital types (see figure 2 for our model and results).

We conceptualize social capital as an organizational characteristic that is available to every individual organizational member (Adler and Kwon 2002). As such, it can have an influence on individuals across hierarchies and (structurally differentiated) organizational units. Furthermore, we forward that while the influence of client relationships as a source of innovation is a topic of debate (Danneels 2002; Fang 2008), this may be contingent on combinations of external and internal social capital types.

We find complementary relationships between different social capital types. For instance, internal trust is positively moderated by client structural capital. However, we also find a detrimental influence of client relational capital on the relationship between trust and organizational ambidexterity.

***Study 3: Ambidexterity in Self-Managing Teams: A Multilevel Analysis of Team and Individual Characteristics (Ch. 4).*** The first two studies examine firm-level ambidexterity through integration mechanisms at the firm-level and top-management team levels of analysis. However, it would seem likely that there is a certain amount of interaction *between* levels next to interaction at the *same* level. Furthermore, organizational ambidexterity is not solely a firm- or top management team level phenomenon (Raisch and Birkinshaw 2008). In study 3, we therefore argue that both horizontal and vertical processes guide the ability to become ambidextrous, and conduct a multilevel study at the team and individual level. In this study, we argue that team-level context variables may shape individual-level abilities to engage in a certain level and an extent of creative problem solving that is beneficial to resolve the exploration and exploitation tensions at the team-level. This results in a model where both top-down and bottom-up influence are examined (see Figure 3 for our model and results).

Furthermore, this study is conducted in a self-organizing, non-hierarchical environment, which provides for interesting avenues for discussion related to how transcendence of the exploration-exploitation paradox play out differently in such a context. For instance, we find a negative influence of trust on individual level variables. This highlights a distinction in

context and in corresponding ways to realize ambidexterity, which will be touched upon at the end of this summary.

## **Discussion and Conclusion**

This dissertation attempts to capture several conceptual assertions and methods that organizations may employ to achieve ambidexterity. The studies in this dissertation have shown organizational ambidexterity to be a challenge that can be addressed through various means depending on context (i.e. hierarchical or self-organizing) and hierarchical level (top-management, organizational, team, and individual level). In the next sections the main findings, contributions and implications of the three studies are summarized, after which avenues for future research are discussed.

***Contribution 1: extending the examination of the relationship between differentiation and integration in managing ambidexterity.*** Study 1 acknowledges ambidexterity as a dynamic capability. This implies that levels of integration should be dependent on levels of differentiation. While earlier research has mostly focused on either differentiation (Duncan 1976; Gilbert 2006) or integration (Atuahene-Gima 2005; Lubatkin et al. 2006), this study shows how levels of structural differentiation should be proportionally followed by levels of integration. This constitutes a departure from earlier research on differentiation (Lawrence and Lorsch 1967; Hage and Dewar 1973) and ambidexterity (Tushman and O'Reilly 1996), where integration is merely seen as an enhancing factor.

The proportional relationship between differentiation and integration is relatively new to research in management. Theories of social organization however (Durkheim 1933; Turner 1990; Weber 1947) have linked differentiation explicitly to consequential integrative efforts and to social cohesion. In this, the act of differentiation itself leads actors to consciously establish ways of coordinating and integrating with the other parties (Turner 1990). By postulating the causal relationship between structural differentiation and integration mechanisms, the role of decision makers is emphasized in enacting and directing the process of resource and routine reconfiguration.

***Contribution 2: distinguishing between mechanisms at various hierarchical levels that work differentially towards ambidexterity.*** In study 1, ambidexterity is shown to be

achievable through structural differentiation followed by social integration (informal integration) at the top management level and cross-functional interfaces (formal integration) at the organizational level. This echoes earlier research on the importance of coordination and integration at various hierarchical levels (Martinez and Jarillo 1989). Other things equal, one can draw relationships between the level of interdependency and complexity and the formality of both differentiation and integration mechanisms (Egelhoff 1991). Typically, less formality can be observed when moving up an hierarchy. Because of the salience of resource allocation decisions at this level (Floyd and Lane 2000), managers at higher hierarchical levels face higher levels of interdependency and complexity, yet also undergo high levels of differentiation (although less formally so). This demands flexible and frequent mutual adjustments (March and Simon 1958), which are best supported through informal integration mechanisms (Daft and Lengel 1986; Hambrick et al. 2008).

In study 3, team context is shown to have differential moderating effects on the individual level relationship between task autonomy and creative problem solving. The outcome of shared vision as a positive moderator echoes earlier research on ambidexterity (Jansen et al. 2008). The outcome involving trust in study 3 however, is not only in clear contrast to earlier research on ambidexterity (Adler et al. 1999), but also to the outcome of study 2.

This may be co-dependent on the type of ambidexterity a firm pursues, on the organizational context and applied level at which the paradox may be transcended. First, study 2 implies that *structural* ambidexterity (structural differentiation is a control variable) may be mitigated by internal social capital bridging units and hierarchies. Study 3 implies *contextual* ambidexterity as it examines the ability of teams to create ambidexterity by creating and facilitating a coercive context. Second, study 3 examines self-managing teams, which may influence the way certain contextual variables play out (Langfred 2005). Third, study 2 applies a firm level of analysis, whereas study 3 combines team and individual levels of analysis. Thus, it seems that trust may have a different influence depending on the way exploration and exploitation are embedded within organizations.

***Contribution 3: highlighting the importance of informal, contextual mechanisms to become ambidextrous.*** All three studies in this dissertation underline the importance of informal mechanisms to achieve ambidexterity. While certain mechanisms work in concert with formal structure (i.e. top management team social integration, shared vision), others (trust,

connectedness) have an influence that crosses internal and external boundaries of the firm. Finally, some mechanisms may even work against the attainment of ambidexterity.

In study 1, we find a surprising result: connectedness, as an informal integration mechanism, has a significant influence, yet does not mediate the relationship between structural differentiation and ambidexterity. This suggests a potential of informal internal relationships aside from the formal structuring of ambidextrous firms. This is in line with research on social capital that states that informal relations tend to be more persistent than formal ones, as they continue to exist separately from formal interactions (Podolny and Baron 1997).

With this result in mind, in study 2, the effect of both structural and relational capital on ambidexterity is examined. The outcome of our analysis is that connectedness matters for ambidexterity, whereas trust has no significant influence (without moderating influence of external social capital, that is) on reconciling exploration and exploitation. Moreover, these mechanisms did not intervene in the relationship with structural differentiation (as a control variable) and ambidexterity. Thus, the result from study 1 in this respect is replicated and validated. Interestingly, these outcomes imply effects similar to contextual ambidexterity even within structurally separated organizations. Effectively, internal informal relationships in these studies stimulate integration of exploration and exploitation across the organization as if it were a single domain (Gupta et al. 2006).

In study 3, individual creative problem solving provides ambidextrous teams with the ability to align themselves around adaptability (Gibson and Birkinshaw 2004). While creativity can be actively stimulated by an interplay between formal and informal context and individual attributes (Amabile et al. 1996; Runco 2004), the translation of such thought-processes to concrete ideas that work towards ambidexterity is quite uncertain and dependent on participation of team members. Such processes are benefited by mutual adjustments (Van de Ven et al. 1976), and ad-hoc and informal interaction between members sharing their ideas (Sivadas and Dwyer 2000). As a result, members will enjoy an atmosphere where new ideas flow freely, yet they remain pragmatic towards applications of these ideas (Scott and Bruce 1994). In this, they may maintain both an exploratory and exploitative mindset (allowing for creative problem solving).

***Contribution 4: investigating the effects of a firm's permeability with the external environment on its ability to become ambidextrous.*** In study 3, we test a model in which the relationship between internal social capital types and ambidexterity is moderated by external

social capital in the form of client relationships. While earlier research has proposed or tested the influence of the environment on the link between ambidexterity and performance (Floyd and Lane 2000), few studies have examined its influence on the ability to achieve ambidexterity.

Our results show that combinations of internal social capital and client social capital can be complementary or detrimental for a firm's ability to become ambidextrous. Combinations of dissimilar social capital types (i.e. relational and structural) have a positive influence on ambidexterity, whereas similar social capital types hinder each other in a firm's pursuit of ambidexterity. As firms are increasingly involving their clients in their innovation processes (Prahalad and Ramaswamy 2004), study 3 marks an important insight for firms that seek collaborations with clients and wish to make the most of them.

***Contribution 5: understanding the multilevel and nested nature of the methods firms may employ to achieve ambidexterity.*** Many studies on ambidexterity have indicated the nested, multilevel nature of balancing high levels of exploration and exploitation (O'Reilly and Tushman 2008; Raisch and Birkinshaw 2008). While some conceptual work refers to it (Gupta et al. 2006; Simsek et al. 2009), to our knowledge none has examined it empirically as yet.

Study 3 captures the notion of nested antecedents by examining the differential influence of team level trust and shared vision on the relationship between individual-level task autonomy and creative problem solving, which in turn is related to team-level ambidexterity. This paper moves research in ambidexterity beyond separated individual level or (sub-) organizational level analysis. Instead, the model indicates a relationship between organizational context, individual characteristics and outcomes, which has a significant influence on team ambidexterity.

The value of a multilevel or nested approach to explaining ambidexterity is further underlined by the idiosyncratic effects of trust in studies 2 and 3. While these results provide evidence for different influences of trust at their respective organizational levels, they also indicate that there are mechanisms in play that intervene *between* levels of analysis. Such cross-level relationships can have a significant influence on the way certain mechanisms play out when organizations organize for ambidexterity.

In any case, study 3 presents a first empirical step towards understanding the nested nature of mechanisms that influence the ability to achieve ambidexterity. In this, it shows that

depending on lower level characteristics, contextual mechanisms may work out differently than expected.

***Managerial implications: the differential and combinatorial influence of levers for ambidexterity and the power of context.*** Besides implications for theory development, there are some practical implications of the insights from the studies in this dissertation.

First, firms attempting to balance high levels of exploration and exploitation, should be aware that levers for ambidexterity can have differential effects depending on hierarchical level, internal or external context, and way of organizing.

For instance, study 1 shows that organizations seeking structural ambidexterity (i.e. establishing exploration and exploitation in separate units) should develop and apply different types of integration mechanisms depending on the hierarchical level under consideration. At the top management level, ambidextrous organizations should encourage (informal) social integration among senior team members. At lower hierarchical levels, however, organizations seeking ambidexterity should establish more formal cross-functional interfaces that deepen knowledge flows across differentiated units, yet maintain the contradictory processes and time orientation within exploratory and exploitative units.

In a similar vein, if a firm enjoys a broad and connected client network (i.e. many clients, diverse clients, being centrally positioned in the client network), it can facilitate the emergence of ambidexterity by stimulating higher levels of trust internally. However, if this firm is heavily dependent on teams to develop ambidextrous abilities in a self-managing and contextual fashion, trust may prove to be detrimental. In contrast, a firm that is characterized by structural ambidexterity will find trust to be ‘the glue’ that works to bind the dispersed knowledge coming from the client network.

A second overarching insight is that ambidexterity apparently requires combinations of mechanisms that have counterbalancing influences: formal and informal organization (control versus laissez-faire), structural and relational social capital (broad versus in-depth knowledge), autonomy versus shared vision (individualistic versus a focus on collective action and goals), and combinations of convergent and divergent thinking. Managers seeking to stimulate ambidexterity should be aware of the need to perform balancing acts, and organize processes and context accordingly. For instance, if organizational members are allowed to behave autonomously, managers should pay attention to the creation of a shared vision, or to other ways of creating a focus on the collective needs of the organization. In the organizational members’ minds, this helps develop both convergent and divergent thinking.

However, if control is tight and responsibilities are centralized (emphasizing convergent thinking), it may prove helpful to establish a counterbalancing force that helps members to develop their divergent thinking processes.

### **Limitations of the dissertation and future research suggestions**

There are several limitations in this dissertation's research that demand further inquiry. First, ambidexterity is conceptualized as a dynamic capability, which makes assertions regarding a firm's actions towards ambidexterity over time. Each study in dissertation separates the dependent from the independent variable with a lag of about a year, which brings an element of time into the models. However, research on ambidexterity will benefit from more extensive longitudinal or panel analysis, where firms' actions are examined over longer periods of time.

Second, each study in this dissertation is grounded in either structural or contextual ambidexterity. However, the results regarding connectedness in studies 1 and 2 indicate that certain mechanisms may work towards contextual ambidexterity despite a structural approach. While the two approaches (contextual and structural) have been positioned as opposites, aforementioned results hint at a possible co-existence of the two (contingent on level of analysis). A differentiating factor in this respect may be found in the complexity and interdependency of tasks and projects within firms: the more complex and interdependent these are, the higher the demands are for flexible and frequent mutual adjustments (March and Simon 1958), calling for low differentiation and for informal and high levels of integration (Daft and Lengel 1986). As such, next to structural ambidexterity, contextually ambidextrous teams may exist within a firm that work intensively for a short period of time to achieve synergistic outcomes that may be further developed afterwards.

Third, research on ambidexterity has only just begun to tap into the multilevel and embedded nature of ways to achieve ambidexterity. The three studies presented here indicate that ambidexterity may be differentially achieved at various levels, depending on internal and external context. These results beg further examination. It would be an interesting avenue to examine whether integration mechanisms work out differently at different levels of analysis, or between levels of analysis. Further research is required in order to compare methods of achieving ambidexterity across different organizational contexts.

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**Table 1 Three studies on ways of achieving ambidexterity**

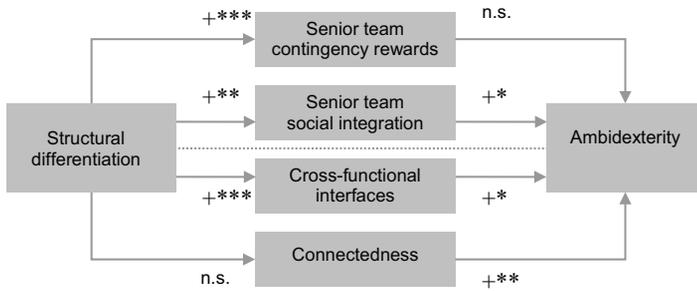
	<b>Study 1</b>	<b>Study 2</b>	<b>Study 3</b>
<b>Topic</b>	Differentiation and formal and informal integration mechanisms as antecedents of ambidexterity	Structural and relational social capital and client social capital as antecedents of ambidexterity	Multilevel antecedents of team-level ambidexterity
<b>Unit of Analysis</b>	Top management team and organizational levels	Firm level and external client relationships	Individual and team level
<b>Focus</b>	Input: structural differentiation Process: formal and informal integration Output: firm-level ambidexterity	Process: informal integration Output: firm-level ambidexterity	Input: task autonomy Process: informal integration problem solving Output: team-level ambidexterity
<b>Grounding</b>	Structural ambidexterity	Structural ambidexterity	Contextual ambidexterity

**Table 2 Data collection, statistical methods, and data characteristics**

<b>Study</b>	<b>Data collection method<sup>a</sup></b>	<b>Statistical methods</b>	<b>Data</b>
1	Cross-sectional survey: Independent variables 2005  Dependent variable 2006	Ordinary Least Squares  Structural Equation Modeling	230 firms  <ul style="list-style-type: none"> <li>• manufacturing (51.3%)</li> <li>• construction (16.5%)</li> <li>• financial services (7.8%),</li> <li>• other industries (24.3%)</li> </ul>
2	Cross-sectional survey: Independent variables 2007  Dependent variable 2008	Ordinary Least Squares  Structural Equation Modeling	343 firms  <ul style="list-style-type: none"> <li>• manufacturing (39.7%)</li> <li>• construction (18.4%)</li> <li>• financial services (13.1%)</li> <li>• other industries (28.9%)</li> </ul>
3	Multilevel Survey: Independent variables 2008  Dependent variable 2009 Interviews	Ordinary Least Squares  Hierarchical Linear Modeling	124 individuals in 30 self-managing teams within a consulting company  15 semi-structured interviews

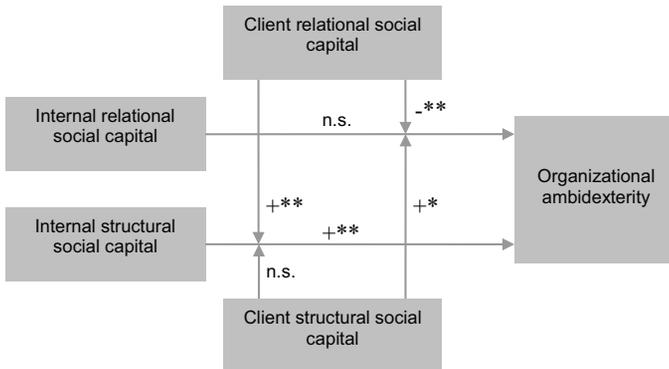
<sup>a</sup> The years indicated refer to the data collection periods

**Figure 1 Hypothesized model of the mediating role of integration mechanisms**



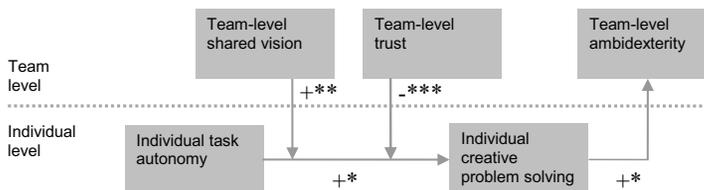
\*  $p < .05$ , \*\*  $p < .01$ , \*\*\*  $p < .001$

**Figure 2 Conceptual framework of the impact of internal and external structural and relational social capital on organizational ambidexterity**



\*  $p < .05$ , \*\*  $p < .01$ , \*\*\*  $p < .001$

**Figure 3 Multilevel relationships between team and individual level in study 3**



\*  $p < .05$ , \*\*  $p < .01$ , \*\*\*  $p < .001$

## *SECOND AWARD*

### **Institutional Change in the Making The Case of Socially Responsible Investment**

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#### ***Abstract***

*This dissertation explores the mechanisms of institutional change in practice. The institutional change under study relates to the progressive penetration of Socially Responsible Investment (SRI) criteria into conventional investment funds, a phenomenon known as SRI Mainstreaming. It mobilizes a three-year longitudinal case study of a French asset management company, based on participative observation, semi-structured interviews and documentary evidence. It studies 1) the origins of the SRI Mainstreaming phenomenon, 2) how asset management companies have transformed their practices in response to SRI Mainstreaming and 3) why practices have been transformed in a different way in fixed-income investment, compared to equity investment.*

In the 1920s, Socially Responsible Investment (SRI) appeared further to the ethical desire of the American Quaker and Methodist movements to exclude from their portfolios companies belonging to the 'sin stocks'. This referred to sectors such as alcohol, gambling, pornography, tobacco and weapons. During the 1970s, SRI was developed in Europe as a means to boycott companies that participated in apartheid in South Africa. In the 2000s, SRI appeared in France; it involved integrating non-financial criteria into investment processes to achieve better financial performance. In 2005, the former United Nations Secretary-General, Kofi Annan, launched the Principles for Responsible Investment (PRI), an investor partnership with the United Nations Environment Program Finance Initiative and the United Nations Global Compact. One of the main purposes of the PRI was to better align investors' purposes with broader objectives of society: 'By acting collectively on the basis of these principles for responsible investment, we can help protect all the world's precious assets.'<sup>1</sup> (Kofi Annan, 2005) Today, the global SRI market can be estimated at approximately €5 trillion (Eurosif 2008).

At a time when the world is facing a financial, economic and social crisis of great amplitude, the development of SRI questions our common understanding of finance. At first sight, combining social responsibility and financial performance appeared contradictory. Certain actors thought that SRI necessarily underperformed and integrating SRI in practice was usually an uphill struggle. Evidently, financial and SRI actors were not made to understand each other. A few years later, however, no longer taking into account SRI criteria appears impossible. Today, SRI criteria seem to have always been used by asset managers. What took place in between the apparent contradiction between SRI and finance, the impossible implementation of SRI in practice and the accepted adoption of SRI criteria by asset managers?

Clearly, explaining this change requires further investigation. This is the objective of this dissertation. Following a pragmatist epistemology (Peirce 1931; Dewey 1938), it aims at explaining how and why SRI has been institutionalized in the French asset management sector, a phenomenon known as SRI Mainstreaming. For this purpose, it investigates the causes and the mechanisms through which SRI change has been enacted in practice. In doing so, this research contributes to the understanding of a process of institutional change *in the making*. This paper gives an overview of the dissertation. Section 1 introduces the phenomenon of SRI Mainstreaming. Section 2 develops the theoretical background and the

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<sup>1</sup> Source : Principles for Responsible Investment [www.unpri.org](http://www.unpri.org)

research methods in-use. Section 3 details the research methods. Lastly, section 5 and 6 point to further research.

## **1. From SRI to Mainstream: The SRI Mainstreaming Phenomenon**

### **1.1. SRI at a Glance: The French Particularities**

Contrary to other countries, such as the United States or the United Kingdom, SRI in France has never followed an ethical approach, but a financial one. Various reasons can be given to explain such a difference. Firstly, French religious organizations and individuals have shown little interest in ethical funds. Indeed, it frequently emerges that the French mistrust stock market investments and doubt the possibility of combining ethics with finance. Part of this reluctance finds its origins in the catholic tradition of the country, which associates money with immorality. In contrast, the Protestant churches of the Nordic and Anglo-Saxon countries have catalyzed the development of finance. Therefore, whereas SRI has developed in the rest of Europe since the 1970s, it has expanded into France only over the past decade. Secondly and consequently, SRI in France has not been framed by ‘ethical actors’, such as religious organizations, but by financial actors. Thus, the first SRI funds resulted from a joint action between asset managers and former financial analysts who had transformed themselves into ‘SRI analysts’.<sup>2</sup> They aimed at broadening investment horizons by restoring a long-term view in asset management and claimed that SRI would achieve better financial performance by anticipating those costs linked to a below-average performance in social, environmental and governmental domains. Lastly, in France, SRI has benefited over the past few years from major economic and social change: the move from a retirement system almost entirely based on pay-as-you-go pension plans to a system increasingly based on funded pension plans. Aiming to shield itself from scandals such as corruption and pollution, the French government has favored the creation of a sustainable demand for SRI from public pension funds including the *FRR* (Pension Reserve Fund) and the *ERAFP* (French Public Service Additional Pension Scheme) and from employee savings funds. In addition, SRI has revealed itself to be a good argument for convincing trade unions to adopt funded pension plans: SRI both guarantees the soundness of investments and maintains the role of trade unions in the management of the retirement system.

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<sup>2</sup> Before the 1990s, France counted a few ethical funds, although these were very marginal, both in terms of assets and numbers. Moreover, they differed to a large extent from SRI funds, which were developed later. Further details are given in the rest of the chapter.

History dictates that the first objective of SRI in France has been financial. SRI has been a means to achieve better financial performance by selecting the companies that anticipate the future and by protecting investors against non-financial risks. However, until now, there has been no evidence of a systematic positive (or negative) correlation between SRI and financial performance (Margolis and Walsh 2003; Orlitsky, Schmidt et al. 2003). In fact, SRI does not only follow financial concerns, it is also a means to restore social legitimacy in a sector, notably discredited by the recent financial crisis. Therefore, the purpose of SRI is twofold: to select the most socially responsible companies and to achieve better financial performance.

Rejecting the exclusion of sin stocks, France has favored an SRI approach known as ‘best-in-class’. This method of investment involves selecting the most socially responsible companies in each activity sector, whatever the sector. Since the most socially responsible companies are deemed to be the most profitable in the long term by the tenants of SRI (UNEP-FI 2007), this method of selection should generate better financial performance in due time. However, the absence of a systematic relationship between SRI and financial performance in practice often forces asset management companies to find a compromise between both performances. Indeed, while a growing number of pension funds and benefit institutions request SRI, almost none of these investors would accept jeopardizing financial performance for SRI concerns. Moreover, clients are not clear about what an SRI fund should include. Their demands remain vague: asset management companies themselves must give evidence of the financial and SRI performances of their SRI funds. Lastly, SRI funds are not controlled by any public organization, such as the *AMF* (French Securities Regulator); which means that any asset management company may claim that its funds are SRI. Thus, despite the existence of two voluntary SRI labels – one launched in 2002, by a committee of trade unions known as the *CIES* (Trade Unions Committee for Employee Saving Funds) and another created in 2009, by a semi-private organization Novethic<sup>3</sup> – the French SRI market is still unregulated. This absence of definition and the ambiguous link between finance and SRI explain why SRI in France may be difficult to understand for foreign observers, who usually associate SRI with the exclusion of sin stocks. To offer a better understanding of what SRI involves, the following section attempts to explain in further details this phenomenon of blurring.

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<sup>3</sup> Novethic is the subsidiary of the Caisse des Dépôts group which is a ‘public group serving general interest and economic development’.

## 1.2. SRI Mainstreaming: The Appearance of a New Institution?

The market has become increasingly competitive over the past ten years. At the end of 2009, there were 268 SRI investment funds proposed by 65 asset management companies,<sup>4</sup> working with more than 20 social rating agencies. Whereas SRI funds originated from equities, in 2008, SRI equity funds represented only 33% (against 43% in 2007) of the total assets of SRI funds; 67% concerned fixed-income SRI funds. Today, SRI funds are said by Novethic to represent between 2 to 3% of the French assets under management. However, this small proportion hides a much larger trend: the progressive and massive integration of SRI criteria into the mainstream. At the end of 2009, this new phenomenon, known as SRI Mainstreaming, concerned 90% of conventional funds in terms of assets (Novethic 2010)

Mainstreaming can be defined as the progressive penetration of SRI criteria into conventional funds. The term ‘mainstream’ refers to conventional funds focused on financial performance, only. In contrast, SRI funds usually aim to achieve good performances in both financial and SRI terms (even if the latter is not compulsory). To do this, SRI funds combine traditional financial analysis with non-financial analysis, known as SRI criteria. These SRI criteria relate to hundreds of environmental, social and governmental criteria such as carbon emissions, child labor or independency of boards. Until recently, the use of such criteria has enabled the differentiation between both types of funds. SRI funds have been referred to as a ‘niche’, while conventional funds have been related to the mainstream. However, over the past few years, conventional funds have also begun integrating SRI criteria. Rather than following an SRI approach, this integration has followed a financial approach: certain SRI criteria have been deemed relevant for generating financial performance. Carbon emissions criterion is a good example. This phenomenon of integration is known as SRI Mainstreaming and appeared for the first time in 2006 in the annual study of the market by Novethic (2006):

We have taken into account a new demand which seems to sustainably settle among investors: the transversal integration – case by case – of the criteria of non-financial analysis among classical financial analysis.

At the end of 2009, 90% of conventional funds were estimated to integrate at least one SRI criterion, compared to 61% at the end of 2008 and 3% at the end of 2007 (Novethic

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<sup>4</sup> This proportion refers to the assets managed by the French *OPCVM*. Source : Novethic [www.novethic.fr](http://www.novethic.fr)

2010). Over the past three years, the acceleration of the SRI Mainstreaming phenomenon has been considerable; which has blurred the differences between SRI and the mainstream. On the one hand, SRI funds have attempted to restore a long-term view in asset management by claiming that selecting the most socially responsible companies will generate better financial performance in the long-term. On the other hand, conventional funds have integrated SRI criteria to achieve better financial performance. At first sight, the difference between both may appear insignificant; which explains why a growing number of investors complain about the apparent similarities between SRI and conventional portfolios. Today, the tenants of SRI face a new challenge: to demonstrate the differences between SRI and conventional funds, while maintaining good financial performance. This task is all the more difficult since SRI performance has not yet been defined. However, SRI Mainstreaming is also a challenge for conventional actors: as SRI Mainstreaming develops, institutional investors are asking for a greater integration of SRI criteria into conventional funds. Conventional funds are also increasingly required to account for their SRI performance, and asset management urged to become more socially responsible. Evidently, the recent financial crisis has participated in accelerating this change. For instance, in 2008, the *FRR* decided to gradually extend its responsible investment approach from several mandates dedicated to SRI funds to all asset classes.

However, this integration is a difficult task, as developing SRI Mainstreaming disrupts the practices of asset management companies. It questions the previous collective rules and beliefs of the sector: its institutions (Berger and Luckmann 1966). Financial performance is no longer the only important factor, SRI criteria also matter. This sudden and profound change disturbs the institutional logics (Friedland and Alford 1991; Thornton and Ocasio 1999) of the asset management sector: the practices, assumptions, beliefs and rules mobilized by sector members to make sense of their reality are questioned. Facing this institutional change, asset management companies need to (re)design their collective activity: the way they used to manage their funds is no longer compatible with client demands. This transformation of practices reveals itself to be a thorny challenge both for SRI and conventional funds. Indeed, despite claiming that the most socially responsible companies will be the more profitable in the long term, even the tenants of SRI find it difficult to achieve both types of performances. Notably, this is explained by the difference of time perspective between the two performances. SRI is deemed to be more profitable in the long-term while asset management is still being assessed in the short-term. This challenge is particularly complex in fixed-income investment, which is technically more intricate than equity investment.

Regarding the complexity of such an institutional change, the dissertation aspires to understand how and why the practices of the French asset management sector have been transformed in response to SRI Mainstreaming. In particular, it aims at answering the following research questions:

- How and why has SRI Mainstreaming expanded into France?
- How have asset management companies transformed their practices in response to SRI Mainstreaming?
- Why has this transformation differed between equity and fixed-income investment?

## **2. Theoretical Background**

The dissertation attempts to understand the causes and mechanisms of a process of institutional change *in the making*. The choice has been made not to provide a holistic theoretical framework; instead, it focuses on the following theoretical questions:

- To what extent and under what conditions can new social movements change economic institutions?
- How do actors transform their practices in response to institutional change?
- What explains practice variation when faced with institutional change?

For this purpose, the dissertation draws to a large extent on institutional theories. Notably, it mainly relies on the concept of institutional logics, which are defined as a ‘set of material practices and symbolic constructions – which constitutes its organizing principles and which is available to organizations and individuals to elaborate’ (Friedland and Alford 1991). The institutional logics provide the *scheme of meanings* through which actors make sense in practice of their reference institutions. In addition, the dissertation mobilizes several practice theories:

- Social Movement Theory
- Pragmatism
- Epistemic Object

Social movement theory (Benford and Snow 2000; McAdam and Scott 2005) is a collective action theory which studies how and why social movements aim at changing existing institutions. It is used as a theoretical device at the organizational field level to explain the origins of SRI Mainstreaming in the French asset management sector. Unlike collective institutional entrepreneurship, social movement theory enables the theorization of collective agency at stake in a process of institutional change. It also allows the introduction

of higher motivations than personal interests in conducting institutional change, such as society choices conveyed by the Sustainable Development project.

Pragmatism (Peirce 1931; Dewey 1938) is used to theorize how actors collectively transform their practices in response to institutional change. This is obtained thanks to the concept of collective inquiry, which is defined as the investigation processes – mobilized by a group of actors committed to the same collective activity – to make sense of an uncertain and disrupted situation. This concept facilitates the study of the intra-organizational dynamics of institutional change by providing a collective action theory focused on practices.

Lastly, to be able to restore the role of objects in the process of transformation of practices, the dissertation relies on the concept of epistemic object (Rheinberger 1992; Knorr-Cetina 1997). The preference in the dissertation for the notion of object over the concept of instrument (Miller and O'Leary 2007) follows my intention to emphasize that instruments are 'simultaneously things-to-be-used and things-in-a-process-of-transformation' (Knorr-Cetina 1997). To highlight the twofold dimension of instruments, I distinguish two types of objects: epistemic and technical objects. Rheinberger defines an epistemic object as any object under research: an 'object which embodies what one does not yet know' (Rheinberger 1992). He distinguishes epistemic from technical objects, which are fixed and provide stable knowledge. An object is epistemic or technical according to its status in the situation. For instance, a management system which is used as a daily, steady and *unproblematic* resource by actors is a technical object. As soon as the management system 'breaks down', it *generates questions* and becomes an epistemic object. At that instant, actors are likely to investigate the situation to repair the management system and transform it back into a technical object. In other words, management systems are objects, which can either be technical or epistemic, depending on their role in actors' practices.

In accordance with the aim of the dissertation to explore institutional change in practice, continual effort has been made to focus on practices when theorizing. For this purpose, the dissertation uses a research methodology which draws on the same theoretical background: pragmatism. This allows the epistemological approach of the dissertation to be consistent with its theoretical objectives and contents. Further details about the research methods are given in the following section.

### 3. Research Methods

Along the same lines as action research, this dissertation employs a cooperative inquiry method (Heron 1996), which is based on the concept of inquiry developed by pragmatists (Peirce 1931; Dewey 1938). A cooperative inquiry ‘involves two or more people researching a topic through their own experience of it, using a series of cycles in which they move between this experience and reflecting together on it’ (Heron 1996). This method implies cooperative relationships between the researcher and the subjects: they work together as co-researchers and co-subjects. In accordance with this perspective, I participated in the research process both as a researcher and a practitioner. This in-depth integration within the practices of asset management was obtained through an agreement – known as a *CIFRE* (Industrial Contracts for Training Through Research) – between a French asset management company known as SRI Invest<sup>5</sup>, my laboratory and myself, under the control of the French Ministry of Research. According to this contract, over three years (May 2006-May 2009), I worked for SRI Invest as an SRI Analyst and was permitted to use the data I collected for academic purposes.

SRI Invest was a small asset management company, specialized in SRI since 1997, which employed almost 20 people. To support the research process, I used three types of data collection:

- Participative observation: during three years, I held the position of a complete member, which meant that I was ‘fully immersed in the research setting’ (Adler and Adler 1987). I could understand the beliefs, values and goals of SRI Invest members. To favor the process of reflexivity required by the inquiry, I wrote a daily diary where I described the main events of each day I spent at SRI Invest and commented on them.<sup>6</sup>
- Interviews: from July 2007 to November 2009, I interviewed actors in the French asset management field and listed companies to understand how their practices had been impacted by the development of SRI Mainstreaming. In total, this represented 47 semi-structured interviews; 39 of which were tape-recorded and transcribed verbatim. For the eight other interviews, interviewees’ comments were recorded in handwritten notes, which were reviewed, edited and transcribed immediately.

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<sup>5</sup> SRI Invest is a pseudonym.

<sup>6</sup> This represented several hundred pages of notes.

- Documents and secondary data: extensive data were collected from documentary sources, including trade association surveys, professional reports (consultants, asset managers, brokers and social rating agencies), NGO studies, newspapers, newsletters, websites, theses, academic papers and books. Documentary evidence at SRI Invest, such as minutes of the meetings and process presentations to clients, were also analyzed.

#### **4. Research Findings**

The dissertation provides different answers to the three above research questions (section 1). Firstly, it explains how and why SRI Mainstreaming has expanded into France. It demonstrates that this phenomenon has resulted from the action of a collective movement, driven by financial players, including asset managers and former financial analysts. This movement has been described as a social movement (McAdam and Scott 2005), whose purpose is to trigger institutional change in the French asset management sector. In order to convince conventional actors of the relevance of SRI for their funds, the movement mobilizes structures and framing processes (Benford and Snow 2000). To succeed, the movement also benefits from political opportunities, such as the emergence of a new demand for SRI from public pension funds and change in society. However, over the past few years, the movement has appeared to die out. As SRI Mainstreaming grows, SRI and conventional funds start to resemble each other: a mimesis which threatens the survival of SRI.

Secondly, the dissertation studies how an asset management company (re)designs its equity investment processes, in response to SRI Mainstreaming. Facing the disruption of practices due to SRI Mainstreaming, it argues that actors are required to (re)design their collective activity. It demonstrates that actors transform their practices through the transformation of an epistemic object, which is an object under research (Rheinberger 1992). More particularly, the asset management company under study uses an investment process as an epistemic object. Through (re)designing their epistemic object, actors transform their practices, technical objects and institutional logics (Friedland and Alford 1991; Thornton and Ocasio 1999). This transformation occurs through a collective inquiry (Peirce 1931; Dewey 1938), which constantly combines reasoning and experimentation.

Lastly, it explores why the transformation of asset management companies practices in response to SRI Mainstreaming differ between equity and fixed-income investment. Notably, the dissertation argues that the variations between the two result from their differences in

terms of institutional logics. Asset managers deem SRI analysis to enrich equity investment as it is expected that SRI criteria lead to better financial performance in the long term. In contrast, the institutional logics of fixed-income investment contradict SRI logics; asset managers believe that SRI Mainstreaming threatens financial performance. Namely, this results from the fact that no SRI criteria have yet been developed to predict the possibility of companies going bankrupt. Yet, the anticipation of this risk is judged to be the major risk to which SRI criteria may contribute. As a result of these differences, SRI Mainstreaming itself changes. In equity investment, SRI Mainstreaming keeps growing. As it develops, SRI analysis increasingly moves toward financial analysis. In fixed-income investment, SRI Mainstreaming seems to slow down. SRI is progressively shifting from a financial approach to an ethical one. SRI no longer appears as a means to achieve better financial performance, but as a way to favor the most socially responsible companies, and this, for ethical purposes.

## **5. The Future of SRI Mainstreaming**

### **5.1. The Pursuit of the Phenomenon**

Today, the French asset management sector continues to face institutional change; SRI Mainstreaming (i.e. the penetration of SRI criteria into conventional funds) is still ongoing. Actions such as the partnership between the *AMF* and the *FIR* in 2009 to transform Paris into a pole of excellence in terms of responsible finance and sustainable development illustrate this trend. Asset managers are likely to increasingly take SRI aspects into account when investing; which should continue to nurture institutional change. Hence, I anticipate in the coming years the pursuit of the phenomenon of SRI Mainstreaming, both in equity and fixed-income investment, even if research regarding fixed-income investment is still taking its first faltering steps. However, one day, the phenomenon of SRI Mainstreaming will end, and this, for at least one reason: being a *process* of change, SRI Mainstreaming is *by essence* temporary. Though it remains difficult to predict what will come next, the phenomenon of SRI Mainstreaming is likely to disappear: conventional funds will or will not integrate SRI criteria.

## 5.2. The Appearance of New SRI Funds

Though foreseeing the future is impossible, one can expect a researcher to have certain convictions, especially after working four years on a research topic. First and foremost, I do not believe that SRI funds will disappear. Although the appearance of SRI funds has been quite recent in France, the development of a retirement system based on funded pension plans will certainly maintain the demand for SRI funds, at the very least, from trade unions. Moreover, despite the financial crisis, SRI has benefited from a growing interest among investors. In addition, the good performance of SRI funds during the financial crisis has convinced most conventional actors that SRI does not necessarily threaten financial performance. Lastly, the emergence of new regulation in the French asset management sector may favor the development of SRI in the future. This, in turn, may favor the development of SRI, especially in fixed-income investment.

Over a ten year horizon, I expect conventional funds to have integrated SRI criteria deemed to generate better financial performance in their financial analysis. However, I do not believe that conventional finance as a whole will be assessed on two types of performances: financial and SRI. This would require a major change at the society and sector level. Notably, it would require agreeing on a collective 1) use and 2) form of SRI performance. Yet, SRI criteria and SRI performance are still in their early stages. Moreover, a significant number of investors still have not shown interest in SRI. Lastly, such a change in conventional finance could hardly be implemented without support from other countries; which would require regulation at an international level. Yet, regarding the difficulties faced by the G20 summit to agree on financial regulation in April 2009, I do not believe it is possible to reach a worldwide compromise on SRI performance in the next ten years.

I also predict the development of SRI/ethical funds, based on exclusion, both for individual and institutional investors. Although financial performance will remain an important criterion, these investors will accept jeopardizing financial performance for ethical purposes. For instance, institutional investors – such as the *ERAFP* – have expressed an interest in ethical funds. Thus, at the end of 2009, there were 68 SRI/ethical funds among the 268 listed by Novethic<sup>7</sup>, most of which appeared in 2008 and 2009. However, these funds will remain marginal in terms of assets.

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<sup>7</sup> Source : Novethic [www.novethic.fr](http://www.novethic.fr)

Finally, I consider that current SRI/financial funds where SRI is a means for investors to achieve better financial performance will disappear and be progressively replaced with SRI/responsible funds. SRI/responsible funds are adopted by investors in order to maintain their ‘operating license’ by shielding themselves from scandals and risks. Indeed, as soon as SRI criteria are deemed useful to achieve better financial performance, they will be integrated into conventional funds. As a result, to survive, SRI funds will have to differentiate themselves from conventional funds which could only be achieved by developing specific SRI funds based on SRI/responsible and/or SRI/ethical approaches. However, contrary to SRI/ethical funds, investors will not easily accept jeopardizing financial performance for SRI concerns. This will require reaching a compromise between both performances and being able to differentiate conventional from SRI funds (for instance, through the use of an SRI label).

## **6. Avenues for Further Research**

The dissertation has been a first step towards a better understanding of the process of institutional change in the making. It has aimed to address the challenge of cross-theoretical frameworks by breaking down barriers between theoretical perspectives and exploiting their complementary explanatory potential. Throughout, the dissertation has reinforced the claim of pragmatism that the cooperation between researchers and practitioners is of primary importance for generating innovative knowledge and *savoir-faire*. In demonstrating so, the dissertation has also pointed to further research, namely: the function of SRI labels, the penetration of SRI analysis in financial analysis, the development of SRI Mainstreaming worldwide and the role of epistemic objects in the transformation of practices.

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## THIRD AWARD

### **Orchestrating Innovation in the Multinational Enterprise: Headquarters Involvement in Innovation Transfer Projects**

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#### **Abstract**

*In the past several decades research has emphasized innovation development and transfer as key issues when investigating the multinational enterprise (MNE). This paper outlines what factors make headquarters involve itself in innovation transfer projects taking place between a sending and a receiving subsidiary within the MNE. This relates to headquarters active participation and role in the organization of resources (structure) and flows (processes) within the MNE.*

*Theoretically, headquarters involvement can be conceptualized as orchestration of innovations within the MNE. This research contributes to the understanding of what influences intra-MNE resource allocation, as well as what factors capture the attention of headquarters leading to innovation orchestration. Headquarters involvement in innovation transfer has implications for setting subsidiaries on evolutionary trajectories.*

**Keywords:** Multinational enterprise, headquarters-subsidiary relationships, innovation transfer, involvement, orchestration, resource allocation, attention, subsidiary evolution

## **1. RESEARCH AGENDA**

This research focuses on what factors make headquarters involve itself in innovation transfer projects taking place between a sending and a receiving subsidiary within the multinational enterprise (MNE), see Figure 1.<sup>1</sup> The question of headquarters involvement in innovation transfer processes, and, specifically, drivers behind its involvement, is rarely dealt with in the international strategic management literature but as will be argued for, it is an important one. Theoretically, my work adds and extends knowledge in the fields of subsidiary evolution (Birkinshaw and Hood, 1998), orchestration of innovations (Dhanaraj and Parkhe, 2006), extends the conceptualization of headquarters attention (Bouquet, Morrison and Birkinshaw, 2009; Ocasio, 1997), and conceptualizes MNE resource allocation (Bower, 1970; Mudambi, 1999; Noda and Bower, 1996) as intervention through involvement (Bower and Gilbert, 2005).

In the past several decades, research has added more complexity to the attributes of the MNE and to the context in which it operates. This has led to a need to extend beyond existing models as global markets and MNEs have continued to evolve during this period, owing to globalizing trends in technologies, financial markets, society and culture. Researchers have accordingly developed and extended models of the MNE. I claim that one consequence of this development is that, to date, we have little insight into the typology of headquarters activities and the way the role of headquarters can be conceptualized. By investigating headquarters involvement in innovation transfer activities it becomes possible to add insights into the role and functions of headquarters. Since it has been suggested that the MNE's ability to transfer innovations is one of the main reasons for its existence, examining headquarters involvement in this *raison de être* of the MNE seems to be warranted (Kogut and Zander, 1992; 1993; Zander and Kogut, 1995; 1996).

### **1.1 Theoretical background**

Traditionally, MNEs have been conceptualized as possessing certain firm specific advantages (FSA) that originate from the home country where headquarters is located (Hymer, 1960; Vernon, 1966). According to Hymer (1960), these advantages compensate for the liability of being foreign when a firm operates in a host market, i.e., he explains why domestic firms can become multinational owing to these FSA. Hymer did not focus on the specific types of advantages possessed by MNEs, only on the fact that they had their origin in the home

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<sup>1</sup> All figures and tables are included at the end of this paper.

country (Hymer, 1960). Likewise, Vernon (1966), in his famous theory on the Product Life Cycle, focused on international trade from a home country perspective in terms of exports of products. In this perspective, subsidiaries were perceived as recipients of resources from the parent and thus also from the home country.

However, more recent writings on the MNE assert that the development of capabilities does not occur only at headquarters or in the home country. On the contrary, subsidiaries have been identified as key actors within the MNE, irrespective of its conceptualization as a 'heterarchy' (Hedlund, 1986), 'transnational firm' (Bartlett and Ghoshal, 1989), 'differentiated network' (Nohria and Ghoshal, 1997), or 'metanational' (Doz, Santos and Williamson, 2001). A distinguishing element of the MNE is that it operates value-adding activities in more than one country (Rugman and Verbeke, 2001). In fact, MNEs have been described as geographically dispersed networks, or global factories, fulfilling different functions of the value chain (Buckley, 2009; Cantwell and Piscitello, 2000).

Research on the MNE has in the last several decades focused on knowledge development and transfer. In the literature, observations have been made that knowledge development and transfer are two of the most important aspects for creating and sustaining competitive advantage (Argote and Ingram, 2000; Kogut and Zander, 1992; 1993). Closely connected to the notion of knowledge are innovations, which can be seen as bearers of knowledge (Teece, 1977). For organizations upgrading their competitive base, innovation is key for survival and prosperity (Baumol, 2002).

As noted by Birkinshaw and Hood (2001), innovations are often developed at the subsidiary level and not at headquarters. Furthermore, the development of innovations is a key issue for MNEs (Bartlett and Ghoshal, 1989) in order to stay competitive, and the ability to make use of innovations developed in one location in another unit is equally important (Dhanaraj and Parkhe, 2006). In this context, it has been suggested that headquarters plays a vital role in the enhancement of innovative capability by implementing suitable strategies and differentiated control mechanisms in the MNE (Nohria and Ghoshal, 1997). Expressed differently, headquarters can design an appropriate structural context that is conducive to innovation management (Birkinshaw, 1997), and it is supposed to provide strategic leadership within the MNE (Foss, 1997). It has been argued that headquarters can influence innovation flows between subsidiaries (Birkinshaw, 2001; Ghoshal and Bartlett, 1990). In fact, research has emphasized the more subtle and informal mechanisms that can be employed by headquarters such as lateral relations, informal communication and socialization (O'Donnell, 2000), which, among other things, can be beneficial for innovation sharing. This line of

thinking where initiatives emerge and are developed at the subsidiary level can be associated with the Carnegie school, which focuses on bottom-up problem solving (Cyert and March 1963; Simon 1945). Headquarters can be said to perform a dual role within the MNE, in the sense that it monitors and establishes incentives in order to avoid costs and opportunistic behavior but also that it can create positive effects within the MNE by assisting subsidiaries in their operations (Foss, 1997). It can be argued that, on the one hand, headquarters is the organizational unit with formal power and influence, i.e., with a hierarchical position, and, on the other hand, it can be seen as a player among others within the MNE (Forsgren et al., 2005). Consequently, a picture emerges where the role and functions of headquarters within the MNE are more complex compared to what Hymer (1960) and Vernon (1966) envisaged, especially in the interaction with MNE subsidiaries.

## **1.2 Specifying the research question**

Acknowledging the importance of innovations for MNEs, the question of intra-MNE innovation transfer becomes relevant. Transfer of innovations is generally less costly, compared to innovation development (Teece, 1977). Hence, an activity of key importance for MNEs is innovation transfer, and consequently this has become one of the most frequently studied phenomena in international management research since the early 90's (cf., Gupta and Govindarajan, 2000; Noorderhaven and Harzing, 2009; Szulanski, 1996), and it has been suggested that the ability of MNEs to transfer innovations is one of the main explanations behind the existence of MNEs (Kogut and Zander, 1992; 1993; Zander and Kogut, 1995; 1996).

However, innovation transfer does not take place automatically within the MNE (cf., Gupta and Govindarajan, 2000; Szulanski, 1996). Innovations developed by subsidiaries can be seen as emerging resources within the MNE and it may be the case that headquarters has to force transfer processes to be initiated (Foss and Pedersen, 2002). It has been suggested that one of headquarters responsibilities is to guide and add value to innovation transfer processes and make sure transfer is realized within the MNE. In order to perform and fulfill its duties, headquarters may actively influence subsidiary level activities and try to acquire knowledge about what is going on at lower levels in the organization. Having headquarters operate in such a way can be related to headquarters orchestrating innovations within the MNE (Dharmaraj and Parkhe, 2006).

However, involving itself in innovation transfer processes and orchestrating flows at the subsidiary level is not without problems. Instead it presents headquarters with a number of

issues to be reflected on. Consider the following: “In the giant corporation of today, managers rule from the top of skyscrapers; on a clear day, they can almost see the world” (Hymer, 1970 p. 442). Hymer discussed the Marshallian firm, the development of corporations, the internal division of labor, and how managers increasingly have become separated and out of touch with day-to-day operations. Running a single-line factory business may seem easy in terms of control and coordination, but as the administrative functions build up, running the firm becomes increasingly difficult. The cognitive limitation to process information (Cyert and March, 1963) can be thought of as restricting the capacity of headquarters to manage the MNE (Hennart, 2007). One way for headquarters to handle such limitations is singling out key activities and processes that take place at the subsidiary level and that it reacts to. With innovations being important for the MNE, it is claimed that innovation development and transfer are two key aspects of subsidiary activities that headquarters is interested in.

With Hymer’s statement as a point of departure and, unlike Hymer, with the view that the MNE is not a strict hierarchy and with a recognition of the formal influence and value-enhancing function of headquarters within the MNE, the following research question can be postulated, taking the significant role of subsidiaries - as proposed by the business network perspective - into account (Forsgren et al., 2005):

*What factors make headquarters involve itself in innovation transfer processes taking place at the subsidiary level?*

In order to answer the research question, four empirical investigations have been carried out. The results and implications that follow are presented in sections 3 and 4.

## **2. DATA AND METHODS – THE TIME PROJECT**

The data used for the empirical analysis emanates from a project entitled *Transfer of Innovations in Multinational Enterprises* (TIME). The TIME project was designed to track specific innovations in order to create a more holistic picture of innovation in the MNE, and to give a fuller picture of the impact innovation development and transfer have in MNEs.

This research design implies that different factors were considered to be important when setting up the study. First, the project focuses on *innovation development* at the subsidiary level. This entails subsidiary specific characteristics of the developing subsidiary, but also dealing with factors related to what extent the internal and external networks of the developing subsidiary have been involved during the development phase. Second, the focus

on innovation development consequently means that a lot of information pertaining to the *characteristics of the innovation* was obtained. Third, the project aimed at capturing factors related to the *innovation transfer process* in terms of actors involved in the transfer project and what makes an innovation transfer successful, in terms of different performance outcomes. When investigating innovation transfer, a dyadic approach is adopted. This allows a fine-grained understanding of the innovation transfer project between a sending and a receiving subsidiary as discussed by Kostova and Roth (2002) and Szulanski (1996). Additionally, this means that it is possible to use the transaction as the unit of analysis, as recommended by Foss (2007).

Moreover, the project design allowed specific and more general data related to the subsidiary and the MNE to be collected. The main data set was supplemented with information from secondary sources and matched with the existing dataset. As a corollary of the research design and objectives, three main levels of analysis can be used when analyzing the data from the TIME project, namely the (developing) subsidiary level, the innovation level and the transfer level. Figure 2 depicts key features and conceptualizations of the TIME project.

## **2.1 Sampling procedure and data collection**

As with much managerial research, population definition and sampling procedures are problematic and require considerations of both empirical generalizability and pragmatism. To collect the data, large MNEs with a global presence that plausibly undertook innovation development and transfer projects were approached.

Innovations were selected on pre-specified criteria. First, the innovations subject to investigation had to have been developed one to ten years prior to the interview. This allowed only relatively recent innovations and limited the possibility to detect innovations at all, but at the same time it reduced the problem of retrospective recall by respondents (Cannell, Marquis and Laurent, 1977). Second, the innovation had to be identified as having a certain degree of significance and novelty by the respondent, i.e., constituting an innovation for the developing subsidiary (Downs and Mohr, 1976). Third, the innovations had to have the potential of being transferable. This way of studying innovations is similar to that of Zander and Kogut (1995).

The data was collected using a standardized questionnaire that had been qualitatively pre-tested by means of two pilot interviews with groups of MNE managers. Data collection through face-to-face interviews allows for the possibility to interact with the respondents and clarify questions if necessary. By interacting with the respondents, the interviewer(s) were

able to better control who the respondents were and see to it that they were knowledgeable about the innovation in question. This is not possible to accomplish with mail or internet based surveys.

The TIME project mostly makes use of perceptual measures on 7-point Likert type scales, as recommended by Cox (1980). Multiple indicators are used in the dependent variable and, in most cases, in the independent variables throughout the four papers empirical studies. This approach minimizes measurement error, is parsimonious and offers a multifaceted representation of the underlying construct (Hair et al., 2006).

## **2.2 A brief methodological detour**

Perceptual measures and single source data may be a source of common method variance problems (Podsakoff and Organ, 1986), thus potentially influencing the relationships observed between the investigated variables (Campbell and Fiske, 1959). There is an ongoing discussion in the literature whether or not common method variance “is often a problem and researchers need to do whatever they can to control for it” (Podsakoff, MacKenzie, Lee, and Podsakoff, 2003, p. 900) or if it is an “urban legend”, that is, “both an exaggeration and oversimplification of the true state of affairs” (Spector, 2006, p. 230). The measurement error caused by common method variance is inherently unobservable, and effects can only be inferred methodologically (Richardson, Simmering and Sturman, 2009).

The concern for common method variance has recently been brought to the fore in relation to international business research in a JIBS editorial (Chang, Witteloostuijn and Eden, 2010). Indeed, many of the concerns raised in this editorial reflects the discussion above and I do agree that common method variance can pose a problem when using survey data based on same-respondent replies. Unsurprisingly, I further agree that, to the extent possible, ex ante and ex post measures should be taken in order to handle this potential. However, I believe that the discussion related to common method variance that can be found in the literature needs to be put in perspective and discussed in light of the potentially biased data. The analysis reported in Chang et al. (2010) identifies that many data sets using survey data may suffer from the presence of common method variance, and they also mention that this may be a problem when using quantified interview data such as in the TIME project. However, what is left out of the discussion is a reflection about the quality of the data itself. I would posit that a fact that is often disregarded is the way the material was collected and the interaction taking place with respondents. For instance, Malhotra, Kim and Patil (2006) conclude that the presence of common method bias may not be as strong in IS research owing to the fact that

constructs measured in such research often are more concrete, and when forming answers to IT-related questions respondents may feel less need to 'guess' what is meant by the questions.

This leads me to believe that even if the data is collected from a single source respondent, the problem of common method variance is, in general, lower when conducting face-to-face interviews compared to when, for instance, sending out mail surveys to firms. This is owing to the fact that the person conducting the interview has the opportunity to explain the question at hand to the respondent and that it is possible to be certain about who your respondent is. If someone is there to explain the question this is likely to reduce the potential concern of common method bias. It is not a matter of just having a respondent; it is more a matter of having the best possible respondent knowledgeable about the area he or she is being asked about. Finding additional respondents from other sources who are less knowledgeable about the matter at hand may make the quality of the data worse, even if it decreases the possibilities of criticizing the methods from a common method variance perspective. Perhaps the research community need to think about - and accept - that data collected by face-to-face interviews with appropriate and highly knowledgeable respondents can add considerable value and insights, even though common method variance may be a concern.

### **3. RESULTS**

The analytical approach is similar in all four empirical investigations. OLS stepwise regression is used to test a number of hypotheses. Moreover standard tests are employed in order to test reliability, discriminant validity, common method variance, variance inflation factors etc. In all four papers, the dependent variable is the same, i.e., headquarters involvement in the innovation transfer project. The results from the analysis are presented in Table 1.

### **4. CONTRIBUTIONS TO THE FIELD OF INTERNATIONAL MANAGEMENT**

The research question(s) targets issues of crucial importance for the MNE and is concerned with factors that can help subsidiaries evolve within the MNE aided by headquarters and its involvement in innovation transfer activities hosted by a sending subsidiary. With a framework anchored in the knowledge based view of the MNE, my research investigates headquarters involvement in the activity that has been suggested to be the reason for the existence of MNEs: its superior ability to transfer innovations (Kogut and Zander, 1992; 1993; Zander and Kogut, 1995; 1996).

This research contributes to an enhanced understanding of headquarters role within the MNE by conceptually developing the thinking on the positive and negative definitions of headquarters (Foss, 1997), and how this relates to orchestrating innovations, gaining headquarters attention and to how the involvement of headquarters can be seen as a non-financial resource that is allocated by headquarters. These factors are connected to subsidiary evolution (Birkinshaw and Hood, 1998).

Empirically this thesis elicits circumstances under which headquarters involves itself, i.e., orchestrates innovations within the MNE, gives attention, and allocates its resources to specific innovation transfer projects.

My research presents an evolving role of MNE headquarters as:

- Core holder of MNE advantages.
- Centralized control in a hierarchy.
- Coordinator of dispersed MNE subsidiaries.
- An important locus in a networked organization.

And specifically related to innovation transfer:

- Headquarters needs to identify, be aware of the innovation.
- Give attention to specific subsidiaries and their innovations.
- Recognize successful innovations.
- Allocate resources to the transfer.

In sum this research tries to be faithful to the developing intellectual heritage and core conceptualization of MNEs as a networked organization with consideration given to the attention based view of the MNE and orchestration of innovations in the setting of headquarters involvement in innovation transfer projects.

My research contributes to theory on MNEs and international management at large by:

- Developing the role of headquarters as a critical lynch-pin in the transfer of innovations across sub-units in a networked organization.
- Relating subsidiary roles, heritage and evolution to the incidence of innovation transfer.
- Identifying a continuing role for headquarters of MNEs, as strict hierarchical control and the residence of advantages roles diminish in importance.

- Clarifying ideas on distance, embeddedness, innovation characteristics and subsidiary characteristics as important precursors to the role a headquarters will play in innovation transfer.

#### **4.1 Reflections on the contributions**

By capturing the attention and involvement of headquarters, the subsidiary can attain or retain a mandate for developing or for transferring innovations. The visibility of the innovation subject to transfer is heightened due to the involvement of headquarters, which may have implications for the innovation transfer performance as well as for intra-MNE power configurations. The foundations for this organizational influence can - at least partially - be traced back to the involvement of headquarters in the innovation transfer process. The perception of the subsidiary as an important player in the MNE network is increased due to the formal recognition and legitimacy attained by having headquarters involved in subsidiary level activities. By being perceived as an important subsidiary within the MNE favored for attention and additional headquarters resources it is not unlikely that the subsidiary in question has a positive evolutionary trajectory. Thus, the contribution of my findings relates to the strategically important question of subsidiary evolution (Birkinshaw and Hood, 1998). The key to evolution can, at least to some extent, be found in how to communicate with headquarters in order to capture its attention (Bouquet et al., 2009), and get it involved in subsidiary level activities. As a consequence of involvement and attention, another important contribution relates to the MNE as an internal market for resources (Mudambi, 1999). Headquarter involvement can be seen as a critical resource that is scarce. This means that headquarters has to pick different transfer projects as winners and allocate resources to these specific projects. Hence, my research contributes to the understanding of what transfer projects are picked as winners and adds to the understanding of the MNE as an internal market for resources.

In sum, this research provides a general model of how subsidiaries gain the involvement of headquarters. It operationalizes the strategic context of MNE subsidiaries, which is important for involvement and the allocation of resources (Bower and Gilbert, 2005). In making use of a cross-sectional dataset, it is not possible to study evolution directly, but it is still possible to see how the subsidiary role may be driven by actions taken by headquarters, processes taking place at the subsidiary level as well as environmental factors influencing decisions and behavior at the subsidiary and headquarters, i.e., the organizing framework for subsidiary evolution (Birkinshaw and Hood, 1998). Consequently, the subsidiary may be in,

or achieve, a position that is not subordinate to headquarters. This area of inquiry adds to the understanding of headquarters involvement in innovation transfer, and opens up a greater research agenda focusing on the role and functions of headquarters in large organizations.

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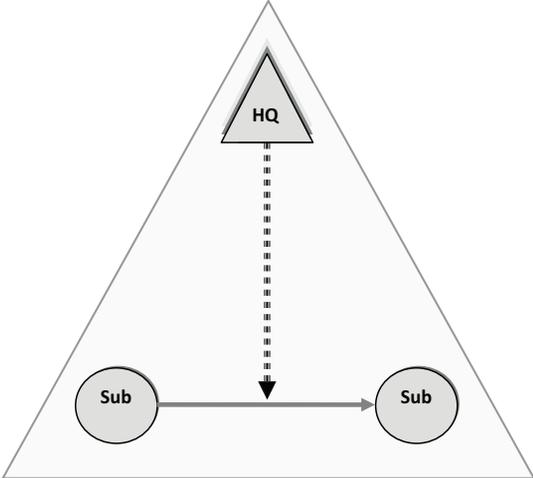
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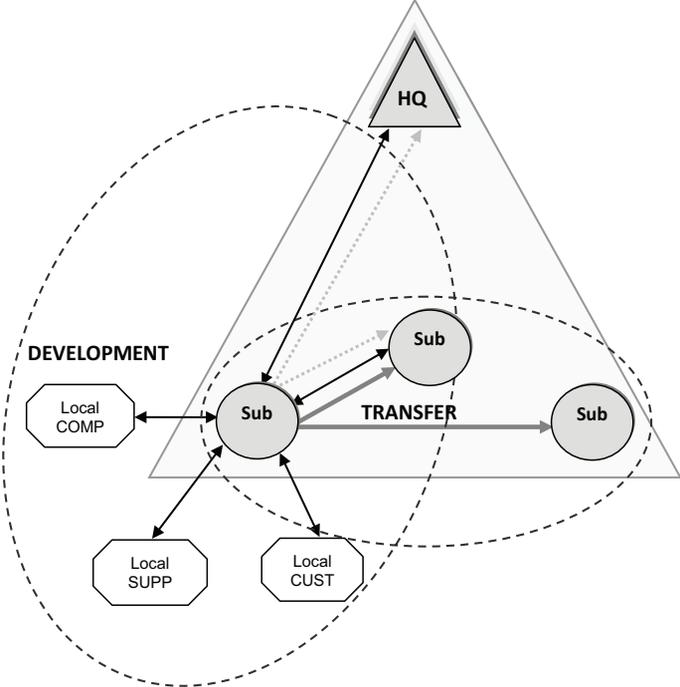
**Figure 1: Visualization of the research question**



—————> = Innovation transfer

=====▶ = Headquarters involvement

Figure 2: Visualization of the TIME project



↔ = Development collaboration

→ = Innovation transfer

⋯→ = Innovation exploitation

**Table 1: Summary of findings**

Paper	Title of the paper	Research question	Independent variables	Dependent variable	Main findings
I	The effects of spatial and contextual factors on headquarters resource allocation to MNE subsidiaries	Do distances influence headquarters involvement in innovation transfer?	<ul style="list-style-type: none"> <li>Physical distance</li> <li>Cultural distance</li> <li>Linguistic distance</li> <li>Economic distance</li> <li>Institutional distance</li> <li>Local network embeddedness</li> </ul>	Headquarters involvement in innovation transfer	Geographic and cultural distance influences headquarters involvement negatively and returns significantly. Linguistic and economic distance as well as local network embeddedness has a statistically significant positive influence on involvement. No significant effect is found for institutional distance.
II	Innovations as drivers behind headquarters strategic support to MNE subsidiaries	Do innovation characteristics influence headquarters involvement in innovation transfer?	<ul style="list-style-type: none"> <li>Innovation importance</li> <li>Innovation complexity</li> <li>Innovation codification</li> </ul>	Headquarters involvement in innovation transfer	Important and complex innovation receives headquarters involvement and no significant effects are found for codification.
III	Headquarters allocation of resources to intra-MNE transfer projects	Do subsidiary characteristics influence headquarters involvement in innovation transfer?	<ul style="list-style-type: none"> <li>Subsidiary bargaining power</li> <li>Innovation capabilities</li> <li>Mode of entry</li> <li>Subsidiary relatedness</li> <li>Innovation relatedness</li> <li>Internal relational embeddedness</li> <li>Counterpart specific dependence</li> </ul>	Headquarters involvement in innovation transfer	Curvilinear effect of bargaining power. Acquired subsidiaries are favored for resources as well as related innovations.
IV	Relational embedded subsidiaries and the involvement of headquarters in innovation transfer processes	Does subsidiary embeddedness influence headquarters involvement in innovation transfer?	<ul style="list-style-type: none"> <li>Counterpart specific dependence</li> <li>Counterpart participation in development</li> <li>Technological capability adaptation</li> <li>Marketing capability adaptation</li> </ul>	Headquarters involvement in innovation transfer	Internal relational embeddedness and counterpart specific dependence drive headquarters involvement positively.

# **The Entrepreneur as Persuader. Rhetoric and Narratives in Entrepreneurship**

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## **Abstract**

*This thesis describes three case studies and analyzes how entrepreneurs give meaning to their actions and use narratives and rhetoric. Results show different typologies of entrepreneurs: vocational, opportunists, adventurers and creators. Analyzed entrepreneurs explained an epic narrative, where they overcome challenges using two kinds of micro-narratives: of achievement and motivational. Entrepreneurs use rhetoric and build a plausible idea to take reasonable decisions. Ethos and arguments by examples usually convince them to act, while logos arguments persuade them to refuse an action. Results highlight the persuasive role of entrepreneurs and enhance the idea of language and arguments as economic value creators.*

## **Introduction**

Entrepreneurship has shown a growing interest in the last decades, although many scholars complain about the lack of a unifying conceptual framework (Shane and Venkataraman, 2000) and the sense it has been expunged from economic theory (Baumol, 1968). Management studies have recently taken a growing interest about issues of identity, sense making and value creation through language and narratives (Czarniawska, 2004) and their implications for organizations. In addition, scholars like McCloskey (1984) or Bonet and Sauquet (2001) have emphasized the significance of rhetoric and narratives for economics and management. In spite of these major studies, there are still few works based on empirical data studying the role of rhetoric and narratives in managerial activity and their implications for economic theory.

This thesis aims to contribute to these fields, by analyzing three case studies of entrepreneurs. The research focuses on entrepreneurial activity, as the entrepreneurs' lack of previous experience may help to detect a greater spectrum of topics and a deeper understanding of how economic agents deal with sense making and persuasion. The cases focus on three main topics: the entrepreneurs' experiences, the use of narratives and the use of rhetorical argument.

## **First Part. Conceptual Framework.**

Entrepreneurship is a source of interest of social sciences since it has played a major role in the economic and social development of societies. The difficulties of the economic theory to highlight the role of entrepreneurs in the economy have enhanced the interest of management scholars for sociological, historical or psychological approaches.

Cantillon introduced the term in the economic theory in 1734. During the 19<sup>th</sup> century, the German school of thought deepened in the relationship between entrepreneurs, profits and risks (Von Mangoldt), while the French highlighted the role of the entrepreneur organizing resources (Say). Smith, Ricardo, Marx and the Marginalists were more interested on explaining the economic theory than the role of the entrepreneur.

During the 20<sup>th</sup> century, issues like economic development, bounded rationality, information asymmetry and institutions helped to develop our understanding about entrepreneurs and their role in the economy. Schumpeter (1934) saw the entrepreneur as an innovator, Knight (1921) as a risk bearer, Kirzner (1973) as an opportunity discoverer and Casson (1982) as a decision-taker. Economists recognized the significance of information and knowledge and included them in their main economic approaches. In order to preserve its core ideas, some economists considered information almost as a commodity, while others conceptualized it ambiguously, but both approaches offered a poor explanation of economic agents' behavior.

Psychology, Sociology or History brought new perspectives. Scholars like McClelland (1961) highlighted need of achievement, locus of control, risk taking, tolerance of ambiguity, creativity and innovation, as the traits that distinguish entrepreneurs from non-entrepreneurs. Baumol (1968) studied the role of institutions. The studies of Max Weber or Sombart also influenced the study of social values to understand the behavior of entrepreneurs.

Management studies have been eclectic, integrating different approaches but many scholars also complain about the lack of a clear field of study (Veciana, 1999). Following syntactic concepts, we find that management studies have interested about the actor (individuals, groups and companies), the action (creating a new company, exploiting an opportunity...), the beneficiary of the action (the organization, the opportunity, products...), the impact of the action (economic growth, jobs,

innovation...) and the context where the action takes place (institutions, society, public power...). Studies of entrepreneurial learning have adapted acknowledged approaches to the entrepreneurial field, following the basic schools of thought like experiential learning, cognitivism, contextual learning and narratives and rhetoric. Therefore, we can find studies about Kolb's learning circles, biased perception (Cooper et al, 1998), intentions and perception (Krueger and Norris, 2000) or networks (Johansson, 1986). Narratives may help to understand entrepreneurs' identity building or their learning process (Johansson (2004).

## **Second Part. Case Studies.**

### Methodology

The study employs different qualitative methods to analyze the data, such as conceptual or analytical generalization (Bonet et al, 2003), the study of narratives and the analysis of arguments and rhetoric. Conceptual generalization, unlike statistical methods, does not require a great number of cases or data, because it is based on the identification of prototypes. Most studies carry out deep analysis of a small number of cases, like Orlikowski's (1993) work "CASE Tools as Organizational Change: Investigating Incremental and Radical Changes in Systems Development of CASE tools". The study uses grounded theory (Glaser and Strauss, 1967) to analyze the entrepreneurs' experience and generate theoretical constructions and typologies of entrepreneurs. The analysis of narratives explores how entrepreneurs make sense of their acts and focuses on different types of narratives: macro-narratives (centred on the entrepreneurs' complete narratives and common topics) and micro-narratives (focusing on relevant events in their experience explained with a narrative structure). Czarniawska (2004) explains that while logical-scientific knowledge explains a fact as belonging to a general theory, narratives explain it as related to a human project. The study also focuses on the entrepreneurs' use of rhetoric to understand how they persuade themselves to act and how they persuade others. This analysis includes focusing on the use of rhetorical elements like argument by example, facts, models or values, the use of elements of ethos, pathos and logos, reference to topics, metaphors or comparisons. It also takes into account the entrepreneurs' relationship with their audiences.

Using theoretical sampling (Glaser and Strauss, 1967), entrepreneurs were chosen based on their similarities and differences. Those selected were first time entrepreneurs, with similar academic backgrounds (they all studied an MBA at ESADE); all had worked for multinationals. Differences came across personal traits and company dimensions. Empirical data was collected using various methods such as in depth interviews, observation and documents from the companies for triangulation purposes (Eisenhardt, 1989). Interviews focused on how entrepreneurs explained their experiences creating a new organization and were transcribed for further analysis. The study presents three case studies, as cases are appropriate for research purposes and an excellent method to describe complex situations and put them in their context (Yin, 1984). In order to achieve a better understanding of the decision and sense-making processes, the study focuses on three main issues: the entrepreneurs' experiences, the creation of meaning using narratives and the role of values in argument and rhetoric.

### Presenting the Case Studies

The initial field research related to theoretical sampling focused on the creation and characteristics of the companies. The main findings are summed up in the following description.

#### *Expomuseums*

The first case is the story of a company that builds museums and exhibitions for clients, mainly the public administration and multinationals. Robert, the entrepreneur, decided he had had enough of working for others and opted to create his own company. He left his job and started thinking about possible business projects. Some of his friends found it hard to believe and told him he was a little bit crazy.

Although he had a strong commitment to starting a new company, he had no idea what this business should be like. He asked for advice from friends, relatives and former university professors among others; these talks were very useful in two ways: on the one hand, they allowed him to develop and define new ideas and on the other, they helped him meet new people and establish new contacts.

He finally wrote five business plans. One of them was about a business dedicated to managing museums and exhibitions. The idea came from a talk with Ramon, one of his

former professors at ESADE. Robert liked the activity, it was not capital intensive and the market was immature.

He had to convince Ramon and his colleagues that it was necessary to create a company since they preferred to keep their jobs and work sporadically on the exhibition activity. He also had to overcome their initial lack of confidence, as he was a complete unknown for them. Robert finally took advantage of an important new project and persuaded them to constitute the company. At first Robert was the manager, working full time, while the other partners kept their jobs and only collaborated from time to time on the projects. Later on, some of them left those jobs and started working for Expomuseums.

### *Lambfresh*

Joseph's father owned a family business engaged in trading livestock, mainly lambs, sheep and goats. As Joseph grew up he observed how the company allowed the family to stay together and advance economically. Later on, he started thinking about creating his own business with his cousins. He asked them if they would like to participate and, since some of them seemed to be interested in the idea decided he would try it some day.

Joseph chose to work for a multinational before creating his own company in order to get experience. The job was initially worse paid and less appealing than the ones his colleagues got, but he choose it because he thought it was an excellent way to learn about running a company; some of his friends did not share this opinion but he was convinced he was right. In the meantime, he wrote a business project, a necessary step to obtaining his degree and which allowed him to work on an early idea for his own company.

Working for the multinational, he met Richard, his immediate boss. They got along well together as both were pleased to share their knowledge and experience. One day, Richard showed him the Headquarters. Joseph found that some of the people were old workers with meaningless jobs, who were there simply because the company did not want to fire them although they were no longer useful for the company. That strengthened his determination to create his own company.

Two years later, he left the multinational and worked during the summer months in a company in the meat distribution industry. After that, it was evident for him that his company should work in this industry, though it was not clear how. He traveled around

to see what companies in the industry were doing and particularly liked the idea of creating a cash discount. A couple of months later some of his cousins were ready to get down to work but he felt rather anxious because it was still not clear for him what was the best way to start operations . They reached an agreement with their parents, who would lend the initial capital to the new company. Joseph felt it was time to start work, even if they were not yet able to implement his projects fully, so they started with the easiest thing they could: distributing fresh meat.

Some months later, he met Frank, an experienced butcher. They decided to create a cash discount focused on meat products. The company was growing and acquiring new customers. Some years later, they had the chance to buy a slaughterhouse. This was an attractive but risky business. In order to become familiar with the problems involved, they agreed to manage it for one year before taking the decision to buy.

### *Managefile*

At the end of the 1980's a former ESADE student explained a business project to John and Louis, two of his friends. The idea was to create a business offering the management and storage of documents. John thought it was a promising idea and started looking for more information. It was a growing market in some developed countries like the USA or Australia; the Spanish market, where they planned to operate, had a few small businesses with a small number of customers. It seemed obvious that the market would grow in the future and, given that competitors were still small, it offered a great opportunity. John thought it was worth going ahead and persuaded the others to invest in the new venture. The initial capital requirements were substantial, so they persuaded seven more people, mainly former ESADE students like them, to become partners in the project.

John left his job to manage the new company. They acquired a warehouse in the neighborhood of Barcelona at a reasonable price thanks to a bank credit and hired two workers. At first, it was tough as it was hard for them to find new customers and expenses were greater than revenue. Some partners left the company due to the constant capital requirements and had to be replaced.

Two years later, the company got a contract with a major savings bank. It was a crucial moment for the company that allowed it to earn enough revenues and cash flows to work and improve their service. From that moment on, the company has done nothing but grow, thanks to organic growth and acquisitions.

Managefile has always tried to give an image of professionalism and trustworthiness. They prepared an insurance contract for the clients and improved security measures. They also invite their customers to visit their warehouses and inspect their equipment. They innovate by offering new services thanks to new technologies such as scanning and digitalization of documents.

The company has had some critical moments like accepting new customers that meant big temporary demand, introducing new services thanks to new technologies or suffering failures in their computers. John learned that being able to respond in critical moments was crucial to the company's survival, so he tries to hire committed workers and test new machines and tools in extreme circumstances.

Some years later, foreign multinationals were interested in entering the Spanish market. They preferred to buy a local company and made an offer to Managefile, which initially refused because they thought the company would be more expensive in the future. A couple of years later Managefile agreed to sell a small stake later increased to the recent 49%.

## Data Interpretation and Theory Building

### *Generating basic categories*

Coding in-depth interviews led to the identification of the main categories. In that process, two stages emerged from the data: the first one before the legal setting up of the company and the second one, once the firm has been established. In each stage, entrepreneurs share and differ on some points in their experiences, allowing interpretation of how they make sense of their principal common experiences.

### *First stage of development. Before the legal setting of the company.*

1. **Previous knowledge.** It includes the knowledge and concepts they use to shape problems and the experiences that influence their motivations.

2. **Idealization.** The entrepreneurial process begins with an ideal. The nature of that idea has a critical impact on the entrepreneur's experience.

3. **Reasoning.** Entrepreneurs do not have all the information about the decisions they need to take so they are not able to take rational and logical decisions but try to develop a project in their minds that seems reasonable for them.

4. **Obstacles.** Entrepreneurs sometimes find impediments to reaching their objectives.

5. **Virtues.** Entrepreneurs show abilities and virtues to overcome the obstacles. They are hard workers, show strong commitment and courage in taking decisions.

6. **Support.** All the entrepreneurs look for support and try to persuade friends, relatives or others to be their partners.

7. **Knowledge facilitators.** Entrepreneurs have a strong need to talk with relatives, friends or experts in order to convince themselves of the project's viability and their ability to perform adequately. The Managefile's entrepreneur prefers not to look for external advice and trust his partners' opinions.

8. **Achievement.** In all cases, achievement means, in this initial stage, establishing the new company and getting it up and running. While in Managefile these actions are consecutive and well defined, in Expomuseums and Lambfresh, the entrepreneurs begin their activities with an ill-defined idea of what to do. They start by doing what they think is feasible, although they know they will have to make changes in the future.

*Second stage of development: after the legal set-up of the company.*

1. **Environment.** Entrepreneurs highlight the institutions, companies or individuals that have relationships with their company, such as customers or competitors.

2. **Organization.** Lambfresh and Managefile have large formal structures and follow a growth strategy while Expomuseums has a small flexible structure, and follows a strategy of differentiation.

3. **Events.** Relationships inside and outside the company generate some events like the sense of isolation when the company starts or tensions between the company and the individuals' aims.

4. **Virtues.** Each entrepreneur has his own virtues, although they seem to share some important ones such as strong commitment, risk taking, sense of responsibility, adaptability and open-mindedness

5. **Knowledge acquisition.** Entrepreneurs' knowledge acquisition also differs. While Expomuseums' entrepreneur relies on external knowledge and focuses his activity in the coordination of groups of people, the other entrepreneurs try to internalize and control critical knowledge.

6. **Solution.** Solved problems represent meaningful experiences for entrepreneurs. They share some of those experiences like the sense of challenge, freedom and responsibility for taking decisions. They differ in their view of what the experience means. The Expomuseums entrepreneur believes it is mainly a risk venture while the other entrepreneurs focus on the company as their own creation.

### *Typologies of entrepreneurs*

Following previous results, the study found two different typologies of entrepreneurs at each stage. In the first stage (before the company's legal set-up), vocational and opportunistic entrepreneurs, while in the second one (once the company has been established) creators and adventurers. The names of typologies do not come from their own words but from trying to describe their experience. The study highlights the main characteristics that differentiate these typologies. Selected characteristics are not exclusive of any typology, but show the main propensities of these kinds of entrepreneurs in order to give a better understanding of the entrepreneurial experiences.

#### ***The "Vocational" entrepreneur***

1. They idealize being an entrepreneur. They want to create and participate in a company of their own. This idealization usually comes from previous experiences (family, university or professional).

2. Although they want to become entrepreneurs, they lack a concrete entrepreneurial project. They are open to creating any kind of organization or carry out any activity that suits their abilities, knowledge, resources and wills. They tend to elaborate different business plans.

3. The enterprise is a useful tool to achieve their personal aims. This objective is more important than the company's aims.

4. They have a feeling of lack of social support (from friends, family or colleagues) although sometimes they get support from one of these groups.

5. They also show strong commitment to their goal since they persist, ignoring their environment.

6. Vocational entrepreneurs actively search for advice. The lack of a clear business idea (knowing the activity of the company) leads them to look for advice.

7. They may begin their activities without a clear definition of the company's aims and activities; this is because they feel the pressure of time passing by without work

starting. Aims and activities are clearly defined once the company is created and adapted to the circumstances.

### ***The “Opportunistic” entrepreneur***

1. Opportunistic entrepreneurs are captivated by the idea of a possible business project and want to find out if they can accomplish it. They strongly idealize their business idea.

2. A clear idea of what they want to do and the company’s objectives allow them to pursue clear aims. They conceive this stage as a moment to achieve resources and overcome bureaucratic steps.

3. They do not search for advice (some may be afraid of their ideas being copied) but they look for partners if they think they are necessary for their purpose.

### ***The “Adventurer” entrepreneur***

1. This class of entrepreneurs regards the enterprise as a source of new experiences, relationships and knowledge. The company allows them to meet new people and live challenging events they would otherwise miss.

2. Entrepreneurs focus on external knowledge, especially on how it may complement the company’s capacities. External knowledge is also a source of experience.

3. They tend to focus on business ability to generate interesting challenges.

### ***The “Creator” entrepreneur***

1. Creator entrepreneurs tend to understand the enterprise as a personal creation or construction. They believe that if the company exists and grows it is thanks to their commitment and work.

2. Since they view the company as their own construction, they focus on its achievements and growth.

3. Entrepreneurs focus on internal knowledge and try to control key aspects of the company since this activity is necessary for the company’s growth.

### ***Entrepreneur’s use of rhetoric***

Entrepreneurs use rhetoric and argument to take decisions during the company’s creation process. They use rhetoric and build a plausible idea – usually in a narrative way - to take reasonable decisions. Ethos and arguments by examples usually convince

them to act, while logos arguments persuade them to refuse an action. Persuasion plays a role in different stages of the entrepreneurial process. We present stages in an approximately chronological order. This does not mean that one stage begins when the preceding one finishes. In fact, many stages may be taking place at the same time.

1. **When deciding to create a new company.** Entrepreneurs start the entrepreneurial process with a heuristic and emotional approach to a certain idea. They tend to use arguments to persuade themselves of the feasibility of the project and their ability to carry it out. At this stage, arguments by example such as considering similar businesses working in other markets are very powerful. Entrepreneurs usually seem to use rhetorical deductions to discard certain projects; on the other hand, they are not strong enough to persuade them to take action.

2. **Persuading partners.** Once they persuade themselves to explore the possibilities of starting the project, they may try to persuade some partners and may have to define their business idea more clearly. Entrepreneurs always try to find out their possible partners' opinions about the project. Ethos also plays a significant role, as they prefer persuading people they know like relatives or friends. Only in the case of Expomuseums, does the entrepreneur try to convince people he does not know to become partners in the business, since they have appropriate knowledge. He recognizes he had to make a great effort giving them arguments of ethos. Entrepreneurs try to persuade their future partners of two main things: the business idea and their ability to manage the new company. Being unable to persuade a group of partners may convince entrepreneurs of the impossibility of going ahead.

3. **Obtaining resources.** Entrepreneurs also have to obtain resources to exploit their business idea. Entrepreneurs mainly use arguments of ethos and logos to obtain those new resources as banks and family lenders are usually worried about getting their money back.

4. **Decision-making.** Entrepreneurs have to make decisions with limited information about the issues they have to decide. They decide by taking into account opinions and the arguments put forward. The process usually begins with their desire to achieve an aim that implies action. They work out a plausible idea about the initial situation and the possible and desired final situations. Since they know that those plausible ideas are not necessarily accurate, they decide by focusing on issues like motivation or faith in their ability to achieve their goal. Once again, arguments by example become crucial. Logical arguments are useful for discarding certain options.

5. **Building relationships with suppliers.** This stage is somewhat different since entrepreneurs do not have to persuade but have to be persuaded by suppliers. Once again, ethos plays a major role when entrepreneurs have to choose and maintain a relationship with suppliers. In Expomuseums, the entrepreneur explains that he maintains a good relationship with those suppliers that fulfill agreements and he breaks links with those that are not able to respect them. In Lambfresh, the entrepreneur maintains a relationship with a supplier although he finds a cheaper one because he wants to guarantee supply. Arguments based on logos only play a role when entrepreneurs and suppliers have established a relationship of trust.

6. **Persuading markets.** Entrepreneurs make an effort to know their customers. The entrepreneur of Managefile visits all his possible customers before building the relationship. This action is not only useful in persuading new customers but also for deciding if they want to have those customers. Sometimes they reject certain customers when they know who they are or ask for guarantees to work with them.

They use arguments involving ethos when they want to set up in a new market. One way is explaining who they are and showing certain capacities or values like trustworthiness. Another way is giving examples of their relationships with other customers to show what they are like. Sometimes they offer contracts with guarantees of the service they offer.

#### *Entrepreneurs' use of narratives*

The study distinguished between two types of narratives called macro and micro narratives. The macro narrative refers to the narrative that explains the entrepreneur's sense making of the overall process. Micro narrative refers to relevant events that entrepreneurs explain in a narrative way, where they construct a story to show the values lying behind their key motives for action.

#### ***Macro narrative***

In all the observed cases, narratives about the creation of a new company tended to be epic, explaining how the ability and commitment of the entrepreneur for the business allowed him to overcome a great number of difficulties and achieve a successful outcome. All the narratives share some common stages.

1. **Idealization.** They begin with an idealization; some idealize the idea of becoming entrepreneurs while others idealize the idea of exploiting an opportunity.

2. **Commitment and breaking bonds.** They show a strong commitment to pursue the idea that causes a break with their present activity and bonds.

3. **Fears and sharing.** Entrepreneurs feel some fears about the project's viability and share their ideas with people who they can trust, such as relatives, friends or professors in order to overcome their anxiety, sense of isolation and lack of understanding.

4. **Epic.** Once they have convinced themselves to undertake the venture, they explain their launch and development as a string of challenges they have been able to overcome. They emphasize their ability to survive and lead the company ahead.

### *Micro narratives*

Entrepreneurs present and praise in micro-narratives their individual values and the values that consider necessary for the company's survival and expansion.

Robert from Expomuseums highlighted different values like risk taking, commitment to pursuing an objective, tolerance of failure, taking advantage of opportunities, enjoying working, acceptance of challenges, prudence in dealing with the different Public Administrations or being able to sacrifice an immediate or personal reward in order to achieve a greater one for the company or the group in the future. Joseph, from Lambfresh, uses narratives that show what is meaningful and valuable for him. Making one's decisions (as opposed to accepting decisions in a multinational), commitment to the family, hard work, acceptance of unpleasant tasks, adaptation to market conditions, experimentation, trust in people and prudence when dealing with the public administration. Managefile's micro narratives show how the company evaluates its capacity to overcome extraordinary situations, the need to professionalize the company, commitment to work, the effort that managers need to make to understand their workers, perseverance in hard times and the need to adapt to customers (especially the public administration).

## **Third Part. Conclusions and Implications**

The thesis shows that argument, rhetoric and narratives play a central role in the entrepreneur's decision-making and sense making of the entrepreneurial process. They not only offer a good understanding of the entrepreneur's behavior but also provide tools for improving their performance. The study draws attention to the persuasive

function of entrepreneurs and managers, since persuasion, arguments, rhetoric and narratives lead their actions, creating economic value.

New entrepreneurial typologies may give clues to overcome their problems enhancing their performance with coaching or mentoring. Data also show the importance of ethos in the entire entrepreneurial process while logos presents two aspects; reasonable arguments play a major role in refusing options but do not tell entrepreneurs what to do. Argument by example plays a major role for entrepreneurs in decision-making, as a way to justify their decisions and persuade markets. The results also offer new empirical evidence of how entrepreneurs elaborate epic narratives, while micro narratives facilitate a better understanding of their values and the role they play in the sense making process.

Results encourage pursuing the present studies with new empirical data and deepen in the relationship between narratives, rhetoric and entrepreneurship.

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# **Retailing retold: Unfolding the process of image construction in everyday practice**

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## **Abstract**

*The formation of international retail image (IRI) is often viewed as a transfer from the home market to foreign markets. The problem with this view is that it reduces IRI to an instrument for monitoring the effects of marketing strategies on consumers' perceptions of a retailer. This study introduces a different approach to how IRI is constructed. The study demonstrates how IRI is silently produced via the manner by which a multinational retailer in Sweden and China is retold in consumers' storytelling. By being retold, the retailer is silently provided with a unique and unrepeatable existence in a lived culture.*

## **Introduction**

In this thesis I attempt to rethink the concept of international retail image (henceforward IRI). Image, commonly defined as the position of a retailer in a consumer's mind, was introduced in retail studies at the end of the 1950s (Martineau, 1958). The concept still attracts scholars' attention (see e.g. Babin et al. 2006). In recent years, image has received attention as central to creating and maintaining a successful market position when retailers internationalise (see e.g. McGoldrick, 2002; Alexander and de Lira e Silva, 2002; Salmon, and Tordjman, 1989.). While researchers generally agree that image is about what a retailer means to a consumer, the way image is treated in the retail internationalisation literature is as something that is transferred to the consumer (Brown and Burt, 1992; McGoldrick and Ho, 1992; Burns, 1992; Blunch, 1996; McGoldrick, 1998; Burt and Carralero-Encinas, 2000; Farhangmehr et al. 2000; Burt and Mavrommatis, 2006; El-Amir and Burt, 2008). Transfer is central to internationalisation, which builds on the assumption that retailers become international through the transfer of technology, operations and image. The notion of transfer, however, reduces image to an effect of transmission, and the consumer to a passive recipient whose perceptions can be monitored using retail

marketing strategies. Even though the retail literature acknowledges the central role of national culture in internationalisation, culture is often seen as an obstacle to be transcended by means of cultural measurements and models (e.g. Gripsrud and Benito 2005; Straughan and Albert-Millers, 2001) Furthermore, in its mode of application, the transfer view tends to reduce image to consumers' perceptions of a set of pre-defined store attributes, which, to varying degrees, it is assumed that it is possible to control by retailing. The problem with this method is that it is difficult to know whether these store attributes are relevant to the consumers, or whether other things are more relevant for how they form images of a retailer. The transfer view obviously reduces the complexity of how image is created, as well as increasing the distance between the retailer and the lived culture of which the image is an outcome.

The transfer of IRI builds on a linear view on communication from retailer to consumer. The linearity of communication has its origins in the transmission model of communication. The transmission model was imported into the social sciences during the 1960s and was particularly used in mass communication research where messages need to be transported across large distances in space to a mass of people. The model is reproduced in many marketing textbooks and is probably familiar to most readers (e.g. Armstrong and Kotler, 1991; see also Buttle, 1995). It consists of a linear progression of the message from sender to receiver via a channel (or medium). Image is placed at the very end of the model as an effect of transmission. Communication is regarded successful when the image on the receiver's end corresponds to the sender's intended message. The entities in the model are isolated from one another and from external influences such as culture. The communication theoretician James Carey (1992) argues that the transmission view of communication builds on the metaphor of geography or transportation. Communication becomes a technology for distributing knowledge, ideas and information further in space in order to produce desired end-effects. Space needs to be made calculable, by means of fixed coordinates and clustering of objects in regularised ways (Harvey, 2001; Varey, 2002). In addition the transmission over vast differences to a vast number of people also means that time needs to be converted into space, so that space can be predicted and conquered. As an example of how time is reduced to space in the social sciences, Carey furnishes the

modern historian who uses time merely as a container to tell the narrative of progress and expansion. Over the years the transmission model has been the subject of much critique in cultural informed disciplines, most notably cultural studies (Hall, 1980a). Stern (1994) proposes a revised communication model for advertising, which account for the interaction between advertisers, consumers and promotional texts. The critique put forward by Stern highlights that the binary of sender and receiver in the transmission model is tied to a set of other binaries such as retailer/consumer, production/consumption, and active/passive. The set up of the model thus prevents the incorporation of the consumer as an active part in communication. The consumer is reduced to a recipient of information. The focus on control of information in the transmission model makes it difficult to embrace the consumer as an active part in communication. What is missing, and this is also part of Stern's point in her article, is an account of what consumers do with the information during or after it is received and how it is used in everyday life. In organisation studies the model has similarly been the subject for a similar type of critic (e.g. Deetz, 1992). In her study of the construction of city image, Barbara Czarniawska (2000) notes that the instrumental focus of the transmission model of communication makes it unsuitable to capture human communication. This is, she writes, because human communication is about the construction and reconstruction of meaning. Thus the model is unable to account for meaning since meaning cannot be sent, but needs to be understood as created between humans in social interaction.

It should be noted that previous research on IRI can also be traced to what may be referred to as the cultural view of communication (Arnold et al. 2001; Bianchi and Arnold, 2004) In these studies, image creation is investigated as something related to time present in, and degrees of institutionalisation of, a market. Here, cultural factors are paid more attention, but often in the sense of conceptual models. Nevertheless, my argument in this thesis is that studies viewing image as meaning resort to a view of culture as representational meaning, and not to how meaning is actively constructed. What is missing in both the transfer and the cultural views of communication is therefore an explicit consideration of retail image constructed in the lived everyday cultural practices where the retailer is used. What distinguishes the retailer from other

types of companies is that a retailer has a physical location, from which goods are bought, sold, and transported to many other locations for final use. Therefore, the study of retail image construction needs to consider consumers' meaning making in relation to the planned retail place.

It is not that studies on the international transfer of retail image neglect the consumers' role in the formation of image. After all, retail image is defined as how the retailer is positioned in the consumers' minds. However, the role played by the consumers is severely reduced. Despite the conceptual definition of retail image as what the retailer means to the consumer, the previous research captures consumers' attitude and judgments on store attributes, rather than the meanings consumers assign the retailer. Zimmer and Golden (1988) used an open-ended format to investigate how consumers described the store's image when not presented with specific store attributes. They found that even though consumers' use specific store attributes to think about the retail store, they tend to describe store image in terms of their total impression of the store. Zimmer and Golden's findings point to that the use of pre-specified attributes reduces the richness of consumers' imageries. Consumers are approached with questionnaires on which they are asked to rate their preferences of a set of pre-defined store attributes. The results are aggregated into an overall judgment, which is equated to image. Hence, image is turned into a mere effect of marketing communication in the store. Previous research on IRI, therefore, tells us *what* images consumers' hold of the retailer, but not *how* they are constructed (ibid.). The mere transfer or circulation of images reveals little about what the retailer means to its users. Without the awareness of how consumers make sense of the images projected by the retailer through marketing communication, we cannot know what they mean. Attending to how consumers' make sense of what the retailer offers them, would mean approaching image as constructed in a process of meaning making. Since we do not know beforehand what meanings consumers may assign the retailer, IRI needs to be seen as emergent in consumers' meaning making practices. The focal point of research then is not IRI as such, but the meaning making process in which it is produced. Naturally the what and the how are difficult to separate and as I will show later on it is necessary to

consider the specific images that consumer assign the retailer to understand how they are constructed.

In order to be able to capture image as meaning, attention also needs to be shifted from culture as an obstacle to be transcended to a resource for the construction of IRI. Previous research often point to the importance of retailers responding to the local culture in order to be successful in internationalisation (e.g. Dawson, 1994). When culture is considered, however, it mostly follows the cultural distance perspective where culture is categorised as national culture and defined according to a set of variables. It is hence not the lived culture that is considered, but scientific schemas of what the lived culture in a particular country involve.

### **Objectives and aims**

The problem posited in this thesis relates to the overly simplistic view of how consumers' images of international retailers are understood to be created in the previous research as a transfer from retailer to consumer and from one market to another. This view reduces the complexity of how international retail image is created in neglecting the active role played by consumers in giving meaning to retailing. This need not constitute a problem per se. In view of the approach adopted here, though, which sees consumers as actively giving meaning to retail environments and products, a deeper understanding how international retail image is constructed necessarily needs to incorporate the lived culture of consumers. By lived culture I mean here the practiced ordinary culture (du Gay et al. 1997; Johnson, 1986/1987; Williams, 1958/2000), which escapes calculations and scientific models. Understood in this way culture is a lived labour carried out in the course of every life, and is both the preservation of meaning and construction of new meaning. The ambition here is to propose a means by which to theoretically understand and methodologically grasp how the image of an international retailer is constructed in consumers' everyday practices. The focus on ordinary culture is important if we are to grasp image as meaning, rather than an effect of transfer. Thus, the purpose of research is to

theoretically outline an approach to how IRI is constructed and explore the implications of the approach by means of investigating how consumers in two different markets construct images of the international retailer. In order to demonstrate how the approach, outlined in this thesis, can contribute to previous research, I study how a highly institutionalised retail image in the home market is translated into a market expected to differ in terms of culture. As a particular case in point, consumers' image construction of the Swedish furnishing retailer IKEA is examined in the Swedish city Malmo and the Chinese city Shanghai where the retailer has been established for different amounts of time.

### **Theory and method**

Informed by cultural studies and communication theory, I adopt a narrative approach to how consumers in two different countries shape images of the international retailer. The cultural theoretician Michel de Certeau's (1984) concepts of *strategy* and *tactics*, and their respective associations to place and space is used, in order to investigate how image is constructed. Even though the concepts of strategies and tactics build on the same metaphor of war as those employed in the business literature, their meaning differ insofar as strategies and tactics are here referred to as narrative practices corresponding to two different orientations in the story: the narrative and how it is narrated (cf. Czarniawska, 2004; Gabriel, 2000; Barry and Elmes, 1997). Strategies correspond to practices typical for economic, political and scientific rationality. The execution of strategies rely on a demarcated physical place, which installs a certain order, a law of the proper (de Certeau, 1984). The law of the proper resembles the way that places are organised for purposes of control and surveillance. For example the prison, the factory, and the retail store would be examples of places set up according to the law of the proper. While place is the geographical and physical location, space is created by the way that the place is put into practice and given meaning. He argues that space only becomes meaningful through social practices, tactics, whose context is the place.

Following de Certeau's argument that the physical place is transformed into lived spaces in storytelling, I approach consumption as form of spatial storytelling anchored in the sensemaking of experiences of the retail place. The way I reason is that if the lived spaces produced within place through consumers' storytelling are what makes place meaningful, then it is would be possible to understand image construction in everyday practice as a form of spatial storytelling. Spatial storytelling is linked to a view on communication as the production of space that recently has gained attention in media and communications studies (see e.g. Falkheimer and Jansson, 2006). This view is different from the transmission and cultural concepts of communication in that the construction of image in communication is understood as the production of space. Communication as spatial production refutes neither the transmission view nor the cultural view of communication, but instead brings them together. The production of space is understood as relying on both the instrumental transmission of messages and the sensemaking (Weick, 1995) of these messages via culture.

#### *Unfolding the process of image construction*

The construction process of IRI was unfolded in consumers' storytelling about the Swedish furnishing retailer IKEA. With operations in over thirty-five countries, IKEA is an example of an international retailer. Since the 1980s, IKEA has employed a highly standardised marketing communication strategy. Over the years, IKEA has told a range of stories about its mythical founder figure, its Swedish origins, its low-cost policy, its product range, and so forth (Martensson, 1987). These stories are distributed by IKEA's key media: the website, the catalogue, and the store. IKEA is relevant to this study because it is intimately connected to the geographies of the locations of the store and to the home. While all retailers are inherently geographical in nature (see e.g. Wrigley and Lowe, 2002; Crewe, 2000; Marsden and Wrigley, 1995), IKEA explicitly promotes itself as an organiser of home space. I will not give a detailed introduction to IKEA here, allowing the consumers do the work in the analysis.

In order to provoke storytelling, photographs were employed in the interviews. In

visual anthropology, photos are commonly combined with interviews and observations to portray and document the social. The anthropologists Collier and Collier (1986) use the term 'photographic inventory' to denote that photography is a visual record of the relationships among people, things, and artefacts in the household. They found that photographs were useful, in combination with open-ended interviews, in obtaining knowledge. Collier and Collier argue that photos tend to strengthen an informant's memory. While a photographic inventory is thought to reflect the person who is living in a home, I employ photography here to enquire about the role of IKEA at home. The method of combining in-depth interviews with photographs is sometimes referred to as autodiving (Heisley and Levy, 1991).

Autodiving is commonly used when a researcher seeks to generate or elicit subjective accounts from informants. As the name implies, autodiving builds on the idea that the informants drive the interview by initiating topics for discussion. According to Heisley and Levy (1991), the purpose of autodiving is to give an informant an increased voice in the interview. The idea is that, by talking about the photos, the informant influences the direction of the conversation, rather than just answering questions formulated by a researcher. The goal is to capture the informant's own experiences and personal narratives. Because the informant is expected to be the one who directs the conversation during the interview, the relationship between informant and researcher is regarded as more symmetrical than in an interview structured by the researcher's questions (Clark-Ibanez, 2004). The researcher and the researched become collaborators rather than opposing parties in the format of inquirer/respondent. During the interview I experienced that informants showed an interest in talking about the photos. Because of their willingness to spend time talking to me, most interviews required two to three hours. I experienced that informants were keen on explaining what was depicted and why the photo had been taken. They took actions to explain their actions, rather than providing accounts. The photos were also used for the purpose of creating an estrangement before the mundane so as to encourage storytelling. In the mundane environment of the home, it can be difficult to articulate how things are done in a particular way, because this is self-evident to those who live there. Hence, it becomes invisible. In research dealing with daily life at

home, photographs have been suggested as a means of objectifying the familiar so as to make it possible to reflect on it (Heisley and Levy, 1991; Sontag, 2002). The idea of using photographs is thus to make the home appear more unfamiliar, and to make an informant reflect on what has happened there. The camera makes the world manageable, and it singles out certain aspects of reality. In this way, taking photos and telling stories are parallel means by which consumers organise and make sense of their experiences. Photographs are thus invested with memories and do not depict the world but frame how the person who took the photos makes the world meaningful. Photographs make it possible for an informant to re-experience a moment and share it with an interviewer. This means that the same photograph can have many different meanings, each dependant on who is doing the narrating (Burt et al. 2007).

### **Findings and conclusions**

The analysis of how consumers in one domestic market and one foreign market, located in Sweden and China, made sense of the furnishing retailer IKEA, reveals how consumers' storytelling tactics give rise to three spatial dimensions of international retail image construction. In the analysis these spaces were delineated by means of three different temporalities illustrated by three literary figures constructed on the basis of Homer's ancient epic poem *The Odyssey* and traced in contemporary Swedish and Chinese fiction.

Three typical spaces of IKEA were identified in consumers' storytelling and presented by means of three characters in the poem: the hero, the weaver, and the spirit. The heroic, woven, and spirital spaces were used as comprehensive labels to denote three different plots or tensions in consumers' storytelling. The characters typify tensions involved between place and space in consumers' storytelling. The actions of a character in a story reveal conflicts around which the plot revolves. The plots related to Odysseus' establishment of reason, Penelope's weaving routines, and the transcendental element in *The Odyssey* in the relationships between the gods and humans. In turn, these practices were found to organise three spaces in and through which images of IKEA emerged as novel, routine, and mythological.

The three spaces were often found to co-exist within the same storytelling, which is why they should be seen as dimensions of IRI, rather than as separate from one another. The analysis followed a cumulative logic, so as to be able to trace the overlapping of the spaces in consumers' storytelling. It begins with describing how the order of the retail place is established at home and moves towards how it is transcended. In order to situate the ways the retailer was retold in a time and place, I traced these plots to historical narratives in Sweden and China, such as, for instance, the reformation of the home, to works in the Swedish and Chinese literary traditions. The heroic, woven, and spiritual spaces correspond roughly to the established concepts of space as homogenous, fluid, and heterogeneous. These concepts are, however, used to denote how meaning is constructed in a more general sense, which is why they need to be further specified. What I call here homogenous space resembles what Lefebvre (1991) calls abstract space (presented in Chapters 2 and 5), which signifies a space which is planned according to a geometry where time and space collapse into one another. Abstract space tends towards homogeneity and the elimination of difference. Yet, abstract space harbours contradictions, which generate alternative spaces within it. In this way heterogeneous space is parallel to Lefebvre's category of differential space that attempts to resist the geometry of abstract spaces by means of different experiences of time, leading to the creation of alternative meanings. Fluid space corresponds to Mol and Law's (1994) depiction of a particular form of social space, the boundaries of which shift like those of a liquid. Fluid space generates meanings, which are shifting and situationally contingent.

The three spatial dimensions of IRI identified in this study tell us something about how international retail image evolves over time. McGoldrick (1998) argues that consumers learn the facets of an image and that image tends to develop in a positive direction when trust is established between a retailer and its consumers. The three spatial dimensions, identified here, indicate the reorganisation of place in consumers' storytelling at different stages in the temporal development of image. Homogenous space was found more often in Shanghai, where the retailer was newly established in the market, while the construction of fluid space was more frequent in Malmö, where

the retailer had been established for a longer period of time. Heterogeneous space was found in both of the cities and was often produced in tensions between the old and the new, or between the rationally planned and the imagination. The relation between the three spaces and their relation to place is characterized by a set of tensions. The tensions within and between the spatial dimensions suggest a particular dynamic in the construction process of IRI. Homogeneous space is the one whose order is most similar to the place and this is where images of the retailer are generated, which are similar to the images encouraged in the place. In the fluid and heterogeneous spaces the sameness of image successively diminishes. These spaces were found to co-exist within several of the informants' stories, indicating that they stand in reciprocal relationships to each other. The similarities in narrating IKEA across Malmö and Shanghai that characterize homogenous spaces presuppose the existence of the heterogeneous spaces. The differences in images of the retailer are the least and the greatest between these two spaces. Located between these spaces is fluid space, in which differences in images are created through the repetition of place, that is to say, by sameness.

#### *Image construction beyond the retail store*

The theoretical contribution of the present study does not only concern *how* IRI construction occurs through spatial storytelling, but also *where* IRI construction takes place. Spatial storytelling was captured in consumers' storytelling about IKEA at home. Storytelling is about making sense of something that has already happened. It occurs in relation to some form of uncertainty, or in relation to something that needs to be explained. For this reason, I conducted the interviews using photographs that informants had themselves taken of their homes. This was also done in order to allow the informants to define aspects of their homes that they considered important. I suggest that spatial stories are not told just anywhere; they need places where thoughts can be seen in hindsight and reflected upon. The home was identified as a place where spatial stories are told, because goods gain their final meaning by being used in consumption.

Experiences and memories are difficult to capture and they cannot be accumulated. Therefore they escape attention and assume a ghost-like form (cf. de Certeau 1984). In the planned retail environments they are therefore a silent force, which is never heard. They constitute a tension within this place by producing alternative spaces within it that are never seen. This observation makes it difficult to model international retail image on specified attributes of the retail store as suggested by previous research (e.g. Martineau, 1958; Lindquist 1974/1975; Doyle and Fenwick, 1974/1975; Oxenfeld, 1974/1975; Pessemier, 1980; Mazursky and Jacoby, 1984; Zimmer and Golden, 1988; Keaveney and Hunt, 1992). In the storytelling I have considered here, the traditional measures of store image seldom came to the fore. This is also the reason why I have focused on retailing as the practice of organising the place for the selling of goods and services to the end consumer, rather than on the entity of the retail brand or the retail store. The things that consumers narrate in their stories refer to how they experience the practicing of the order of the place.

The way that consumers' storytelling was emplotted around the tensions of strategy and tactics, and the kind of temporalities activated in the plots, can be expected to be valid for other furnishings retailers in similar stages of international image development as was IKEA in Malmö and Shanghai. It is important to note that the three spaces are international spaces, because they embrace the meaning-making activities of consumers in both cities. The variations in images in these spaces, however, construct a set of internal tensions within them and in their relationships with one another. Due to these tensions, IRI is an evolving construct in relation to time and place.

### *Capturing the lived culture by means of literature*

The methodological contribution consists in demonstrating how lived culture can be grasped using literary fiction. Since the silent and lived culture follows a logic of its

own and is not easy to pin down with scientific models or measures, I needed to find alternative ways of capturing what consumers' storytelling was about. Literature is the result of previous efforts at sensemaking. Hence it was regarded to be a suitable method for capturing consumers' storytelling. Literature was found to be particularly helpful for capturing the lived culture among Swedish and Chinese informants, as opposed to using conceptualisations of national culture depicted in marketing textbooks. Some of these concepts were developed long ago, and they reduce culture to abstract ideas, which may no longer necessarily be relevant for a retailer's consumers. Because literary works draw upon repertoires of cultural narratives, they are also able to tell us about specific cultures. Literature may not be able to provide information about culture in an operational manner, but it can tell us a great deal about the course of everyday life in that culture (Czarniawska, 2009; de Cock and Land, 2006).

Literature also gave me the means to explore different ways of understanding what I saw in the material. In many ways the work with the analysis was exploratory; it was about testing new ways of making sense of the material. Especially when it comes to conducting research in a country in which one's regular schemes of interpretation do not always work and may need reconsideration, literature can reveal alternative ways of seeing which are central to a culture. The kind of popular fiction that I engaged with was selected for the purpose of familiarising the strange in Shanghai and estranging the familiar in Malmö. For me, studying a retailer that I grew up with, in a city in which I had lived for many years, the fiction helped me discover new things about my own culture. On the other hand, in Shanghai, where my experiences were limited and where my usual ways of seeing did not always apply, fiction made the strange more familiar.

Understanding the role of the retailer in lived culture is important in order to ensure that the retailer is relevant to everyday life where it is used. The ways that retailing is retold occur all the time, and this may happen years after a consumer originally bought the products or visited the store. It is in the realm of the everyday, where nothing seems to happen, that there is time to reflect upon events and produce images

in retrospect. Consumption, from this perspective, is silent; it is about making do, about struggling to lead a decent life and to fill everyday life with meaning. Making the bed, cooking, cleaning, decorating, reading, playing with the children, and so on are all practices that involve consumption (cf. Sand 2008). These activities often escape attention because they are so mundane that we rarely reflect over what they accomplish. And it is precisely due to its trivial and fleeting nature that everyday consumption is productive, because marketers do not as easily appropriate it as they do with more visible practices.

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# **Essays on Managerial Myopia and Subject Positions in Companies with Different Governance Structures**

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## **Abstract**

*The first essay presents time models, socially constructed mental models on the past, present, and future, in a Foucauldian framework, redefining myopia. The second essay, with the assistance of time models, solves the paradox of the twofold nature (short and long term orientation) of share price. The third essay explores how organisational controls (exemplified by company culture, share price, and the Balanced Scorecard) are tied to myopia through time models. The fourth essay compares subject positions, with regard to action/inaction, in different companies. The data consist of 42 interviews and archival data gathered in four financial services companies.*

## **Introduction**

The notions of time orientation and myopia have typically relied on the views of outsiders, such as scholars and financial markets critics (see e.g. Van der Stede, 2000; Ding et al., 2008; Ezzamel et al., 2008). The basis for the construction of these concepts by the actors themselves within companies has not been studied. The current study fills this gap by investigating actors' mental models regarding time; it reveals how the narrower notion of myopia lies within the wider concept of time in listed and non-listed companies.

Myopia is redefined and it is shown how organisational controls are tied to myopia. The paradox of share price being both long-term and short-term oriented is solved, and recommendations on the use of organizational controls are provided. It is explained what the concept of "myopia in the financial markets" entails and how it is constructed. A

connection between the ideology of shareholder value and action orientation is revealed. Finally, the study contributes by questioning the grounds for ideology diffusion: should ideologies diffuse because they encourage action or because they are based on other, more preferred values?

### **Theoretical underpinnings**

This dissertation is interpretive: it studies both the interpretations of actors, and the interpretations of the researcher regarding the actions and perspectives observed (Kakkuri-Knuuttila et al., 2008; Burrell & Morgan, 1979). It follows social constructivism (Berger & Luckmann, 1966; Gendron & Bédard, 2006; Searle, 1995). The dissertation addresses the subjective constructs of managers by a researcher with her own subjective perspective, simultaneously linking the findings on these constructs to (epistemological) objectivities experienced as structures by actors (McKinnon, 1988; Ahrens, 2008; Searle, 1995). This approach does not settle on solely describing the interpretations of actors; rather, it sets these interpretations into a wider context and provides explanations for these interpretations, as well as their consequences (Kakkuri-Knuuttila et al., 2008).

The ideology of shareholder value has recently become increasingly popular (Lazonick & O'Sullivan, 2000; Ding et al., 2008): shareholder value creation is assumed to be the most vital objective of management (Ezzamel et al., 2008). It is suggested that this leads to the eventual good of the whole of society and all stakeholders (Jensen, 2001; Friedman, 1970; Smith, 1776). Several authors have criticised this approach for being myopic (Ezzamel et al., 2008; Lazonick & O'Sullivan, 2000; Aglietta & Rebérioux, 2005; Graham et al., 2005; Ding et al., 2008).

On the other hand, concerns have been raised regarding companies that are not listed. The democratic principles applied in cooperatives can hinder efficiency, because they cause problems for hierarchy and for strategic leadership (Williamson, 1985; Núñez-Nickel & Moyano-Fuentes, 2004). Ferrier and Porter (1991) accuse cooperatives more directly of

short-termism with regard to investments due to the truncated investment horizon of cooperative patrons.

Ideologies diffuse through multiple mechanisms (Wejnert, 2005; Neu and Ocampo, 2007; Useem, 1993; Harris and Crane, 2002). Agential action appears to be an important ingredient for this diffusion (Neu & Ocampo, 2007; Ezzamel et al., 2007). Shareholder value is extremely effective at mobilising action (Useem, 1993, p. 223).

The literature on sociology of time distinguishes between linear-quantitative (time is perceived as clock-time and seen as linear) and cyclic-qualitative traditions (time is conceptualised as social, and the past, the present and the future do not possess clear boundaries) (Hassard, 1999, 1990; Jaques, 1982). This dissertation is positioned within the cyclic-qualitative tradition because it focuses on how time is socially constructed by management. Emirbayer and Mische (1998) divide agency into three components: iterational (the past), practical-evaluative (the present), and projective (the future). The iterational element refers to the activation of past thoughts and events, usually within routinised actions. The practical-evaluative element relates to the practical and normative judgments made by actors who have to respond to emerging present situations. Finally, the projective component refers to the formation of possibilities relating to future action.

The work of Michel Foucault (1977, 1979, 1982, 1991) has formed a popular basis within accounting research (Miller & O'Leary, 1987; Hopper & Macintosh, 1993; Cowton & Dopson, 2002; Roberts et al., 2006). Foucault perceives government as "the conduct of conduct" (Foucault, 1982, p. 220-221); any activity directed at impacting the actions of oneself or the actions of other persons (Foucault, 1982; Roberts et al., 2006). Through government of self, actors that are subjected to power internalise this power and govern their own behaviour (Foucault, 1979, 1982; Roberts et al., 2006).

Stock markets are filled with discipline (Foucault, 1979), and this discipline can transform to the self government of company executives (Roberts et al., 2006). Discipline and its associated visibility are manifested in the financial markets with normalisation.

Normalisation refers to the rendering of individuals to a “normal”, disciplinary state (Foucault, 1979). In the stock markets, normalisation can, for example, refer to the checking for “abnormal” earnings surprises compared with analysts’ consensus earnings forecasts.

Objects in discourse are formed through surfaces of emergence (institutions controlling a discourse), authorities of delimitation, and grids of specification (Foucault, 1977). On the other hand, subject positions are formed based on who are allowed to talk in a specific discourse, and in which kinds of institutional settings a given discourse is permitted to appear (Foucault, 1977). The relations between subjects and objects are regulated by discourse: transforming a certain group of persons into objects can assist in also transforming this group into subjects who have the permission to objectify others (Foucault, 1977). For Foucault, power is the relational production of subject positions, not only a negative, repressive phenomenon (Roberts et al., 2006).

The dissertation draws on the separation of organisational controls (Langfield-Smith, 2008; Brown & Malmi, 2008) into technocratic (formal) and socio-ideological (informal) controls (Alvesson & Kärreman, 2008; Langfield-Smith, 2008; Collier, 2005; Otley, 1999). Regarding technocratic control, this research concentrates on output controls (Ouchi, 1979; Langfield-Smith, 2008), in other words, results controls (Merchant & Van der Stede, 2007). The dissertation focuses on two output controls: share price and the Balanced Scorecard. Share price has been seen as both long (Fisher, 1965; Puffer & Weintrop, 1991; Brickley et al., 1985) and short term oriented (Espeland & Hirsch, 1990; Rappaport, 2005). The Balanced Scorecard has been marketed as a long-term oriented system because it includes non-financial measures (Kaplan & Norton, 1996) that function as leading indicators (Banker et al., 2000).

Socio-ideological controls are typically informal controls related to company ideology, shared norms, beliefs, or values (Alvesson & Kärreman, 2004). Socio-ideological controls, in other words social controls (Ouchi, 1979; Kennedy & Widener, 2008),

typically relate to corporate culture (Collier, 2005; Alvesson & Kärreman, 2004), that is also drawn on in this study.

## **Method**

This qualitative study was conducted primarily by semi-structured interviews of executives and managers, although archival data were also employed. In addition to data on managers' constructs, data on constructs of other parties, such as board members of the companies, as well as competitors, analysts and journalists have also been gathered and analysed. The study concentrates on several financial services companies rather than a single case: one coalition of savings banks without clear outside ownership, one listed company with dispersed owners, and one mutual company with customer ownership. Moreover, discussion about the listed company by commentators working in a cooperative has been employed. The resulting comparisons provide richness to the study. The listed company was selected because its representatives openly claim it to be very shareholder value oriented. The other companies were selected because they represent a clear distinction from this shareholder value orientation, and possess diverse ownership structures.

The study is based on 42 interviews. The interview themes concerned time related constructs of respondents, the performance measurement and compensation used for company management, and the owners as well as other stakeholders of the companies. Interviews were conducted in 2007-2008. The length of the interviews varied between 30 and 105 minutes. All interviews were recorded and transcribed.

Archival data were used in order to complement the interview data with other type of corroborating empirical evidence (Vaivio, 2008). These archival data are composed of company compensation manuals, annual reports, and other relevant material that was gathered from company web sites. Newspaper articles, company histories, and a television documentary on one case company were also used.

In the study, validity and reliability were enhanced by acknowledging the threats of observed-caused effects and subjective observer bias (McKinnon, 1988). Moreover, data access was spread as widely as possible in order to increase both the reliability and validity of the study (McKinnon, 1988). When visiting the field and interviewing, notes were taken systematically and probing questions were used where appropriate (McKinnon, 1988).

The data analysis began immediately after the data gathering had commenced, and was completed well after the data had been gathered. Existing data were reflected upon in the light of any new data and the theoretical implications were adjusted where appropriate. Tensions between case companies were uncovered and focused on in order to contribute to existing theory (Ahrens & Dent, 1998). Theory was continuously kept in mind in order to identify the gaps where this dissertation could make a contribution (Ahrens & Chapman, 2006).

## **Contributions**

### Essay 1: Time related constructs in a listed and a non-listed company: Time rationalities and myopia

The essay is a comparative case study of two companies; one is listed and focused on shareholder value, the other is non-listed. Interviews were conducted with managers and board members.

Particularly top managers, but also other company actors, are under pressures to simultaneously draw on experiences from the past, function effectively at present, and think about the future. In order to bridge the gap between the past, the present and the future, they construct time models. The term “time model” refers to the form of how time is conceptualised; a time model is a piece or collection of information, it is not a concrete model that can be touched, unlike the actions that are connected to it (Latour, 1987). It is

also tied with an associated normative rationality on how time should optimally be conceptualised. In *the past-based time model*, strengths created in the past (in terms of history or rules/routines) are assumed to function as a source of competitive advantage in the present and future. Thinking is directed from the past towards the present and/or the future. *The present-based model* assumes that present actions, as long as they are effective and efficient, lead to a successful future. Thinking is therefore directed from the present towards the future. In *the future-based model*, present actions are derived from future plans that are made first. Thinking is directed from the future towards the present. All time models function either separately or in combination; different contexts call for the employment of different models.

The analysis shows that, due to the normalising pressures from the financial markets, the listed company executives constructed time dominantly through the present-based time model. The overemphasis on the present-based model, and the present inside it, forms a potential source of myopia. The subject position and the time model of listed company executives are formed based on a form of government of self whose breakdown, in the form of an extensive focus on the present, is witnessed by outsiders as myopia. The time models of the non-listed company managers are more flexible and shifting than that of the listed company executives. These managers use the past-based, the present-based, and the future-based models interchangeably.

The essay contributes to the literature on executive myopia associated with shareholder value maximisation and the financial markets (Ezzamel et al. 2008; Ding et al. 2007; Aglietta & Rebérioux 2005; Lazonick & O'Sullivan 2000), by redefining the concept of myopia. The study also shows that in addition to an over concern on the present, myopia can present itself as an over concern on the past (Hannan & Freeman, 1984; Jermias, 2001; Levinthal & March, 1993) and the future (Mintzberg, 1994; Levinthal & March, 1993). Myopia materialises when actors excessively concentrate on a given model base, and are unable to orient away from this base. Myopia is therefore newly defined as *a disproportionate concern for business matters which do not contribute to the long-term success of the focal company*. This definition extends the traditional definition of myopia

(an excessively strong focus on business matters that affect short-term results by Van der Stede, 2000) by including the past-based and the future-based time models in it, in addition to the implicit present-based model.

The essay explains how strict accountability requirements in the financial markets can trap management into an inescapable visibility that increases myopia and concern for the present (Ebrahim, 2005). This finding is relevant for practice: strict financial reporting requirements can induce myopia.

### Essay 2: The time orientation of share price

This essay focuses on one publicly quoted company and its management. The time model within the company is contrasted with data gathered in interviews with analysts and journalists, and with representatives of three competitors.

This essay contributes by revealing the bases for the dual perception on share price. The essay illustrates that share price is constructed by company executives as long-term oriented through three processes. The processes are termed linguistic (share price is called long-term), practical functional (share price is used in order to reach long-term ideals in recruitment, retention, and motivation), and elevated functional (share price is related to the morality of the long time horizon) processes. However, it is shown that executives use the present-based time model, and that share price is strongly tied to this model. Two sources of myopia within this model are (1) the lack of setting the present into the wider framework of the future, and (2) the impossibility of perceiving the future imaginatively without any concern for the present.

Thus, this essay relies on the newly formulated concept of myopia provided in this dissertation and shows that share price does not necessarily protect against myopia, combating the assumption made earlier (Fisher, 1965; Puffer & Weintrop, 1991; Brickley et al., 1985). Share price can tempt executives towards a focus on the present with the

following logic: if an automatically long-term oriented measure exists, why worry about planning?

### Essay 3: What is myopia, and how do organisational controls influence it?

For this essay, interviews were conducted with managers and board members in three companies. The study illustrates the interrelationships between time models and organisational controls. The controls studied are cultural controls, performance measurement with share price, and performance measurement with cybernetic control system (exemplified by the Balanced Scorecard). In these specific cases, cultural controls are tied to the past-based time model, share price to the present-based time model, and cybernetic controls to the future-based time model.

The essay contributes to the literature on organisational controls (Alvesson & Kärreman, 2004; Merchant & Van der Stede, 2007; Langfield-Smith, 2008; Collier, 2005; Otley, 1999) by suggesting how controls can combat myopia. All time models possess favourable outcomes as well as unfavourable ones in terms of myopia, as do the controls. The situational excellence of actors is suggested to form the best defence against myopia. Drawing on one, allegedly “superior” control to combat myopia simply leads to the overemphasis of the myopic properties of that specific control. Balance between controls is recommended.

In the essay share price is shown to be a highly contentious measure capable of inducing both long time orientation and myopia (Puffer & Weintrop, 1991; Brickley et al., 1985; Rappaport, 2005; Ding et al., 2008). Share price is long-term oriented because it effectively and continuously ties the future to the present. Simultaneously, share price has the potential to create myopia since, in its presence, the future can be conceived of ambiguously and may not, therefore, matter to actors.

Previous research has claimed that accounting measures, such as earnings, are fixed on the past and myopic (Ittner et al., 2003). The essay shows that accounting based

performance measures can be long-term oriented, even if they are measured only annually. These measures force planning; a concern for situations ahead. Problems related to the future-based time model are then caused when detailed plans do not take into account unanticipated present concerns.

In the previous literature, myopia has traditionally been implied to be associated with an excessively short horizon (Van der Stede, 2000). The study contributes to this by acknowledging that it is not only the time period for which plans are made that matter, but also the extent of analysis and rigour that is devoted to these plans.

#### Essay 4: The role of action within subject positions tied to the ideology of shareholder value

For this essay, executives, managers outside the executive team, and board members were interviewed in a listed and a non-listed company. The executives in the listed company were objectified by the financial markets and the financial press. This objectification caused these executives to be subjects in these arenas, and thereby assisted them in reinforcing their own subjectivity within their company. The moral imperative of these executives, shareholder value, was a given, but the executives were freed to take any measures needed to increase this value; action to increase it was perceived as legitimate within the company. The strength of subject positions was tied to this potential for action. In contrast, the non-listed company executives were not objectified by outsiders as profoundly as their contemporaries in the listed company, because the non-listed company was very closed from outside ownership-related influences. The subject positions of the non-listed company executives lacked strength and were thereby directed towards inaction. Paradoxically, although these executives were freed from outside pressures, they lacked legitimacy to act within their own organisation.

The essay contributes to the literature on subject positions (Roberts et al., 2006) by specifying a novel role for the formation of these positions within a focal company; the role of action. This role amplifies and instrumentalises the programme of shareholder

value with the assistance of technologies such as share price (Miller & Rose, 2008; Useem, 1993). It complements any technology of abstract representations of shareholder value (such as earnings and Economic Value Added): shareholder value demands action, and it finds blueprints for this action in those abstract valuation models (Roberts et al., 2006; Ezzamel et al., 2004; Cooper & Law, 1995). Clear command-and-control structures in listed companies become understandable: owners who demand that executives increase shareholder value have to establish a company structure that allows the executives to implement these increases (Useem, 1993). The multiple interests of stakeholders do not interfere with action, as might occur in non-listed companies (Hansmann & Kraakman, 2001; Fiss & Zajac, 2004). Decentralisation amplifies the possibilities for the creation of shareholder value, because it divides the roles of those who are subjectified (the executives), and those that are thus objectified (the subordinates) to effectively execute actions ordered by the executives (Useem, 1993). The essay also contributes to the literature on the inefficiency of non-listed companies (Ferrier & Porter, 1991; Williamson, 1985; Núñez-Nickel & Moyano-Fuentes, 2004) by showing a reason for this inefficiency.

The essay explains why shareholder value has diffused so effectively and widely as it has. An ideology focusing on actions spreads more effectively than an ideology that does not encourage actions (Neu & Ocampo, 2007; Ezzamel et al., 2007; Wejnert, 2005; Harris & Crane, 2002; Useem, 1993; Festinger, 1957). Shareholder value emphasises action with is powerful subject positions, and due to this emphasis it spreads. It invites actors with a drive for action and a willingness to spread the ideology further. This explanation differs significantly from the traditional economist explanation which holds that shareholder value leads to a socially preferred equilibrium when the “invisible hand” described by Adam Smith is allowed to guide individuals (Jensen, 2001; Friedman, 1970; Smith, 1776). The essay raises an important question about the appropriate grounds for the diffusion of any ideology: emphasis on action or more profound values?

## **Conclusions**

Listed company myopia is represented by an excessive concern for the present-based time model and present actions within it; as illustrated in the first essay. The second essay divides this focus on the present into two parts. In essays 1 and 3, non-listed company myopia is presented as a potentially threefold issue: an excessive focus on the past, the present or the future. The dissertation provides evidence that breaches in subject positions can be tied to myopia in listed companies. On the other hand, according to essay 4, if executive subject positions provide for inaction in non-listed companies, actions may not materialise even if they would be in the long-term interests of the company.

Future research could study time models and myopia with multiple methods. Publicly available archival data on companies, such as the remarks made by Chief Executive Officers in financial statements and other public comments made by company representatives, could be used to produce judgments on time models in these companies. Moreover, a potential method would be to design large-scale surveys in which time models are examined. Time models can be studied locally, as has been done here, or globally, as could be achieved by employing survey instruments in several countries and settings. Time models can also be elaborated upon statically, as has been the purpose here in investigating time models held by actors at a point in time, or dynamically by studying changes in time models as well as the causes and implications of these changes. Finally, time models could be studied in settings such as the state administration, the third sector, or in the case of individual actors located in, for example, a neighbourhood or a township.

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# **Integrating macro- and micro-organizational variables through multilevel approach**

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## **Abstract**

*The dissertation presents an in-depth research on the link between organization design and work design from a multilevel perspective. The research was aimed at understanding the nature of the influence that macro-organizational concepts have on their micro-organizational counterparts. Multilevel analysis, conducted on a research sample of 51 organizations and 1285 work positions, showed that cognitive and social characteristics of organizations have the most significant influence on work characteristics. Mediating role of work characteristics in relationship between organization design and work performance was partially confirmed. Cluster analysis proved existence of 5 different work design configurations where results clearly showed that people mostly perform their work in a team environment.*

## **Summary**

Current business trends are putting significant requirements on everyday working practice and are causing rapid changes. Due to globalisation and information technology development, as well as to influence of other relevant factors, organizations are forced more than ever to internally align and optimise their systems, rewards, structures, employees, jobs and organizational processes – if they want to survive. Significant changes in the business environment over the past 20 years require a new practice of work and organizing that has outpaced underlying theories and methods (Child, 2005).

Although issues on organization design and nature of organization's work exist for some time, they had been rarely put into the same research focus (e.g., Van de Ven & Ferry, 1980; Moorhead, 1981; Griffin, 1982; Daft & Steers, 1986), especially not as whole system-wide concepts. Although work design is tightly woven into the structure and function of organizations (Torraco, 2005), the evident link between organization design and work design has been neglected both in theory and in everyday business practice (Gyan-Baggour, 1999).

For a long time these concepts had been understood too narrowly. On one hand, organization design traditionally represented only structural aspects of an organization that offered rather limited view of organizational reality. Nowadays, it can be defined as deliberate process of configuring structures, processes, reward systems, and people practices, to create an effective

organization capable of achieving the business strategy (Kates & Galbraith, 2007). As such, it represents a significant and sustainable source of competitive advantage.

On the other hand, regardless of long history of research in job design, the area witnessed the renaissance in last 15 years where the term work design is used instead of job design to reflect the broader approach (e.g., Parker & Wall, 1998). Work design is defined as the system of arrangements and procedures for organizing work (Sinha & Van de Ven, 2005). It is characterized with a broader scope including not only motivational job characteristics, but many others as well (cognitive, social, contextual, etc.), applying them both at the individual and group level. The importance of studying work design is obvious because most of their lives people spend working inside organizations where design of their work significantly shapes the quality of their life in general.

Besides narrowly focused definitions of organization design and work design, the majority of research conducted (especially during 1970s and 1980s) was focused on a single level of analysis (e.g., individual, group, organization, industry). However, today, a need for a different approach has been realized. Applying multilevel lenses leads to a better understanding of complex organizational issues. In accordance with mentioned, the main purpose of the dissertation was to put organization design and work design into the same multilevel context, and to provide an in-depth analysis and understanding of the multilevel relationship between broad concepts of organization design and work design.

From the main purpose several goals, useful both for theory and practice, had been posed and ultimately achieved:

- *to systematically present and provide a critical review of current research on organization design and work design;*
- *to address the complementarities of macro and micro perspectives of organization through implementation and elaboration of a multilevel approach;*
- *to recognize key macro- and micro-organizational variables and to develop the integrative multilevel model of organization design and work design;*
- *to determine single and multilevel influences between different organizational variables;*
- *to develop work design taxonomy and to recognize different work design configurations;*
- *to emphasize the necessary link and causality between reorganization projects and workplace systematisation projects;*
- *to provide managers, consultants and practitioners with theoretical framework for better understanding of organizational issues;*

- *to provide practical insights for improvement of everyday organizing practice.*

Many possible hypotheses on different relationships between organizational variables were arising due to a broad scope and importance of the research topic. However, the primary focus of the research was on the following ones:

- H<sub>1</sub>: Macro-organizational variables have a significant influence on micro-organizational variables.*
- H<sub>2</sub>: Process variables of organization design have the strongest impact on work design variables.*
- H<sub>3</sub>: Various work design configurations exist in organizations.*
- H<sub>4</sub>: Team-based work design configurations are represented to a larger extent than individually-based work design configurations.*
- H<sub>5</sub>: Work design variables mediate the relationship between organization design variables and work performance.*

Although all of proposed research hypotheses had not been confirmed, this does not shadow the importance of their proposing, but indicates specific characteristics of observed organizations and individuals, and acknowledged research limitations as well. Precisely, two hypotheses out of five had been completely confirmed, two had been confirmed partially, and one had been rejected.

Throughout the dissertation, a top-down approach was applied, presenting organization design as a contextual element that constrains, but also encourages, work design processes and solutions. In other words, work design has been understood as a consequence of combination and interaction of different organization design elements.

Theoretical background for such understanding was found in main principles of systems theory and contingency theory of organizations, upon which a multilevel perspective was introduced. Multilevel perspective was developed and applied because it has been recognized that such an analysis should be applied in almost all the research concerning organizational issues (e.g., Kozlowski & Klein, 2000). Potentially it offers more rigorous and more accurate findings. Accordingly, in-depth theoretical and empirical results were provided on numerous interdependencies between constructs from two different levels of analysis – organizational and individual.

Due to a high-level nature of organization design and work design concepts, the research was conducted on macro- and micro-organizational variables in order to identify their relationship. By determining their primary relationship, conclusions were made on the secondary relationship between macro and micro constructs and concepts. Such a positivistic standpoint

has been evaluated as the most appropriate for narrowing the existing gap between theoretical concepts and practical solutions, as well as between macro and micro levels of analysis in general.

In the theoretical part of the dissertation, concepts of organization design and work design were clearly and straightforwardly defined, first separately and then together within the same context. Their traditional interpretations, focused on organizational structure and job design, were broadened. While organization design was approached through the Star Model elements (Galbraith, 2002), work design was confirmed as its implicit part or as an outcome of the organization design process at the individual and group level. Furthermore, their importance was emphasized and current trends were recognized. Traditional, single dimensional approaches and models of work design, and their modern, multidimensional and interdisciplinary counterparts were clearly distinguished. Main aspects of the changing nature of work were recognized, as well as five key work design dimensions (vertical, horizontal, temporal, cognitive, and spatial) that had a strong influence on its practice.

The dissertation introduces and develops many other ideas that may contribute to everyday business practice. It is especially important to emphasize the fact that each individual has a unique work design (performs a specific combination of tasks and roles) and that employees perform their work more often in different parts and at different levels of an organization. It is also stressed that each organization should optimise the usage of the knowledge, skills and competencies of its employees, and that is it necessary to involve, motivate and encourage employees to craft their own work.

In order to apply a multilevel approach on the specific research problem, it was primarily necessary to develop a multilevel theoretical framework. A multilevel approach and the need for better understanding of organizational practices led to a development of the *Integrative multilevel model of organizations*. The model offered a comprehensive overview of the complex nature and relationship between organization design, work design, and performance at various levels. Numerous direct and indirect relationships were recognized but only the most important ones were chosen for further investigation (see Figure 1).

After mentioned concepts had been clearly defined and Model was developed, key macro- and micro-organizational variables were identified and used for further empirical research (see Table 1). A more comprehensive and updated classification of macro-organizational variables was presented (contingency, strategy, structural, process, cognitive, and social variables), while the applied classification of micro-organizational variables was based on the work of *Morgeson and Humphrey (2006)*.

The empirical research was conducted through a field study of the largest Croatian organizations with more than 500 employees because it has been proved that those organizations have more complex organizational solutions with stronger requirements for alignment of various organizational issues. Targeted population consisted of 226 organizations listed by *Croatian Chamber of Economy*. The whole population was included in the research process.

For purpose of the chosen research design, two separate questionnaires had been developed. *Questionnaire for assessing organizational characteristics* had been created to collect data on organizations and their macro-organizational characteristics. This questionnaire was filled out by persons who have a holistic view of an organization, mostly by CEOs, HR managers and middle managers in charge of organization design issues. It consisted of 62 items on a 5-point Likert scale measuring 16 macro-organizational variables. *Questionnaire for assessing work characteristics* focused on gathering employees' perceived characteristics of their work. It encountered 75 items on a 5-point Likert scale measuring 15 micro-organizational variables. The questionnaires were pre-tested and their reliability and validity had been checked causing smaller changes in their initial design.

The questionnaires have been distributed by mail to CEOs of targeted organizations. Data collection process began in November 2009 and lasted until February 2010. The research sample was cross-sectional in nature and consisted of 51 organizations with a response rate of 23.2%. Besides organizations, at the individual level, the sample was cross-occupational where 1285 employees were chosen to participate in the research. The snowball sampling strategy was used and respondents were surveyed regarding the nature of their work characteristics. Contact persons in each organization, chosen by their CEOs, had received guidelines for choosing the sample of employees, which represented various parts and levels of an organization. Collected data were analysed by using software packages *SPSS 18.0*, *Statistica 7* and *HLM 6.08* where, besides multi-level analysis and HLM methodology, several other quantitative methods were also applied (e.g., multiple regression analysis, correlation analysis, and cluster analysis).

Analysis of multilevel interactions was conducted by HLM technique and was a basis for determining the proportion of variance between and within organizations. The multilevel research of pair-wise relationships between 16 macro- and 15 micro-organizational variables showed that some macro-organizational variables had a stronger and a more direct influence on micro-organizational variables, while others had a weaker and a more indirect impact. In other words, regression models *Means-as-Outcomes* illustrated that all the macro-organizational variables did not have an influence on each particular micro-organizational variable, but that their relationship was specific and variant. The research revealed that

contingency and strategic characteristics of organizations had the weakest impact on micro-organizational variables, while cognitive and social characteristics of organizations had the strongest one (see Table 2 and Table 3). In other words, the first research hypothesis was only partially confirmed in the case of the impact of cognitive and social variables of organization design on micro-organizational variables. For all the other macro-organizational variables, it was necessary to reject the hypothesis in spite of the literature emphasizing that all macro-organizational variables have a significant influence on micro-organizational variables.

The second research hypothesis was rejected because the empirical analysis using two different methods had not shown that process variables of organization design have the strongest impact on micro-organizational variables. Namely, either by observing separate influence of each individual macro-organizational variable, or by identifying a simultaneous influence of particular category of macro-organizational variables, a significant influence of process variables of organization design (*task variability, process interdependence and horizontal integration*) on micro-organizational variables was not found. The strongest impact of independent macro-organizational variables on dependent micro-organizational variables was confirmed for structural characteristics of organizations by using *Akaike's Information Criterion* (in 33.3% of cases, see Table 4). Additionally, research findings proved that all categories of macro-organizational variables, except social characteristics, had the most significant influence on cognitive characteristics of work (see Table 5).

Results of a non-hierarchical *k-means* clustering method confirmed the third research hypothesis and verified the existence of five theoretically conceptualised work design configurations. Besides two extreme configurations already recognized in the literature – *individual work design* and *team work design*, three additional intermediary forms were recognized during the desk research – *individual work design with temporary group roles, group work design, and team work design with temporary individual roles* (see Figure 2). Furthermore, the analysis showed that most employees (almost 68%) performed their work in a team-based environment (see Table 6), which means that the fourth research hypothesis was confirmed.

Finally, the *Job-Modification Framework*, originally conceptualised by *Oldham and Hackman* (1981), was theoretically expanded and tested by applying lower-level mediation technique (model 2-1-1) and by using *Intercepts-as-Outcomes* regression models. A mediating role of work characteristics in the relationship between organization design and work performance was partially confirmed. Although each work characteristic was a mediating variable in at least three relationships, mediation effect in general was present in only 15.63% of situations. Furthermore, results showed that mediating influence was more represented in case of

*contextual performance* than in case of *task performance* as outcome variables (see Table 7 and Table 8).

Theoretical and empirical research findings of the dissertation indicate certain overlapping, but also the existence of differences between theoretical arguments and empirical results. However, research results lead to very important understandings of relationships between observed variables. Conducted research was aiming at opening further discussion on influences of different macro and micro levels analysed from a multilevel perspective. It presents only a beginning of a long research journey because numerous questions and organizational issues require further and more focused multilevel analysis. By moving from single level concepts and theories, its future applications offer potentially more reliable understandings and conclusions.

Like any scientific work, this dissertation potentially also has certain research limitations. Possible theoretical limitations, threat of which was recognized, are as follows: research scope; selection of research variables; presence of contingency theory at the unit level; and a diversity of jobs observed. Furthermore, certain methodological limitations that might occur were: subjectivity of a questionnaire as a research instrument; bias problem; and risk of respondents not being familiar with a research topic.

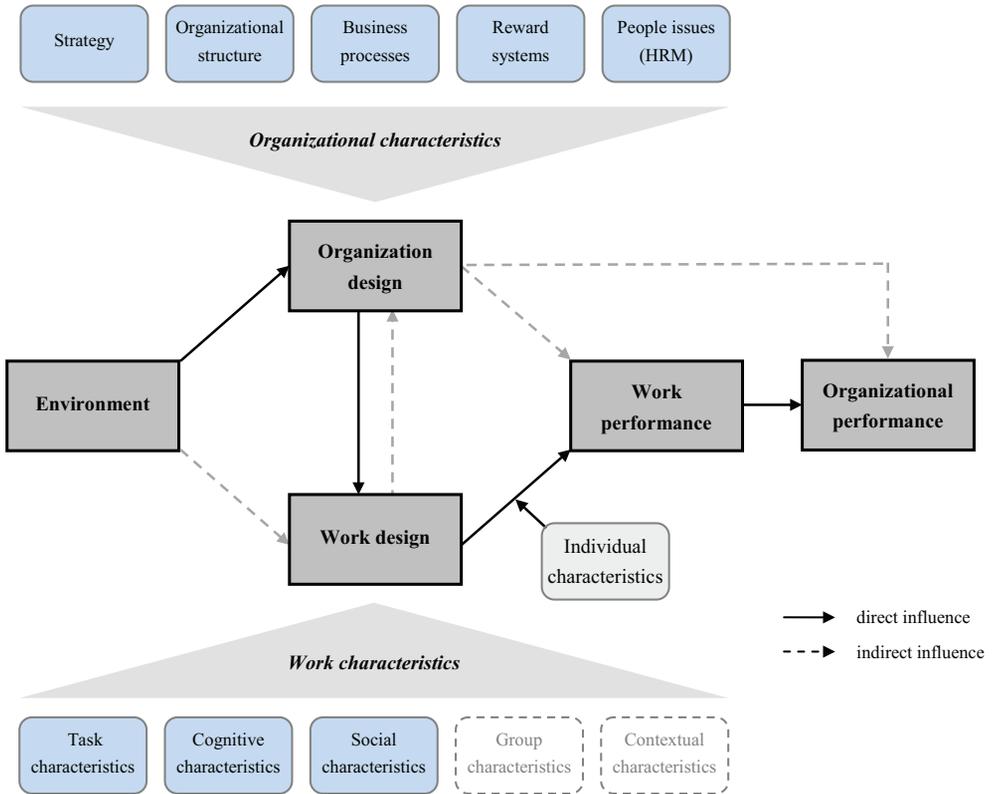
Through addressing the existing gap in the literature, the dissertation was, in a certain way, aimed at drawing attention of a broader community to the importance of research and application of the acquired knowledge, that will surely lead to a better organizing practice in majority of larger Croatian organizations and prepare them for emerging global competition. The time and the interest awaked will show to which extent has the dissertation succeeded in this goal, as this interest will continued the begun, and will further set forward cognitive limit of design practice of organizations and their work.

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## Appendix

*Figure 1 Integrative multilevel model of organizations*



**Table 1** List of macro- and micro-organizational variables

	<b>CATEGORY</b>	<b>VARIABLE</b>	
<b>MACRO-ORGANIZATIONAL LEVEL</b>	<b>Contingency variables</b>	<i>Environmental uncertainty</i> (ENVUNC)	
		<i>Environmental complexity</i> (ENVCOMP)	
		<i>Technical uncertainty</i> (TECH)	
	<b>Strategy variables</b>	<i>Exploration strategy</i> (EXPLOIT)	
		<i>Exploitation strategy</i> (EXPLORE)	
	<b>Structural variables</b>	<i>Formalization</i> (FORM)	
		<i>Decentralization</i> (DECENTR)	
		<i>Vertical differentiation</i> (VERDIF)	
		<i>Horizontal differentiation</i> (HORDIF)	
	<b>Process variables</b>	<i>Process interdependence</i> (PROCINT)	
		<i>Horizontal integration</i> (HORINT)	
		<i>Task variability</i> (TASKVAR)	
	<b>Cognitive variables</b>	<i>Employee know-how</i> (KNOW)	
		<i>Cross-functional training</i> (TRAIN)	
<b>Social variables</b>	<i>Pay for organizational contribution</i> (REWORG)		
	<i>Pay for individual contribution</i> (REWIND)		
<b>MICRO-ORGANIZATIONAL LEVEL</b>	<b>Task characteristics</b>	<i>Work autonomy</i> (AUTON)	
		<i>Task variety</i> (VARIETY)	
		<i>Task significance</i> (SIGNIF)	
		<i>Task identity</i> (IDENTITY)	
		<i>Nature of the task</i> (NATURE)	
	<b>Cognitive characteristics</b>	<i>Job complexity</i> (JCOMPLEX)	
		<i>Skill variety</i> (SKILVAR)	
		<i>Job specialization</i> (JOBSPEC)	
		<i>Problem solving</i> (PROBSOLV)	
		<i>Information processing</i> (PROCINF)	
	<b>Social characteristics</b>	<i>Skill utilization</i> (SKILUTIL)	
		<i>Initiated task interdependence</i> (INITDEP)	
		<i>Received task interdependence</i> (RECDEP)	
		<i>Dependence position</i> (DEPPOS)	
			<i>Interaction with others</i> (INTERACT)

**Table 2** Statistically significant relationships between macro- and micro-organizational variables (aggregated results)

<b>Macro-organizational variable</b>	<b>Number of statistically significant relationships (p&lt;0.10)</b>	<b>Number of cases with explained variance (<math>\sigma^2&gt;0.10</math>)</b>
<i>Environmental uncertainty</i>	5	6
<i>Environmental complexity</i>	1	1
<i>Exploitation strategy</i>	1	3
<i>Exploration strategy</i>	4	6
<i>Technical uncertainty</i>	2	2
<i>Task variability</i>	5	8
<i>Formalization</i>	10	7
<i>Decentralization</i>	4	6
<i>Vertical differentiation</i>	1	3
<i>Horizontal differentiation</i>	3	4
<i>Process interdependence</i>	1	1
<i>Horizontal integration</i>	4	2
<i>Employee know-how</i>	9	9
<i>Cross-functional training</i>	12	12
<i>Pay for organizational contribution</i>	6	8
<i>Pay for individual contribution</i>	9	8
<b>Total</b>	<b>77</b>	<b>86</b>

**Table 3** Statistically significant relationships between macro- and micro-organizational variables (detailed results)

Macro-organizational variable	Micro-organizational variable	Regression coefficient	Micro-organizational variable	Regression coefficient
<i>Environmental uncertainty</i>	Task variety	.057*	Skill variety	.083***
	Information processing	.051*	Skill utilization	.037*
	Problem solving	.084***		
<i>Environmental complexity</i>	Job complexity	-.053**		
<i>Exploitation strategy</i>	Work autonomy	.094*		
<i>Exploration strategy</i>	Task variety	.080**	Skill variety	.069**
	Information processing	.094***	Skill utilization	.049**
<i>Technical uncertainty</i>	Task identity	-.073*	Information processing	.075*
<i>Task variability</i>	Task variety	.084*	Nature of the task	.072*
	Job complexity	.073*	Skill variety	.088**
	Information processing	.090**		
<i>Formalization</i>	Task variety	.113**	Nature of the task	.105**
	Job complexity	.092**	Job specialization	.114**
	Information processing	.133***	Skill utilization	.095***
	Problem solving	.093**	Interaction with others	.127**
	Received task interdependence	.086**	Dependence position	.107**
<i>Decentralization</i>	Nature of the task	.112	Job complexity	.093
	Problem solving	.104	Interaction with others	.134
<i>Vertical differentiation</i>	Received task interdependence	.040*		
<i>Horizontal differentiation</i>	Skill variety	.063***	Job specialization	.058**
	Dependence position	.049**		
<i>Process interdependence</i>	Information processing	.076*		
<i>Horizontal integration</i>	Work autonomy	.094*	Task variety	.095*
	Information processing	.105**	Interaction with others	.122*
<i>Employee know-how</i>	Task variety	.130**	Task significance	.161***
	Nature of the task	.101**	Job complexity	.109**
	Job specialization	.156***	Information processing	.151***
	Skill utilization	.135***	Interaction with others	.132*
	Dependence position	.114**		
<i>Cross-functional training</i>	Work autonomy	.128***	Task variety	.147***
	Task significance	.135**	Nature of the task	.159***

	Skill variety	.108**	Job specialization	.140***
	Information processing	.154***	Skill utilization	.104***
	Problem solving	.120***	Interaction with others	.164***
	Received task interdependence	.070*	Dependence position	.116***
<i>Pay for organizational contribution</i>	Work autonomy	.105***	Task significance	.109***
	Nature of the task	.115***	Skill utilization	.065**
	Interaction with others	.097**	Dependence position	.081***
<i>Pay for individual contribution</i>	Work autonomy	.084**	Task variety	.088*
	Nature of the task	.108**	Skill variety	.072*
	Information processing	.110***	Skill utilization	.077**
	Problem solving	.071*	Received task interdependence	.080**
	Dependence position	.132***		

\* p<0.10

\*\* p<0.05

\*\*\* p<0.01

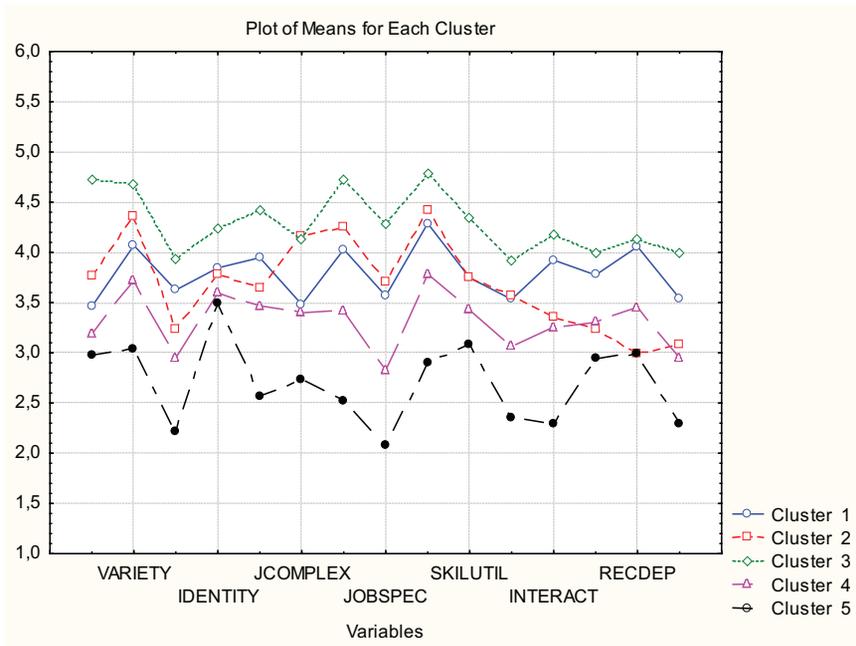
**Table 4** Statistically most significant regression relationships between categories of macro-organizational variables and particular micro-organizational variables

Category of macro-organizational variables	Micro-organizational variables	Number of most significant influences	Percentage of influences
<i>Contingency variables</i>	Task identity	1	6.67%
<i>Strategy variables</i>	Task identity, Task variety, Initiated task interdependence	3	20.00%
<i>Process variables</i>	-	0	0.00%
<i>Structural variables</i>	Job complexity, Skill variety, Job specialization, Information processing, Problem solving	5	33.33%
<i>Cognitive variables</i>	Task significance, Skill utilization, Interaction with others	3	20.00%
<i>Social variables</i>	Nature of the task, Received task interdependence, Dependence position	3	20.00%

**Table 5** Statistically significant relationships between categories of macro- and micro-organizational variables

Macro-org. variables \ Micro-org. variables	Task characteristics		Cognitive characteristics		Social characteristics		TOTAL
	Count	Percentage	Count	Percentage	Count	Percentage	
Contingency variables	2	13.33%	6	33.33%	0	0.00%	<b>17.78%</b>
Strategy variables	2	20.00%	3	25.00%	0	0.00%	<b>16.67%</b>
Process variables	4	26.67%	5	27.78%	1	8.33%	<b>22.22%</b>
Structural variables	3	15.00%	9	37.50%	6	37.50%	<b>30.00%</b>
Cognitive variables	6	60.00%	9	75.00%	5	62.50%	<b>66.67%</b>
Social variables	6	60.00%	5	41.67%	4	50.00%	<b>50.00%</b>

**Figure 2** K-means cluster analysis of work characteristics



**Table 6** Proportion of work design taxonomies

Work design taxonomies	CLUSTER	Frequencies	Percentage
Individual work design	CLUSTER 5	73	7.36%
Individual work design with temporary group roles	CLUSTER 4	249	25.10%
Group work design	CLUSTER 2	211	21.27%
Team work design with temporary individual roles	CLUSTER 1	253	25.50%
Team work design	CLUSTER 3	206	20.77%
<b>TOTAL</b>	-	992	100.00%

**Table 7** Statistically significant relationships through steps of mediation analysis

Outcome variables	CONTEXTUAL PERFORMANCE					TASK PERFORMANCE				
	1	2	4	2 & 4	Mediation effect	1	2	4	2 & 4	Mediation effect
Steps in mediation analysis	X→Y	X→M (n.s.)	X→M→Y (n.s.)	(n.s.)	$\gamma_{01} - \gamma_{01'}$ (s.s.)	X→Y	X→M (n.s.)	X→M→Y (n.s.)	(n.s.)	$\gamma_{01} - \gamma_{01'}$ (s.s.)
Environmental uncertainty	(s.s.)	8	2	2	<b>3</b>	(s.s.)	8	2	2	<b>3</b>
Environmental complexity	(n.s.)	4	0	10	<b>1</b>	(n.s.)	0	1	14	-
Exploitation strategy	(n.s.)	0	1	14	-	(n.s.)	0	1	14	-
Exploration strategy	(s.s.)	10	0	0	<b>5</b>	(s.s.)	10	3	0	<b>2</b>
Technical uncertainty	(s.s.)	11	0	3	<b>1</b>	(n.s.)	0	1	14	-
Task variability	(s.s.)	8	1	2	<b>4</b>	(n.s.)	3	3	7	<b>2</b>
Formalization	(s.s.)	5	0	0	<b>10</b>	(n.s.)	1	10	4	-
Decentralization	(n.s.)	0	4	11	-	(n.s.)	0	4	11	-
Vertical differentiation	(n.s.)	0	1	14	-	(n.s.)	0	1	14	-
Horizontal differentiation	(n.s.)	0	4	11	-	(n.s.)	0	4	11	-
Process interdependence	(s.s.)	11	0	3	<b>1</b>	(n.s.)	0	1	14	-
Horizontal integration	(n.s.)	1	4	10	-	(n.s.)	0	4	11	-
Employee know-how	(s.s.)	6	5	0	<b>4</b>	(n.s.)	0	9	6	-
Cross-functional training	(s.s.)	3	0	0	<b>12</b>	(s.s.)	3	0	0	<b>12</b>
Pay for organizational contribution	(s.s.)	9	0	0	<b>6</b>	(n.s.)	1	6	8	-
Pay for individual contribution	(s.s.)	6	0	0	<b>9</b>	(n.s.)	1	9	5	-
<b>TOTAL (%)</b>	<b>37.50%</b>	<b>34.17%</b>	<b>9.17%</b>	<b>33.33%</b>	<b>23.33%</b>	<b>81.25%</b>	<b>11.25%</b>	<b>24.58%</b>	<b>56.25%</b>	<b>7.92%</b>

(n.s.) - statistically non-significant relationship

(s.s.) - statistically significant relationship (p<0,10)

**Table 8** Statistically significant mediating effects between variables

MACRO	MICRO	OUTCOME	MEDIATING EFFECT	MACRO	MICRO	OUTCOME	MEDIATING EFFECT
$X_{ij}$	$M_{ij}$	$Y_{ij}$	$\gamma_{01} - \gamma_{01'}$	$X_{ij}$	$M_{ij}$	$Y_{ij}$	$\gamma_{01} - \gamma_{01'}$
ENVUNC	VARIETY	CONPERF	.01076*	TRAIN	SIGNIF	CONPERF	.01081***
ENVUNC	PROCINF	CONPERF	.00854*	TRAIN	NATURE	CONPERF	.02552**
ENVUNC	SKILUTIL	CONPERF	.00640*	TRAIN	SKILVAR	CONPERF	.02940**
ENVUNC	SKILVAR	TASKPERF	.01078*	TRAIN	JOBSPEC	CONPERF	.01640**
ENVUNC	PROCINF	TASKPERF	.00345**	TRAIN	PROCINF	CONPERF	.05442*
ENVUNC	SKILUTIL	TASKPERF	.00648*	TRAIN	SKILUTIL	CONPERF	.04402**
ENVCOMP	JCOMPLEX	CONPERF	.008612**	TRAIN	PROBSOLV	CONPERF	.01873**
EXPLORE	VARIETY	CONPERF	.03058***	TRAIN	INTERACT	CONPERF	.00359***
EXPLORE	SKILVAR	CONPERF	.01529***	TRAIN	RECDEP	CONPERF	.00160***
EXPLORE	PROCINF	CONPERF	.02814***	TRAIN	DEPPPOS	CONPERF	.00236**
EXPLORE	SKILUTIL	CONPERF	.02574***	TRAIN	AUTON	TASKPERF	.01686**
EXPLORE	PROBSOLV	CONPERF	.01186***	TRAIN	VARIETY	TASKPERF	.02303**
EXPLORE	SKILVAR	TASKPERF	.01398*	TRAIN	SIGNIF	TASKPERF	.01995**
EXPLORE	SKILUTIL	TASKPERF	.01151*	TRAIN	NATURE	TASKPERF	.02048**
TECH	PROCINF	CONPERF	.01564*	TRAIN	SKILVAR	TASKPERF	.02806**
TASKVAR	VARIETY	CONPERF	.01659**	TRAIN	JOBSPEC	TASKPERF	.00804***
TASKVAR	JCOMPLEX	CONPERF	-.00242**	TRAIN	PROCINF	TASKPERF	.03746*
TASKVAR	SKILVAR	CONPERF	.00500**	TRAIN	SKILUTIL	TASKPERF	.03491**
TASKVAR	PROCINF	CONPERF	.01528*	TRAIN	PROBSOLV	TASKPERF	.02280**
TASKVAR	NATURE	TASKPERF	-.003845*	TRAIN	INTERACT	TASKPERF	.01197**
TASKVAR	JCOMPLEX	TASKPERF	.005559*	TRAIN	RECDEP	TASKPERF	.00506***
FORM	VARIETY	CONPERF	.04357**	TRAIN	DEPPPOS	TASKPERF	.01849**
FORM	NATURE	CONPERF	.03247**	REWORD	AUTON	CONPERF	.02362*
FORM	JCOMPLEX	CONPERF	.01969**	REWORD	SIGNIF	CONPERF	.00522**
FORM	JOBSPEC	CONPERF	.02945**	REWORD	NATURE	CONPERF	.02053**
FORM	PROCINF	CONPERF	.05530*	REWORD	SKILUTIL	CONPERF	.02580**
FORM	SKILUTIL	CONPERF	.04252**	REWORD	INTERACT	CONPERF	.01578**
FORM	PROBSOLV	CONPERF	.03217**	REWORD	DEPPPOS	CONPERF	.00056**
FORM	INTERACT	CONPERF	.03045**	REWIND	AUTON	CONPERF	.02089**
FORM	RECDEP	CONPERF	.00414***	REWIND	VARIETY	CONPERF	.03633**
FORM	DEPPPOS	CONPERF	.01162**	REWIND	NATURE	CONPERF	.02634**
PROCINT	PROCINF	CONPERF	.02015*	REWIND	SKILVAR	CONPERF	.01799**

KNOW	VARIETY	CONPERF	.04602**
KNOW	SIGNIF	CONPERF	.03129**
KNOW	NATURE	CONPERF	.02690**
KNOW	JCOMPLEX	CONPERF	.01697**
TRAIN	AUTON	CONPERF	.01620***
TRAIN	VARIETY	CONPERF	.04305**

REWIND	PROCINF	CONPERF	.03131**
REWIND	SKILUTIL	CONPERF	.03324**
REWIND	PROBSOLV	CONPERF	.02505*
REWIND	RECDEP	CONPERF	.01103**
REWIND	DEPPOS	CONPERF	.01561**

# **Problematic Talk. The Role of Multiple Understandings in Project Meetings**

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## **Abstract**

*This research sets out to investigate the role of multiple understandings and other difficulties (e.g. confusion, ambiguity, and non-understanding) in nine consecutive internal project meetings (software/IT related). The findings show that problematic situations were vital for accomplishing knowledge and thus carry a lot of innovative potential. In addition to showing that the team stayed effective all the way to the end of the series of meetings, the study discusses the importance of the rest of the organization to crafting understandings and knowing. Finally, the study proves that at least in meetings, the saying, “silence is golden,” does not apply.*

## **INTRODUCTION**

People in organizations most probably often attend meetings, where they realize they understood something completely different from somebody else. Or, they may realize it later – even quite some time later. Or, they may experience a revelation in a meeting, after they have spent some time discussing a complex topic with others.

I began this research from an interest in what I initially thought were misunderstandings in meetings. I soon learned, however, that the phenomena I witnessed in the tens and hundreds of meetings I took part in were, in fact, multiple understandings.

Regardless of what one calls these situations, they are problematic, and often contribute to communicative breakdowns. As such, they lay obstacles for progress and action. While multiple understandings in meetings often surface and cause problematic situations, sometimes they do not, or they are dismissed and ignored. This is when an understanding that might actually be diverging quite a lot from what its original meaning was sails out from a meeting, and steers work to a wrong direction. And this is why success in meeting communication is essential for the success and efficiency of the organization.

Meetings have been the object of numerous studies. Research has looked into various types of meetings, such as business negotiations, sales meetings, and internal strategy – to mention a few frequently studied types (Firth 1995, Firth 1995, Firth 1990, Charles 1994, Charles 1995, Charles 1996, Vuorela 2005). Very often, however, these studies have focused on individual meetings, and very often the approach involves linguistics or conversation analysis. Research that takes as its data multiple consecutive meetings focusing on the same topic has been practically non-existent thus far. This study fills that gap. Additionally, this study differs from the majority of previous meeting research in that this study examines the role of the rest of the organization (previous meetings, calls, e-mails, discussions) in crafting understandings insofar as it becomes manifest in the meetings studied. Further, instead of studying understandings, knowledge, or learning as something that could be captured, represented, codified, transferred, or exchanged (cf. Orlikowski 2002), I have focused on talk-in-interaction in meetings of an organization to learn how participants of these meetings make sense of those understandings and knowing, and how they subsequently learn *in practice*. For doing this, I have studied a series of project meetings (nine in total) where these understandings and knowing come about in the interaction that takes place during the meetings. While there are some reifications of at least some form of knowledge (clarification log being the most important item and change requests related to the next version of the product being the other) in the meetings studied, these reifications serve more as props for the discussion on the topics identified as anything else. The participants come to know how to proceed and learn through their discussion – mostly after they have stumbled on a problem of some sort.

Viewing meetings and the interaction therein from multiple points – as done in the current study – is vitally important. This is because meetings do not take place in isolation from the rest of the organization. As Boden (1994 p. 81) points out, meetings are “the essential mechanisms through which organizations create and maintain the practical activity or organizing,” and as we learn from this study, meetings are essential mechanisms for not only crafting understandings but also for aligning those that are ‘inherited’ from previous interactions.

Specifically, I began the study to find an answer to the following main question:

1. What is the role of multiple understandings and other difficulties (in understanding) in meetings?

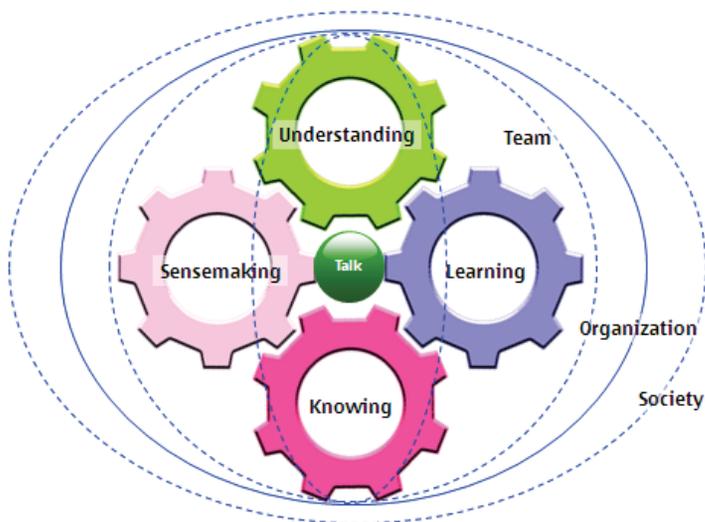
To help me see the full scope of the role of multiple understandings, I sought answers to the following sub-questions:

- a. How do difficulties and problematic situations come about in meetings?
- b. Do the difficulties in understanding become less frequent as the team progress in their work?
- c. Do the difficulties change in nature over time as the team progress in their work?
- d. What is the role of the rest of the organization in creating multiple understandings?

To find the answer to the questions above, I first explored the processes and related concepts that one might find when examining understandings in meetings in a corporate context. The processes that emerged from this exploration were knowing, sensemaking, and learning.

#### CONCEPTUAL FRAMEWORK & METHOD

In the type of meetings studied here, the processes of understanding, knowing, sensemaking, and learning coincide in a joint enterprise that is in a constant and dynamic move – contributing to individual and organizational understanding, knowledge and learning. Once participants in meetings were faced with conflicts in understanding and knowing – or other types of issues blurring understanding – *problematic situations* emerged giving cause for sensemaking and (in a happy outcome) for learning.



**Figure 1 Concepts related to problematic talk-in-interaction**

An essential feature of the figure above is that the understandings and knowing that people learn and make sense of when participating in the social communities within organizations are never stable. The understandings – similarly as all other constituents – are in constant motion. The following table contains conceptual definitions of the processes/concepts described above (definitions below are coined based on the literature explored in the thesis (Grice 1989, Sperber, Wilson 1986, Schwandt 1999, Linell 1998, Kuhn, Jackson 2008, Lazega 1992, Weick 1995, Wenger 1999, among others) and relate to the view of social participation/practice):

**Table 1 Conceptual definitions of processes**

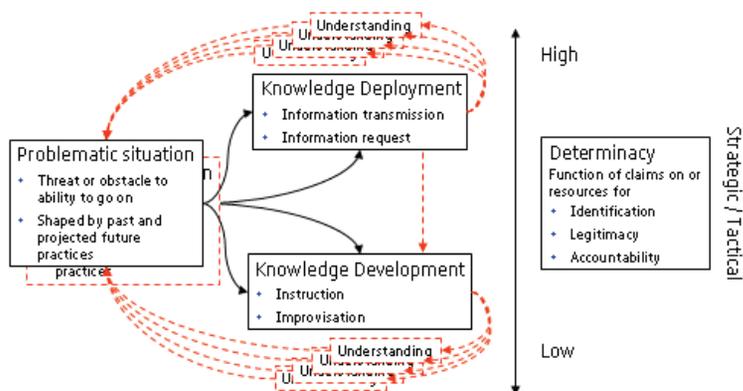
<b>Understanding</b>	<b>Knowing</b>	<b>Learning</b>	<b>Sensemaking</b>
Ability to learn and a process of that learning; Personal interpretation	Conscious deliberation done together; Competent participation in a practice; Non-static and not limited to what is already known.	Knowledge gained by active participation in a meaningful activity; Unfolds via interaction and out of shared experiences; Reflected in practice	Interpretation of action, activities, and process (incl. speech activity)

Organizations and discourse are constantly in action (Broadfoot, Deetz and Anderson 2004). This means that whatever analysis is attempted the result is a necessarily narrow snapshot of the organizing life that can never provide a full picture or an understanding of the whole. However, when the mutually constitutive nature of both organization and discourse is taken into account and factored in when working on the process of study and report “much is gained” (Broadfoot, Deetz, Anderson 2004 p. 194). This is what Broadfoot, Deetz, and Anderson call a “dialogic approach” to discourse and organizing life. When engaging the dialogic approach, one needs to be “sensitive to the messy, moment-to-moment manner in which people and institutions fashion coherent, complete worlds” out of something that is partial, hidden, and fragmented (ibid. p. 197). The dialogic approach Broadfoot, Deetz, and Anderson call for is related to dialogism, a theory and approach that is especially suited for talk-in-interaction. One of the central tenets of this approach is an assumption that a number of basic entities are interrelated in terms of intrinsic, conceptual interdependencies where one cannot be defined nor thought of as prior to the other. Equally importantly, dialogism emphasizes that everything is reflexively related: contributions/utterances, activities, relevant contexts, expressions, meanings, individuals, communities, organizations, and institutions.

Studying problematic situations in talk that is close to naturally occurring speech might seem like a messy project, but the framework developed by Kuhn and Jackson (2008) offered a systematic way for analyzing those situations. In developing their framework, Kuhn and Jackson draw on the conceptualization of the definition of situation and knowledge claims that were introduced by Lazega (1992). The

situational features (those being identification, legitimation, accountability) that judge the message appropriateness are used in Kuhn and Jackson’s framework as features indicating the level of determinacy of the situation. These are divided into determinate and indeterminate situations.

As the interaction in the materials is layered or “laminated” (Boden 1994 p. 91) in more ways than one and the disruptions causing breakdowns in communication may be related to other factors than knowledge or knowing (to be shown in the analysis), the framework needs modifying. Figure 2 shows a modified version of the framework that now also takes the recursive features of problematic situations in meetings and the process-like development of topics and issues as well as the layeredness of multiple understandings into account; further, the strategic or tactical dimension of the definition of situation is depicted, too:



**Figure 2 Episodes of knowledge accomplishing activity as a function of determinacy (Kuhn & Jackson, 2008; modifications made for the purposes of the current study shown as hyphenated arrows)**

The modified framework above takes into account the fact that the problematic situations occur in tasks (manifest in talk) that are not trivial, span over many parts of the organization and time (possibly weeks and months), and are recursive by nature (see hyphenated arrows in the framework above).

## DATA

The meeting materials used in this study comprise a series of R&D meetings (nine in total) that take place approximately once a week over a period of two months.

All data used in this research is authentic (as opposed to simulated, quasi-natural, or manipulated data), and the materials can be deemed quite valuable by the virtue of their sequential nature alone. The data analyzed in this research comprises 16 hours 12 minutes of audio-recordings (on mini-discs) of meetings (nine in total).

In the following, I will present the answers to my research questions and discuss the results of this study by progressing from the general (main question) to the particular (sub-questions).

## DISCUSSION AND FINDINGS

A short answer to the main research question, “What is the role of multiple understandings and other difficulties (in understanding) in meetings?” is that challenges in aligning understandings and knowing into coherent ones were vital for accomplishing knowledge in the meetings examined. The challenges that constituted the problematic situations studied were not related to multiple understandings only, i.e. to the fact that participants might not share the same understanding, but to many other factors that muddled up understandings or prevented understanding completely. Multiple understandings, or multiple, differing, conflicting, non-existing, confused, and ambiguous understandings were triggers that brought to surface the differences participants had in their respective understandings. Whether those understandings were based on some previous discussions in other meetings or phone calls or e-mails, or whether they were formed locally just seconds or minutes earlier, they nevertheless helped bring the mismatches and conflicts to the surface where they could be dealt with. In the best case, interaction that followed the surfacing of a problematic situation led to aligned understandings and knowing that at the same time allowed the team to continue with their work.

Having learned the above, one can conclude that pure misunderstandings are, in fact, relatively rare. We all understand the spoken word, but no two understandings are ever the same; the degree of closeness of understandings can vary considerably. Once

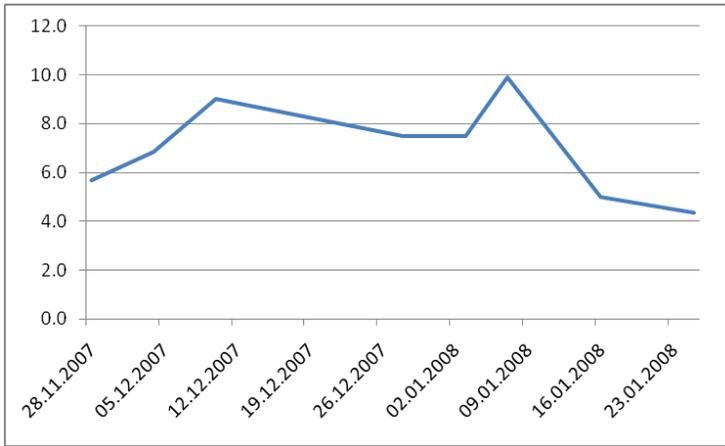
these multiple understandings emerge again in meeting interaction, the participants are forced to concentrate and pay attention. By focusing on resolving these problematic situations, the team members come to know and learn in interaction.

As regards research question 1.a. (How do difficulties and problematic situations come about in meetings?), I can only say that the ways in which difficulties that converted into problematic situations arose in interaction were very heterogeneous.

Given that the interaction in the meetings examined for this study was very close to natural talk difficulties came in many forms. In the materials, we witnessed multiple examples of problematic situations, and based on those, one can say that the difficulties came in a myriad of ways. Sometimes we witnessed lack of information, other times the problematic situation might have related to missing or different background knowledge; requests might have been ambiguous or the team felt they were receiving conflicting guidance; or, there was ambiguity in the talk of the participants. And, of course, there were the multiple understandings that were inherited from other occasions or were derived at based on some materials (slides, e-mails) that were possibly confusing.

Given the focus of the study and the heterogeneity of problems, I did not find it useful to classify the examples based on their birth mechanism. Instead, I categorized them further based on the ways the team found their way out of the problematic situations. As regards determinate situations (that dominated the early part of the series of meetings) where existing knowledge was used to solve a situation, *cooperative alignment* seemed to be the preferred way. However, as the problematic situations became more indeterminate and the project team needed to engage into developing knowledge, *tagging* seemed to offer a solution. Given the way the project team managed to move on from the indeterminate situations by tagging either business, technical experts, or some reification, it seems that business and organizational knowledge (knowing who to ask or where to look for information) is a definite asset.

In the data studied for this research, problematic situations remained on a relatively high level throughout the nine weeks studied.

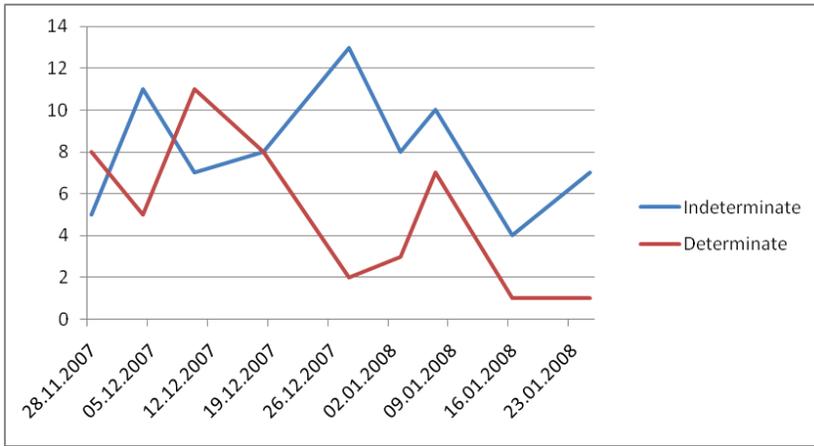


**Figure 3 Problematic situations – per hour ratio**

The analysis showed that, communicative projects (problematic situations), once overcome and solved, often provided the initiative for another one. The handling of one topic could host multiple communicative projects all aiming at resolving first the actual topic and second the suspected failing in understandings or other confusion. Looking at these communicative projects, or, problematic situations that were nested inside larger communicative projects over the period of nine weeks, one can see that the rate of problematic situations remained relatively stable – or even increasing – all through the nine weeks, peaking in the seventh meeting (January 7, 2008). What is important, however, and what translates into the answer to research question 1.b. (Do the difficulties in understanding become less frequent as the team progress in their work?), is that there were no dramatic fluctuations in the number of problematic situations the team encountered. If it were not for the problematic situations, the meeting participants might not have been forced to evaluate and align their respective understandings and knowing on the matter at hand. Problematic situations were the points in discussion where many mismatch or illogicalities were caught. The fact that problematic situations decreased as the team came closer to the milestone stands to reason as the team was bound to have resolved more problems than it was likely to encounter anymore. At the same time, their work as a team seemed to have become more seamless. Given the distribution of problematic situations throughout the series of meetings, it is obvious the team kept accomplishing knowledge all the way from the first to the last meeting in the series.

The analysis showed that out of all problematic situations found (119), 39% (46) were determinate and 61% (73) were indeterminate. This means that in three out of five problematic situations, the participants were more likely to develop knowledge rather than just deploy existing knowledge. One could, of course, ask if that is not the whole point of R&D (research and development) but the question is not as simple and straight-forward as that. R&D teams in organizations produce new innovations, tools, and products, but as to *how* they do it and to what extent R&D teams are relying on previous knowing are not information that have been available. And previously learned knowledge plays an important role. In Wenger's words, "Our knowing – even of the most unexceptional kind – is always too big, too rich, too ancient, and too connected for us to be the source of it individually" (Wenger 1999 p. 141). This means that the project team in this study did not begin their work from scratch, either. In creating new knowledge they tapped into existing knowledge that surfaced in the interaction of participants and that in some cases seemed to be more known to some than others.

The answer to research question 1.c. (Do the difficulties change in nature over time as the team progresses in their work?) of this study relates not only to the number of problematic situations in terms of their determinacy stated above but also to the way the determinate and indeterminate situations were distributed over time. Looking at the number of determinate and indeterminate problematic situations, one can see how the indeterminate situations began to dominate the meetings after the fourth meeting in the series of nine meetings. It seems that the project team's need to resort to existing body of knowledge reduced once they had established the parameters they needed for having a basis for planning and development of the next version of the tool. However, it is important to note that determinate situations did not wither away completely; the need for tapping into some constant element remained all throughout the series of meetings.



**Figure 4 Distribution of determinate and indeterminate situations**

Research question 1.d. was “What is the role of the rest of the organization in creating multiple understandings?”, and the answer is that the rest of the organization had a marked influence on the work of the team in meetings; the need to tag the rest of the organization (or system/tools or other occasions) diminished radically after the first three meetings; in problematic situations, however, tactical tags were used predominantly in indeterminate cases if at all. This would seem to suggest that in major obstacles – as the work progressed – the team needed to resort to the rest of the organization for acquiring more information based on which to act.

Multiple understandings, while surfacing in the talk of participants in the meetings studied, most often involved recontextualization of previous talk (retrospective sensemaking). These recontextualizations could be local, i.e. they may have related to what someone else in the meeting had previously said, in which case the speaker tapped into a pool of resources immediately available – translating into co-text produced in the meeting that was ongoing. These recontextualizations could also span over temporal and spatial spaces and involved recontextualizations that were not only *intertextual* (as in from one meeting or discussion to another) but *interdiscursive* in the sense that they could transfer from abstractions, too (such as the software product).

One of the first features in the meeting talk I analyzed was the copious amounts of referencing that I came to dub *tagging*. Tagging is an inherent part of recontextualization and as such, an essential feature of organizing in talk; we cannot relay our previous experience or knowledge without referring to its origins if we want to add on the validity and legitimacy of that piece of information.

The sheer number of tagging to meetings and occasions other than the meeting where the tagging took place, tagging to people and teams never attending the meetings, or tagging to systems/tools that total 291 over the period of nine weeks painted an interesting picture of not only the spatial and temporal features but also the number of people indirectly ‘attending’ the meetings. In total over the period of nine weeks, the unique tags in individual meetings to people and teams totaled 88. These 88 tags are divided between a total of 31 different, unique people or teams in the entire body of materials. Now, thinking about the fact that some of the tags were teams that could consist of quite a number of people, one can deduce that the number of people involved in the production of the new version of the software tool could be calculated in tens if not hundreds. Bearing this in mind and factoring in individuals’ partial understandings or possibly slightly erroneous inferences of each others’ words one can see how the variables of the function increase and complicate the overall situation. So clearly, while being a source of information and knowing, the rest of the organization surely contributed to problematic situations in both good and bad. For removing the obstacles and threats for progress, it was, however, important that these understandings were recontextualized and brought to the table for common scrutiny. Without this, it might not have been possible to align understandings.

Tagging people, especially, can be an efficient micropolitical means for legitimizing one’s knowing and understanding *tactically*. Lacking professional (or hierarchical) authority, people depend on others to identify, legitimize, and showing accountability. Tagging people and teams over time is significant from two perspectives in particular: firstly, the distribution of tagging people and teams over time, and secondly, the use of tagging people and teams in problematic situations.

When looking at tagging people and teams over time, one could see that after the first three meetings in the series of nine meetings, the need to tag other people and teams diminished dramatically. The team seemed to have established the perimeters of work

and had relayed the understandings (on change requests, for example) of other people and teams, and focused on the task at hand. Analysis of materials indicates that strategic power was used in most of the problematic situations (71%) whereas tactical power was either used or attempted at in 29% of the cases. Clearly, the team consisted of professionals who *knew* what they are doing; they had the professional skills and capabilities to resolve the problematic situations within the meetings. This finding supports the survey results, where Kankaanranta and Louhiala-Salminen (2009) found that the second most important factor contributing to communicative success is business know-how, including not only understanding of the business but the shared goals and objectives as well as organization.

Considering the above, one can identify yet another significant phenomenon: while tagging reduced as the team focused on the task at hand, and problematic situations became more complex (less determinate), tactical use of power – while all the time being less than strategic use of power – polarized to indeterminate problematic situations only. This would seem to suggest that towards the end of the nine-week period and closing in on the milestone, the team had exhausted its own problem-solving capabilities; at the same time, they had identified the problems that were beyond their power to solve.

## CONCLUSIONS

As can be seen from the results, first of all, problematic talk is vital for the participants of meetings. Problematic talk in the form of confusions and multiple understandings, for example, is the way in which participants come to learn what others think and know – or what they think they know. A basic and fundamental requirement for this to happen is that participants voice their understandings; in fact, this is crucial especially in meetings and discussions where there is no formal agenda or facilitator to take notes and distribute minutes after the meeting. The data for this study also give evidence to the fact that especially informal discussions seem to be prone to create multiple understandings. It seems that if participants do not take the time to reiterate and reformulate their understandings, they end up carrying either highly or partially divergent understandings to the next situation, where the topic is discussed. The kind of formal meetings that have been the focus in this study are good

places for aligning those understandings; this aligning does not happen if the understandings are not voiced.

The revelation that misunderstandings in meetings are, in fact, quite rare, and that we all understand (bar a complete language or subject-matter based non-understanding, of course) in our own specific way, can be quite liberating, particularly to employees regularly taking part in meetings of different kinds. I hope that the more fundamental result – that problematic situations are vital for knowledge accomplishing – will open eyes to multiple understandings and their innovative potential in meetings. In fact, the findings of this study have given a whole new depth to the old sayings of “learning by doing” and “learning from one’s mistakes.” Further, this study proves that at least in meetings, the saying, “silence is golden,” does not apply. In meetings, the vehicle for aligning understandings and overcoming obstacles is talk and more talk.

Although the findings and results indicate that the problems meeting participants face were in many ways “messy,” and thus it is no surprise that they usually are thought of as a nuisance. However, based on the results of this study, I would even say that as regards meetings, “the messier the better,” as talk is the only way with which meeting participants can ensure they share the same understanding of what needs to be done. This, of course, requires vigilance and full engagement from meeting participants.

Given that problematic situations in this study remained on a good level all the way from the beginning to the end, one can conclude that the meetings remained very effective all through the nine weeks. It would seem that meetings, where something new is developed, problematic situations that emerge in discussion and require sensemaking help promote new understandings, knowing, and learning, and must therefore be considered effective. In the meetings studied, the clear purpose and objective surely also contributed as it was very clear from the outset: scoping and clarification. Additionally, the team had a clarification log that they consulted as they moved from one topic (item to be resolved) to the next. The clear purpose and objective surely contributed to the effectiveness of the meetings: the team was on a mission. Often enough, one hears people talk about meetings they have attended where they have thought “what is this meeting about?” or “what is my role here?” or “what am I supposed to do after this meeting?” Questions such as these should be cause for concern, and there is, of course, no shortage of guidebooks on how to design

good meetings. Meetings such as the ones studied for this research are testimony to the fact that there can be very efficient meetings that contribute not only to the project and the progress of the task at hand but also to both individual and organizational knowledge. Moreover, the meetings in the current data had a clear purpose and a very methodical way of conducting themselves which also contributed to their efficiency.

As we have witnessed, the problematic situations in meetings tended to be indeterminate rather than determinate which means that the team was more likely to develop knowledge rather than just deploy it. This is an indication of the role meetings play as venues for accomplishing knowledge. While investigating how long it would take an individual to sort and clarify the items handled in the meetings was not in the scope of the current study, one can probably safely assume that in terms of resolving matters relatively quickly, meetings still seek their rival. This, of course, entails that the right people need to attend the meetings – and this circles back to the good design of a meeting.

Finally, looking at the results related to tagging, one can really start to appreciate not only the power and influence the rest of the organization had for the understandings surfacing in meetings but also the importance of meetings as the synapses of the nervous system of an organization. Meetings condensed and transferred the signals (understandings) from the rest of the organization in the talk of the participants. While a lot of information and understandings were brought into the meetings, a whole lot of traffic moved to the other direction as the team needed to find out more information, learn more, align their understandings, and seek decisions from the surrounding organization. The two were in constant ‘interaction’ of sorts – like a living organism.

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# Factors Affecting Emotional Labour - Emotional Labour in Oncology

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## Abstract

*Most professions have - explicit or implicit - norms of acceptable emotional displays. Those, who are willing to conform to them, are employing emotional labour (EL). Following thesis researched the personal and organisational factors that – according to international literature data - might influence the level of EL exerted in an oncological setting. According to my findings, personal factors correlated with the favoured level of EL, however did not show any connection with its effects on the individuals. Conversely organizational factors did show a close connection with the effects of EL on the individuals.*

## Overview of Literature on Emotional Labour

### Emotions

Emotions are the basis of our social life. They function as filters of perception, affecting our conscious decisions and, sometimes, even making decisions for us on their own. However, we often find ourselves in situations in which our spontaneous emotions, or expression thereof, (would) bring about negative consequences. The range of acceptable emotions varies with culture, gender, and age.

Most professions are linked with implicit or explicit norms applicable to emotional expressions. Organizations develop directives, and disseminate myths and stories, with a view to putting their employees on the right track, or compelling them, to produce desirable emotional displays. The reason is that adequate emotional displays by employees will result in efficient working, high-quality service provision, and regular customers. In the healthcare sector in particular, they will bring about increased patient turnovers, high numbers of regular patients with increased levels of satisfaction, and improved follow-up / control rates. A healthcare professional's emotional displays may as well affect patients' attitude toward themselves or their diseases, or the overall healing process itself.

In literature, emotional labour is defined as dissembling or alteration of emotions in order to comply with expectations at work (Hochschild, 1983). The theory of emotional labour deals with emotions which employees feel, or pretend to feel, in order to meet their job requirements.

Emotional labour falls within the formal sphere of an organization. The employee submits himself/herself to organizational requirements. On the other hand, the organization uses wages or other kinds of compensation with some exchange value to reward or remunerate the employee for his/her emotional displays in compliance with the explicit or implicit rules in place because emotional labour increases the efficiency of working, reduces the necessity of direct control, and lessens interpersonal problems (Ashforth and Lee, 1990). In addition, target persons should perceive the outcomes of emotional labour, or the employees' behavioural output, to be sincere and genuine (Rafaeli and Sutton, 1987).

With organizations being embedded systems, organizational norms designed to regulate emotional labour are varied sets of social, organizational, and job-related items. Most often it is its clients that transmit social norms towards an organization and its employees. Practically, it is clients that outline the roles which, merely relayed by organizations, employees are supposed to play.

The majority of organizations insist on the importance of adequate emotional expressions in as early as recruitment, selection, and socialization phases. In addition, organizations make use of structural tools (training and feed-back sessions, discussions) and indirect means (myths, metaphors) to regulate their employees' emotional displays, and get them trained. Organizations maintain varied schemes of rewarding and penalizing to ensure that employees internalize, and adjust to, the emotional requirements in place.

### Levels of Emotional Labour

Since organizations can only keep openly measurable dimensions of emotions under control, any norm as may be adopted will apply to emotional displays. When an individual uses only external manifestations of his/her emotions (such as physiognomy, tone and intonation of voice, and gestures) to meet the norms without actually altering his/her emotions, i.e. when his/her emotional displays are not identical with his/her actual emotions, he/she is said to be performing surface acting. Such type of emotional labour often leads to one's feeling of being ingenuine, and may impair one's performance and job satisfaction.

Hochschild (1983) has found, however, that adjustment of external manifestations may bring about a change in internal emotional characteristics too. Alteration of one's external signs will induce changes in one's environment, and interactions with one's environment will, in their turn, adjust one's real emotions to external signs because emotions are feelings which are

expressed and interpreted according to interpersonal, situation-related, cultural, and social circumstances.

Though an organization's emotional requirements are meant to keep only emotional displays under control, alteration of emotions experienced, i.e. performance of deep acting may also become necessary. Most often the latter takes place through cognitive processes. In situations where our emotions fail to meet social requirements, we will have to use our previous experiences to get 're-tuned'. That is to say, we need to recall and relive situations which can help us assume a state of mind appropriate to the current situation.

With genuine acting, one's spontaneous emotional response to a particular situation meets the emotional requirements of his/her organization. Though neither conscious efforts are taken, nor real work is done, by the individual, remuneration will be his/her due. If the individual's genuine emotions are in agreement with the expectations existing at work neither emotional dissonance nor negative side-effects will develop.

#### Consequences of Emotional Labour

Emotional labour itself, or compliance with the emotional requirements of one's organization, does not, but emotional dissonance (discrepancy between expected and real emotional states), which is most often a concomitant of emotional labour, does produce multiple negative consequences. According to Wharton and Erickson (1993), a major cause of the development of negative effects on employees is that, through implementing emotional directives, employers limit their employees' right to spontaneous action.

Most items of the literature on emotional labour deal with the risks of burnout and job dissatisfaction. On the other hand, relations between emotional labour and low self-evaluation, role and self-estrangement, or those between emotional exhaustion, depression, stress at work, feeling of ingenuineness, and physical symptoms of illness are also discussed in numerous publications. Payne, Jick and Burke (1982) concluded that emotional labour affects acute and permanent states of mind equally. As a result of negative effects, an individual may lose not only his/her inclination or propensity, but ability to perform emotional labour because negative effects, unlike positive consequences, accumulate in time.

However, the effects of emotional labour on individuals are significantly dependent upon the level of emotional labour chosen. According to the findings of Rafaeli and Sutton (1987), genuine acting is free from emotional dissonance, and emotional dissonance is most often

dissolved through deep acting too, while being a constant concomitant of surface acting. In addition is more surface acting differs from deep acting in terms of most of their effects on individuals. The frequency of surface acting shows strong correlation with emotional exhaustion and depersonalization (Maslach, Schaufeli and Leiter, 2001), and is associated with increased rates of individuals who underrate their personal contribution to work (Brotheridge and Lee, 2002).

Nevertheless, emotional labour is not only desirable for organizations. Wharton (1993) finds that emotional labour increases the level of job satisfaction. Furthermore, emotional compliance with organizational and social requirements leads to predictable emotional displays, while reducing the possibility that embarrassing interpersonal situations arise, and enhancing one's feeling of personal efficiency (Rose, 2001).

### **Reasons for the Choice of Research Subject, Research Question**

Healthcare and educational institutions are venues of particularly intense emotions. Individuals in caring professions work under extreme pressure of social and organizational requirements concerning emotions. With them, emotional labour is more apparent, and output phenomena much more intense.

A lot of healthcare professionals report emotional exhaustion, depersonalization, and impaired feeling of self-realization through work (Maslach and Jackson, 1984). Most often people with caring professions handle human problems at the expense of losing their own psychic balance. International and domestic findings show high rates of such phenomena as psychic disorders, alcohol and drug dependence, and suicide with physicians (Pikó and Piczil, 2000). In West Europe and USA, physicians have been found to be healthier in somatic terms, but sicker mentally, than the average population. In Hungary on the other hand, even the sanitary indicators of healthcare professionals are worse than those of the total population which are extremely bad anyway. The rates of suicide ideas show a prevalence higher than that with the average population (Tyssen et alii, 2001). This is a phenomenon especially remarkable in view of the fact that the purpose of the medical profession is to preserve life.

In this study I aimed, through exploring the process of emotional labour, at identifying the characteristics of people who have a tendency to perform genuine acting, and using various personality traits and emotional intelligence factors to define the range of individuals who are, regardless of the level of emotional labour they choose, less exposed to potential harmful

consequences. Furthermore, I wanted to identify organizational factors which facilitate genuine acting and/or reduce such harmful side-effects as surface acting and deep acting may exert on individuals. In general terms, my question under study reads like this: „**Which factors have influence on the process of emotional labour?**” 11 sub-questions were used as guide in my study.

- Do personality traits influence (either individually or jointly) an individual in making his/her choice of a specific level of emotional labour?
- If they do, what personality traits render an individual apt to choose to perform genuine, deep, or surface acting?
- If they do, what personality traits render an individual susceptible to burnout or, on the other hand, what personality traits cause an individual to experience positive side-effects of emotional labour rather?
- Do dimensions of emotional intelligence influence (either individually or jointly) an individual in making his/her choice of a specific level of emotional labour?
- If they do, people with what quality of emotional intelligence are more inclined to perform genuine acting / deep acting / surface acting?
- If they do, people with what quality of emotional intelligence are more susceptible to burnout, and people with what quality of emotional intelligence are rather likely to experience positive side-effects of emotional labour?
- Do techniques designed to regulate emotional displays affect emotional displays?
- If they do, which are the most effective techniques?
- If they do, which techniques can be used to achieve positive personal outputs?
- Do organizational features affect the impact which emotional labour makes on employees?
- If they do, which factors contribute to positive outputs?

Though my examination is specifically directed at a selected group of professions, - in order to better determine emotional labour and its output variables, - it is hoped that my findings will serve as a guide for any people working in the service sector or involved in interactions with other people.

## **Participants in the Study**

I have conducted my researches with healthcare workers, who, due to working with oncological patients, are seriously exposed to the side effects of emotional labour induced by emotional expectations directed at them. The anxiety and fear of death of patients examined and treated, the anticipated grief of the relatives, and the death of patients cause increased emotional strain on healthcare workers in their everyday work.

Participants of the study were from the Medical School and Health Science Center, University of Debrecen: (in alphabetical order) Department of Dermatology (14), Department of Gynaecological Oncology (7), Department of Obstetrics and Gynaecology (29), Department of Oncology (26), Department of Radiotherapy (40), Department of Urology (9), Haemato-Oncology and Immunology Department of Paediatric Clinic (4), Institute of Surgery (5), from the Kenézy Gyula Hospital the Department of Radiology (18), from the University of Kaposvár the Department of Onco-Radiology (13) and from the BAZ County Hospital (6). Special effort was taken to get questionnaires distributed among healthcare workers who had interactions with cancer patients on a daily basis.

Altogether 250 questionnaires were delivered to organizational units listed above. Questionnaires were completed voluntarily and anonymously. Each respondent was given a two weeks' time to complete and return his/her respective questionnaire. 187 out of 250 questionnaires delivered were returned, producing a very good return rate. 171 out of 187 questionnaires returned were capable of assessment, and the remaining 16 questionnaires were neglected because insufficiently completed. 96 out of 171 gave detailed description of factors influencing their emotional labour.

32 respondents were male and 139 female, 36 out of them physicians and 135 healthcare professionals. The computed average age of the respondents was 38.87 years (SD:4.765), and their computed average work experience was 16.93 years (SD: 3.978)

## **Questionnaires used in the research**

The questionnaire consisted of six pages, and included numerous multiple-choice questions as well as three explicative ones. The latter were designed to explore respondents' views and emotions concerning their jobs, and the organizational factors that affect them.

Eysenck's short-form personality questionnaire consisting of 12 questions (Eysenck, 1958) and Snyder's self-monitoring scale (Snyder, 1974) were used to assess the personality of each individual under study. The emotional intelligence of those, participating in the research was quantified by the means of COMET-EQ developed by Merlevede and his colleagues (1997). The effects of emotional labour on individuals were measured with the Maslach Burnout Inventory - Human Services Survey and the Satisfaction with Life Scale (Diener, 1994).

Since no generally accepted emotional labour questionnaire supported by adequate psychometric data has been designed so far, I put two approaches to trial.

For one, I used a survey form consisting of 7+10 questions to assess the level of emotional labour. I used Grandey's (2003) 7-questions emotional labour questionnaire as a basis, and, on discussions with said author, added 10 more questions derived from the questionnaire of Brotheridge and Lee (1998).

Supplementary to these, I sought to quantify the extent to which emotions are altered by the difference in PANAS-X questionnaires (Positive and Negative Affect Schedule – Expanded Form; Watson and Clark, 1994). I asked my respondents to rate 60 emotional states firstly on the basis of how frequently and to what extent they were felt, while for the second time, they were asked to tell how frequently and to what extent they displayed them, in their everyday work.

## **Results**

In the course of my research I strived to investigate both the effect of factors influencing emotional labour and their effect, - mediated by emotional labour, - on well-being. I systematically sought the answer to the questions listed earlier.

### Personality

Researches by Bono and Vey (2005) revealed a connection between extraversion and deep acting which I could not detect with oncologists.

According to Dieffendorf and Richard (2003), respondents of less stable personality reacted more intensely to expectations to hide their negative feelings. According to their findings there is a positive correlation between neuroticism and surface acting. In my sample, neuroticism also showed a positive correlation with both types of surface acting ('Pretence': Pearson 0.21; Sig.<0.01; 'Dissembling': Pearson: 0.23; Sig.<0.01).

Synder's (1987) findings suggested increased control over emotional responses by better self-monitors. Studies by Dieffendorf and his colleagues (2005) emphasize the positive connection between self-monitoring and surface acting. In my sample too, self-monitoring showed a positive correlation with both types of surface acting, 'Dissembling' (Pearson: 0.17; Sig.<0.05), and 'Pretence' (Pearson: 0.25; Sig.<0.01).

On the whole, we can conclude that surface acting was more frequent with more introverted and neurotic persons and those with higher degrees of self-monitoring.

According to Larsen and Ketelaar (1991), extroverts are less exposed to the harmful side-effects of emotional labour, to emotional exhaustion, distress or burnout. My research results show that it was the life-of-pleasure and life-of-engagement dimension of Satisfaction with Life that extroverts scored higher, that is to say were better, than introverts.

Suls, Green and Hillis (1998) came to the conclusion that individuals who score high on neuroticism are often compelled to hide their negative emotions and express false positive ones, while they tolerate emotional labour badly, with emotional exhaustion being a frequent outcome. Out of the healthcare professionals involved in my study, it was those scoring high on neuroticism, who underperformed their colleagues in the decrease-in-personal-performance dimension of burnout.

Abraham's researches (1998) suggested that good self-monitors experience less emotional dissonance, and are less exposed to burnout as well (Wharton, 1993). On the other hand, those, who scored higher in self-monitoring, suffered a higher degree of depersonalization and decrease of personal performance than those with lower levels of self-monitoring, though scoring better in the life-of-engagement dimension.

*Table 1: Pearson correlation of personality traits with Burnout and Satisfaction with Life*

	<b>Life of Pleasure</b>	<b>Life of Engagement</b>	<b>Personal Performance</b>	<b>Depersonalisation</b>
<b>Extraversion</b>	0.23 (p<0.01)	0.20 (p<0.01)		
<b>Neuroticism</b>	0.30 (p<0.01)		0.19 (p<0.05)	
<b>Self-monitoring</b>		0.16 (p<0.05)	0.16 (p<0.05)	0.16 (p<0.05)

As Table 1 indicates, correlations of personality traits with burnout and satisfaction with life were similar to those in the literature. My findings did, however, not demonstrate any correlation trend between personality traits and effects of emotional labour on individuals.

Emotional Intelligence

According to Hargreaves, all that is considered emotional labour and is charged negative by Hochschild (1983) can be considered as the emotional intelligence of an individual manifested in personal interactions. My research data also supported this strong correlation. All studied factors of the emotional labour performed by healthcare professionals under investigation showed correlation with emotional intelligence.

On the whole, we can state that people with a higher level of emotional intelligence performed genuine or deep acting, while those with less emotional intelligence adjusted their emotional expressions to the expectations only in superficial manifestations. Whether it is dissembling or pretence of genuine emotions that dominates surface acting, will depend on the presence (or absence) of competencies constituting emotional intelligence. (For further details see Table 2.)

Table 2: Pearson correlations between emotional intelligence and emotional labour

	<b>Genuine acting</b>	<b>Deep acting</b>	<b>Amount of emotional dissembling</b>	<b>Amount of emotional pretence</b>
<b>Emotional self-awareness/self-control</b>		-0.24**	-0.24**	
<b>Self-confidence / intuition</b>	0.16*	-0.25**		
<b>Emotional Awareness of Others/ Perceptual Positions</b>		-0.23**		
<b>Planning and well-formed outcomes/ positive thinking</b>	0.16*	-0.21**	-0.20**	
<b>Vision / mission / values</b>	0.15*			-0.17*
<b>Questions/Removing booby-traps from communication</b>	0.18*	-0.19*	-0.19*	
<b>Flexibility in Communication</b>	0.23**	-0.17*	-0.22**	-0.16*
<b>Overcoming difficulties/ Trespassing boundaries</b>	0.21**	-0.22**	-0.25**	
<b>Conflict resolution</b>	0.18*	-0.22**	-0.19*	
<b>Creativity</b>	0.18*			-0.19**
<b>Presuppositions</b>	0.18*	-0.23**	-0.24**	

\* p<0.05

\*\* p<0.01

Numerous dimension of emotional intelligence were in positive correlation with life-of-meaning and life-of-engagement dimensions of Satisfaction with Life, while showing negative correlation with the personal performance dimension of burnout. (For further details see Table 3.)

Table 3: Pearson correlation of emotional intelligence with burnout and satisfaction with life

	<b>Life of meaning</b>	<b>Life of pleasure</b>	<b>Life of engagement</b>	<b>Personal performance</b>
<b>Self-confidence / intuition</b>			0.17*	-0.15*
<b>Emotional Awareness of Others/ Perceptual Positions</b>	0.16*			
<b>Planning and well-formed outcomes/ positive thinking</b>	0.18*			
<b>Vision / mission / values</b>	0.30**		0.28**	-0.15*
<b>Questions/ Removing booby-traps from communication</b>			0.16*	
<b>Flexibility in Communication</b>				-0.17*
<b>Overcoming difficulties/ Trespassing boundaries</b>	0.18*		0.21**	-0.21**
<b>Conflict resolution</b>	0.28**		0.24**	
<b>Creativity</b>	0.36**	0.19*	0.33**	
<b>Presuppositions</b>	0.27**		0.11*	-0.18*

\* p<0.05

\*\* p<0.01

To sum the results up, it can be stated that in my sample individuals with higher level of emotional intelligence reported slighter decrease of personal performance and higher level of satisfaction with life. Unfortunately, no international research data on emotional intelligence's influence on the side-effects of emotional labour are available yet. The output variables of emotional intelligence and those of emotional labour did not show any close connection in my sample either.

#### Techniques regulating emotional displays

In most organizations, the range, intensity, duration and objects of emotions are regulated by institutionalized, officially sanctioned directives (Statutes, Code of Conduct, etc). Findings of Morris and Feldman (1997) led to the assumption that in jobs with emotional labour being an essential requisite, abandonment of control over the expression of emotions decreases the negative side-effects of emotional labour.

Emotional requirements are learnt through organizational socialization processes. Nothing but collective affirmation by colleagues can, however, affect new behaviour efficiently (Burke, 1991).

In departments of DEOEC the range of emotional expressions which employees are supposed to adopt is not defined in any written regulations. It is the University's Declaration of Mission

that makes a sole mention of any desirable form of emotional expression. This lends employees some degree of freedom. If it is not specific forms of emotional expression but efficient work and patient satisfaction that employees are required to produce by their organization, they will have more control over their own emotional labour, which will in the long run, decrease the harmful side-effects of emotional labour too.

My respondents also found socialization and collective cohesion important. Good relations with colleagues proved to be a factor conducive to good performance with half of my respondents. Moreover, meeting social norms is a prerequisite of good relations with colleagues. In my sample, individuals emphasizing the importance of an adequate attitude did better in the life-of-meaning dimension of satisfaction with life. Recognition by colleagues (28 respondents) or patients (11 respondents) or non-recognition (7 respondents), also figured, in my sample, as a determinative factor in everyday work, which, again, postulates conformity with emotional display rules in place in the organization.

Those emphasising their own attitude scored higher in the life-of-meaning dimension of satisfaction with life, however along with those criticizing their colleagues' attitude they faced high level of depersonalisation. Insufficient inter-colleague relationship affected respondents' satisfaction with life negatively. The lack of recognition by colleagues increased burnout in all of its dimensions; however the lack of recognition by patients decreased satisfaction with life in addition. (For exact figures see Table 4.)

*Table 4: Satisfaction with life and burnout of respondents not mentioning/mentioning the certain judgement*

		Life of meaning	Life of pleasure	Life of engagement	Emotional exhaustion	Personal performance	Depersonalisation
<b>Importance of own attitude</b>	-	25.5					38.9
	+	28.7					42
<b>Inadequate attitude of colleagues</b>	-						38.9
	+						43.1
<b>Insufficient inter-colleague relationship</b>	-	27.1	23.5	22.7			
	+	22.3	16.8	18			
<b>Lack of recognition by colleagues</b>	-				26.3	23.4	39.8
	+				30.6	28.8	47.4
<b>Lack of recognition by patients</b>	-	26.9	23.2	22.6	26.1	23.3	39.7
	+	19.5	16	14.5	43	40.5	62.5

- did not mention it

+ did mention it

On the whole, in departments of DEOEC, the emotional norms are not defined in any written regulations, - lending employees a certain degree of freedom, - though adequate emotional displays are parts of the laws of the social game, and therefore are built in the everyday work of healthcare workers.

### Organisational factors

Vast technical literature deals with organizational factors influencing emotional labour. Some examine the character of work performed, or frequency, duration and scale of emotional labour, while others aim at revealing the role of social support or that of control.

According to Leidner's (1989) research, the frequency of routine-like expressions and surface acting increases with the number of interactions. Wharton and Erickson (1993) revealed a close connection between the level of emotional dissonance, the likeliness of emotional exhaustion and burnout and the frequency of contact with patients and colleagues. Cordes and Dougherty (1993) pointed out that an increase in the length of interactions also augments the risk of emotional labour's producing negative side-effects. While an assessment of the frequency or length of interactions was beyond the scope of my studies, a growth in the range of dissembled emotions showed a positive correlation with all three dimensions of burnout. (Emotional exhaustion: Pearson: 0,16; Sig.<0,05; Personal performance: Pearson: 0,21; Sig.<0,01, Depersonalisation: Pearson: 0,17; Sig.<0,05). The growth in range of pretended emotions demonstrated a strong correlation with the decrease in personal performance (Pearson: 0,17; Sig.<0,05).

Copp (1998) found that in lack of a supportive climate at work, emotional labour becomes impossible. Similarly, those of my respondents who were hindered in their work by inadequate relations with their colleagues enjoyed their lives less.

According to Abraham (1998), social support results in an increase of satisfaction with work and decrease in emotional dissonance. With my sample too, recognition of one's work performance was of high importance. Interestingly though, the burnout of healthcare employees was not so much affected by little recognition by their leaders or colleagues as patients' 'ingratitude'. Non-recognition by patients was conducive to increased burnout of

employees, and inadequate attitudes of colleagues toward their patients and work led to depersonalisation. Those who disapproved of their colleagues' behaviour, got distanced from them, and were left alone, which increased their risk of burnout.

## **Conclusions**

The correlation which the personality traits and emotional intelligence of healthcare respondents were found to show with their choice of emotional labour type, was in agreement with data presented in international literature. Their effects on personal outcomes did, however, not allow numerical assessment in a clear-cut manner. On the other hand, organizational factors did show a close connection with the effects of emotional labour on the individuals.

In departments of DEOEC the range of emotional expressions which employees are supposed to adopt is not defined in any written regulations. Subsequently employees are free to decide on their emotional displays, displayed emotions, or the type of emotional labour employed. This does not have influence on the number of individuals performing genuine emotional labour, but increases others' likeliness to perform deep acting.

There is a risk involved in current practices that, because of a lack of explicit rules, there will always be employees who will not meet the emotional expectations of their patients and colleagues. This will hit hard the very employees who fall in line with implicit rules. Respondents, who found their colleagues' attitude toward their patients and work inadequate, became alienated from both their colleagues and work. Those who disapproved of their colleagues' behaviour got more and more distanced from them and were left alone, which further increased their risk of burnout.

Socialization plays a significant role in decreasing the number of employees ignoring emotional norms. A good community at work can assist employees through emotional infection as well as turning implicit rules applicable to the required range of emotions into explicit rules. Recognition (or non-recognition) by colleagues and leaders can be instrumental in the motivation of healthcare professionals.

Physicians and other healthcare professionals involved in this study found recognition by their colleagues and positive acknowledgements from their patients equally important. At present, healthcare professionals are overburdened with work, and have little time to spend on their patients. They mostly concentrate on the disease, and have no time to adopt a holistic

approach instead. It will take more time, more resources, a better organization of labour, and a change in the social estimation of healthcare professionals to change the situation.

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# Evaluation of executive stock options using continuous and discrete time methods<sup>1</sup>

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## Abstract

*I start by reconciling executive stock option (ESO) pricing with modern arbitrage theory. It turns out that the main tool for pricing is certainty equivalent (CE) concept, introduced already by Pratt (1964). In this context, the price for an ESO is usually not a market price, but rather the (least) amount of cash that holder is willing to sell his option(s). Ideally, an ESO should be valued as part of inter-temporal consumption-investment framework, where the Merton (1969, 1971) papers are usually given seminal status. Also part of my work falls in this genre. This theoretical discussion is followed by presenting the main findings of my dissertation (Pirjetä, 2009). In my own view, it has two main contributions. The first one is discussing optimal consumption choice with ESOs and risky labor income (Kallio and Pirjetä 2008), and the second is estimating managerial risk aversion from empirical data (Pirjetä, Puttonen and Ikäheimo, 2010).*

## How to reconcile executive stock option pricing with modern arbitrage theory?

This chapter is a discussion of how executive stock option (ESO) pricing reconciles with modern arbitrage theory. Given the context, I should begin with the notion of *price*. It lacks clarity, because executive stock options are usually not traded in financial markets. Indeed, by price I mean the cash amount that makes the option holder indifferent between holding the option and selling it.

Mentioning ‘cash’ above is intentional. Obviously, holding cash is convenient, because it can be consumed immediately. In contrast, holding the option usually involves years of waiting before it can be sold, and the inconvenience of not knowing how much it is worth at expiration. It is intuitively clear that *uncertainty* plays a big role in option valuation. In modern finance theory, uncertainty is incorporated in option price by employing utility functions and two different probability measures (objective and risk-neutral).

Now let’s try to put the concepts in an economic framework. The above notion of price is aligned with the certainty equivalent (CE) definition that traces back to Pratt (1964). The logic is clear.

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<sup>1</sup> This work was carried out during my tenure at Helsinki School of Economics (nowadays part of Aalto University) 2004-09. I am grateful to my co-authors Seppo Ikäheimo, Markku Kallio, Vesa Puttonen and Antti Rautiainen. Also I want to thank my examiners Tomas Björk and Seppo Pynnönen. Last but not the least, I am grateful to Professor Pekka Korhonen for continuous support during my studies.

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Subject to knowing the utility function and risk aversion parameter, one can arrive at a cash price for any uncertain payoff, including ESOs. Pratt's article is definitely a recommended reading for anyone who wants to understand the concepts of utility and risk aversion. Subsequent research has extended Pratt's work in a number of ways, but the extensions come at the cost of increased complexity.

While Pratt was mainly concerned with a single payoff, Merton (1969, 1971) presented a framework ('Merton problem') for optimizing consumption and investments dynamically. His model allows for arbitrary number of securities with correlated risks. For example, correlated risks emerge when labor income and stock portfolio are tied to the success of a single company, a situation that is common for executive employees. The seminal idea that value of consumption depends (inversely) on marginal utility is one of the key results of Merton.

Cox and Huang (1989) extended the Merton problem by solving it using a martingale method<sup>3</sup>. In finance, the notion of 'martingale' refers to valuation principle that the price of a security is equal to discounted value of future payoffs. Otherwise, there would be opportunities to earn arbitrage (riskless) profits, which is not possible in an efficient market. Usually this is proved in a complete markets setup, where every security can be replicated by other securities.

While the martingale method has become established in academic and practitioner communities, it has two challenging assumptions in ESO pricing context. The first one is market completeness, and the second one is risk neutrality. In fact, they are connected.

The idea of risk-neutrality is justified in complete markets, where agents can protect themselves against any adverse change in prices. Completeness implies that any security can be bought or sold in arbitrary quantity, and one can borrow or deposit money at risk-free rate. But the employees holding ESOs are not able to do this, because they options are not traded, or they are under insider trading restrictions, or for other reasons. In reality, economic agents are risk-averse, they are concerned with poor economic states, and overweight them in valuation. For the executive employee, the objective probability of his firm going bankrupt, resulting in unemployment and options expiring worthless, may be low (say 0.1%). But if he is worried about the scenario, he might assign a subjective probability (say 1%) to it, impacting the valuation negatively.

What is still not clear is how the financial market comes into play. Those who have attended a basic option pricing course have heard that 'markets are risk-neutral'. Going back to the previous example, if the 'subjective' executive assigns more probability mass to the adverse scenario than the 'risk neutral' market, it follows that the 'subjective' value for executive stock options is lower than 'risk-neutral' value. Based on my empirical research (Pirjetä et al. 2010), I think this argument is viable. In fact, even if we introduce a market for executive stock options, their prices will remain below risk-neutral levels.

The mathematical tool for formalizing the previous arguments is utility function. The utility of a risk-averse agent is an increasing but concave function of consumption. Obviously this implies diminishing marginal utility. In short, the utility function quantifies the concern with poor economic

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<sup>3</sup> Wikipedia has a good summary of martingales. [http://en.wikipedia.org/wiki/Martingale\\_\(probability\\_theory\)](http://en.wikipedia.org/wiki/Martingale_(probability_theory))

states as high marginal utility. This is as simple as saying that having extra 1€ in the wallet feels better when times are very poor.

Before introducing a spoonful of theory, we ask: Why to use risk-neutral pricing in executive stock option context, if the assumption of risk-neutrality is not justified? The answer is that risk-neutral theory provides a well-motivated reference price, an excellent benchmark for comparing subjective prices from some market or pricing model. Thus it makes every sense to use risk-neutral models in an educated manner.

Using the risk-neutral probabilities one can compute the value of any security by discounting future payoffs using risk-free rate. Working in continuous time, and assuming a complete market, Cox and Huang (1989, Lemma 2.5) show that Eq. (1.1) given below must hold in the absence of arbitrage (riskless profits). Note that it has expectation operators on both sides. They look the same up to superscript  $Q$ , but this difference turns out to be very important. The left hand side uses risk-neutral probabilities, where the right hand side uses objective ones.

Let us introduce some notation.  $E^Q$  and  $E$  are expected value operators using risk-neutral and objective probabilities. Moreover,  $r(t)$  is the risk-free rate,  $g(t)$  is a stochastic process (e.g. consumption or a stock option payoff), and  $\Lambda(t)$  is the state price density (SPD), simply speaking the present value of unit consumption, which depends on the economic state. Note that the SPD accounts for variations in marginal utility. In particular, it is high in adverse economic states with low levels of consumption. To put it very simply, an additional euro in the wallet contributes more to well-being during bad times compared to good times.

$$E^Q \left[ \exp\left(\int_0^T -r(s)ds\right) \int_0^T g(s)ds \right] = E \left[ \int_0^T \Lambda(s)g(s)ds \right]$$

Originally, the SPD was defined in this manner by Harrison and Kreps (1979). In essence, the relation (1.1) shows how to incorporate preferences in contingent claim valuation using the state price density. Moreover, this procedure is consistent with no arbitrage.

Putting these results together we get the classical Euler equation (1.5). Again, for optimally chosen consumption pattern this relation becomes an equality. The idea is that optimality involves consumption smoothing; the utility of consuming one unit is higher during bad times, when marginal utility is high.

$$E \left[ \frac{U'(c_t) X(t)}{U'(c_s) X(s)} \right] \leq 1 \text{ for } s < t$$

In Eq. (1.5) the first term inside brackets is equal to marginal rate of substitution. This specification is the foundation of what is known asset pricing theory, summarized by Campbell and Viceira (2002).

### What can be done using empirical data?

Given the number of unknown parameters, a number of assumptions are needed if one wants to estimate the above models. Assuming this objective, Aït-Sahalia and Lo (2000) list three fundamental objects;

1. Preferences of the economic agent (implying risk aversion)
2. Stock price dynamics (for example, Brownian Motion with a drift)
3. State price density (specifying price of risk and risk aversion parameter).

If the researcher can measure two items on the above list, economic theory implies the third one. In particular, since economists disagree widely on risk aversion, why not estimate it using data on (2) and (3)? They are directly measurable from stock and option prices. In this dissertation, Pirjetä et al. (2010) perform a similar exercise, and infer risk aversion from trading prices of Nokia ESOs traded in Helsinki Stock Exchange.

Valuation methods based on state price density are topical in mathematical finance. In fact, we can evaluate any contingent claim within the consumption-investment model, including an ESO. This is discussed in Section 5.6 (of the dissertation) in the light of utility-based price of Hugonnier et al. (2004) and utility indifference pricing of Hobson (2004). Regularity conditions for SPD-based valuation have been recently derived by Kramkov and Schachermayer (2003), and extended by Hugonnier and Kramkov (2004) to handle nontraded contingent claims. These papers verify a solution in terms of the SPD subject to reasonable conditions, only one of which is critical. It requires that some hedging portfolio dominates the derivative payoffs at expiration (cf. Hugonnier & Kramkov (2004), Lemma 1). When this condition fails, the upper hedging price becomes infinite (Karatzas and Shreve (1998, Prop. 5.8.6)).

In the area of hedging, Kramkov and Sirbu (2007) have recently introduced utility-based hedging. This method yields a marginal hedging strategy for cases, where perfect hedging is impossible. The setup applies well to a typical manager receiving options, and has indeed been investigated by Henderson (2002). She shows how to hedge non-traded assets using correlated traded assets. It would be interesting to add consumption and labor income to her model.

## **Summary of the main results**

The following paragraphs summarize main results in my dissertation (Pirjetä, 2009).

### **Essay 1: ESO valuation from an accounting perspective**

This paper (Pirjetä & Rautiainen, 2005) discusses the implications and valuation of employee stock options under IFRS 2, i.e. the accounting standard that listed companies have to comply with. Executive stock options (ESOs) are analyzed in an agency model. Risk-neutral option values are calculated using the Cox, Ross and Rubinstein (1979) binomial model. The employee calculated ESOs using the certainty equivalent principle, which leads to a discount to risk-neutral value. Hence, the fair option value stated as an expense in the profit and loss statement should be lower than the value suggested by risk-neutral option pricing models. Further, the gap between employer's and employee's valuations (deadweight loss) grows with volatility and risk aversion. It is found that

the ESO risk premium is time dependent, and it decreases going towards expiration. Finally, we discuss the effects of ESOs on managerial behavior using the framework of Ross (2004).

### **Essay 2: Variations on a managerial portfolio problem**

Here we ask: How does inclusion of market frictions and labor income impact ESO values in a Merton problem? The answer is provided using a discrete-time model using double binomial tree. While the Cox, Ross and Rubinstein (1979) tree is a discretization of one-dimensional Brownian motion (BM), our model discretizes a two-dimensional BM representing market and stock-specific risk factors.

The paper employs stochastic programming on solving option values in the double binomial model. The ESOs considered may have European or American-style exercise. These options are valued considering hedging restrictions and other market frictions, like transaction and shorting costs. The model also allows for different interest rates for borrowing and lending.

Perhaps the most original feature is that model incorporates risky labor income. It turns out that correlation of income and investment risks decreases the value of ESOs. However, if income is riskless or the risk is independent, ESO values may increase.

Another innovation in this paper is that it considers ask price functions, which model the option price depending on the sold amount. There are only a few papers in the incomplete markets literature modelling the dependence of price and quantity<sup>4</sup>. One such model is presented by Cetin et al. (2006), where the supply curve (analogous to our ask price function) is explained by liquidity effects. Recently, Pennanen (2011) has proposed a model, where (possibly discontinuous) demand and supply curves integrate to a total cost function. Building on convex analysis, he derives conditions for no arbitrage in marginal or scalable form.

### **Essay 3: Empirical view on pricing and risk preferences**

In spite of their popularity in equity-based compensation, executive options are not publicly traded outside Finland to our knowledge. Indeed, the paper gives reasons why they should be. This study uses a unique dataset of Nokia ESO prices to shed light on two issues: pricing of ESOs vis-à-vis standard options and managerial risk preferences.

When managers get to trade in options received as compensation, their trading prices reveal several aspects of subjective option pricing and risk preferences. Two subjective pricing models are fitted to show that executive stock option prices incorporate a subjective discount. It depends positively on implied volatility and negatively on option moneyness. From early options literature (Breen and Litzenberger (1978)) we know that option prices reveal risk preferences. We use the semiparametric model of Ait-Sahalia and Lo (2000) to estimate managerial risk preferences from Nokia ESO data.

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<sup>4</sup> This is probably due to the fact that in a complete market the option price is independent of quantity. However, this is not the case for SPD-based valuation models.

In our stylized ESO market, risk-averse managers contribute the supply, and risk-neutral market makers create the demand. Managers themselves are not able to hedge the ESOs. The results suggest that relative risk aversion is just above 1 for a certain stock price range. This level of risk aversion is low but reasonable, and it may be explained by the typical manager being wealthy and having low marginal utility. Related to risk aversion, it is found that marginal rate of substitution increases considerably in states with low stock prices.

#### **Essay 4: Correlation of ESO volatility and stock returns**

Correlation of stock returns and volatility is a key parameter in stochastic volatility models building on Hull and White (1987). Unfortunately, the correlation parameter is hard to evaluate from practical data. In particular, simultaneous measurement of volatility and instantaneous returns is ambiguous, especially if the option or the underlying stock is not frequently traded.

This paper develops an original method to calculate the correlation using the copula of option delta and (implied) volatility. There is no need for instantaneous stock return data. Instead, it suffices to know the stock price at the time of option trade. This is enabled by the invariance property of copulas (McNeil et al. 2005). It says copulas are invariant with respect to positive transformations of the margins. Assuming stochastic volatility, option delta is an increasing function of the stock price, implied by convexity of option prices shown by El Karoui et al. (1998). Thereby, the copula of delta and volatility is also the copula of stock price and volatility, and it maps the desired correlation.

Fitness of the estimated correlation is evaluated using goodness of fit tests for copulas, based on bootstrap techniques. Also, an ANOVA procedure based on prediction error table is proposed for the purpose. The method is demonstrated using the Hull-White option pricing model and a smooth volatility function. In an empirical application it turns out that volatility and stock returns are negatively dependent, and both Gauss and Student t copulas provide acceptable dependence models.

#### **Recommendation based on the results**

To our knowledge, ESOs are not publicly traded outside Finland. Based on empirical results in Pirjetä et al. 2010, we find that public trading of ESOs is beneficial to both the employees and the owners who grant the options. When ESOs are traded in a stock exchange, their trading prices include non-negative time value<sup>5</sup>. It is particularly significant when the ESOs have long maturity. In contrast, if employees could only exercise (and not sell) the options, all time value would be lost. It can be argued that positive time value cuts deadweight loss, that is the gap between objective (risk-neutral) and subjective values (see Kallio and Pirjetä, 2008). In addition, there are tax-based reasons for public trading of ESOs (see Pirjetä et al. 2010). Finally, listing and public trading of ESOs adds transparency in financial reporting.

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<sup>5</sup> Define option time value (always a positive quantity) as market price less intrinsic value, i.e.  $C - (S - K)^+$  where option, stock and strike prices are denoted by  $C$ ,  $S$ , and  $K$ . In addition,  $x^+$  denotes  $\max(0, x)$ .

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# **Understanding Perceptions of Cultural and *Intracultural* Societal Practices and Values of Norwegian Managers**

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## **Abstract**

*The field of Norwegian business cultural studies is an under-researched area. Hence, the aims of this thesis were to 1) understand the significant differences in societal cultural practices and communication patterns in different regions of Norway and 2), examine the cultural practices of business people in Norway compared to those of our main trading partners. Consequently, this study contributes to the field of cultural studies both intraculturally and interculturally. Data for the intracultural element of the research was collected from 710 Norwegian middle managers. Secondary data from previous research was applied in the intercultural part of the study.*

## **Introduction**

Globalization has impacted our approach to business communication and strategies significantly. Hence, knowledge creation within the field of global cultural dynamics and perceptions of cultural values can offer a sustainable competitive advantage to businesses today. As our societal cultural practices, our ‘lived values’, come to us from the past as part of a kaleidoscope of complex traditions, memories and ongoing practices, our language, religion, history and customs, the value we place on different aspects of society clearly help to define who we are as societies and nations.

Cultural difference in cross-cultural studies is a widely-used construct in international business where it has been applied to societal cultural differences related, for example, to foreign investment expansion, entry mode choice and the performance of foreign investment affiliates. Few constructs have gained broader acceptance in international business literature than cultural difference. In a rapidly changing, unpredictable world, forecasting how people will behave at work is often a risky affair. Yet identifying cultural friction and cultural attractiveness, both interculturally and also intraculturally, will offer companies a sustainable competitive advantage. For instance, cultural attractiveness, as a foreign region’s perceived attribute, may be a major reason for the preferences expressed by potential partners and host regions to develop business alliances (Gould, 1966; House et al., 2004). Nevertheless, from a cognitive perspective, adjustment to a relatively similar culture is often as difficult as

adjustment to a 'distant one' (Sackmann, 1983; Ting-Toomey, 1999; House et al., 2004; Chhokar et al., 2007). Hence, cultural knowledge of both culturally similar societies or regions and also culturally different societies or regions can be seen as equally important in business.

Researchers within the field of management and cultural communication theory have made valuable contributions to the study of cultural difference within the context of intercultural studies during the last five decades (Hall, 1959; Kluckhohn and Strodtbeck, 1961; Hofstede, 1980; Kaplan, 1987; Schein, 2004; House et al., 2004; Inglehart et al., 1997; Adler, 2008; Chhokar et al., 2007). These scholars have focused their work on intercultural research, and they now call for intracultural or cross-regional studies to be carried out by academics, using validated cross-cultural research models. Despite this call for intracultural studies, little research has been performed on intracultural comparisons in Norway.

This study is the first to apply the theories from project GLOBE (House et al., 2004) in Norway. It is also the first academic study this researcher has found which identifies intracultural differences in Norway. Other studies (Hofstede, 1980; Grennes, 1999; Holt, 2007) posit that Norway has a homogeneous culture. It is hoped that this study will contribute to the understanding of the regional similarities and differences between perceptions of societal cultural practices 'lived values' of Norwegian managers in relation to the cultural dimensions of 'Collectivism', 'Power Distance', 'Uncertainty Avoidance', 'Gender Egalitarianism', 'Assertiveness', 'Performance Orientation', 'Future Orientation', 'Humane Orientation' and 'High-Low Context' communication patterns. All seven regions of Norway depicted in figure 1 below have been identified as valid areas to be used within this study due to essential differences in climate, geography, historical traditions and population density (Hofstede, 1980, Grennes, 1999; Tanure, 2002; House et al., 2004; Chhokar et al., 2007; Bertsch, 2009). Issues discussed in terms of regional cultural trends in the thesis include a review of the Norwegian cultural literature related to historical perspectives, industrialization, migration, urban vs. rural issues, coastal vs. inland traditions, geographical and climate variations and population.

### **Norway within a research context**

Norway lies in the western, northern part of the Northern European peninsula defined as Scandinavia. Its 4.9 million people are an ethnically homogenized population with a group of

indigenous people, the Sámi, making up the most significant minority group. Romany gypsies and Kvens (Finnish-Norwegians, living mostly in the north) are the other most significant minority groups. There are approximately 25,000 Sámi, living mostly in the north eastern region of the country. After a turbulent period in the early 1900s, the rights and identity of the Sámi and the Kven people are now respected. Both the Norwegian and Sámi languages are recognized languages in Norway today. In the Norwegian Parliament's White Paper (St. Melding no. 48: 'Cultural policy up to 2014' [57, 198]), the recognition of these important minority languages is emphasized as an official cultural policy.

In Norway, the long harsh winters and the mountainous landscape have historically led to many regions being isolated from the rest of the country for many months of the year. Thus historically, daily life, communication patterns and cultural development have centred on local traditions and practices. As in all agrarian and fishing regions, a sense of community has fortified and supported individuals and families in their daily lives. Helping each other during hard times has been a key element of Norway's rural and coastal culture. Culture is said to be stable and slow to change over time (Hofstede, 1980; Trompenaars and Hampden-Turner, 1998; Holt, 2007). Consequently, it can be argued that even though Norway has recently become a rich oil-producing nation, one would still expect the traditional collectivist values, the strong commitment to others in the community and the sense of humane orientation to be significant elements of Norwegian culture today.

As a nation with a rich history, with a distance of almost 2,000 km from the north to the south and with a climate that can be up to 20 degrees colder in the north than the south in mid-winter, Norway has a diverse culture. Geographically, the north of Norway shares national borders with Russia and Finland, and to the east it shares borders with Sweden. All the above points lead to possible management implications to indicate that a better understanding of regional cultures and business behaviour in different areas of the country will be significantly valuable both domestically and internationally. Quantitative and qualitative data for this study were collected from all seven regions in Norway. Subjects were divided into the seven groups according to their place of work and residence in Norway as depicted in figure 1 below.

**The seven regions in the *intracultural* study**

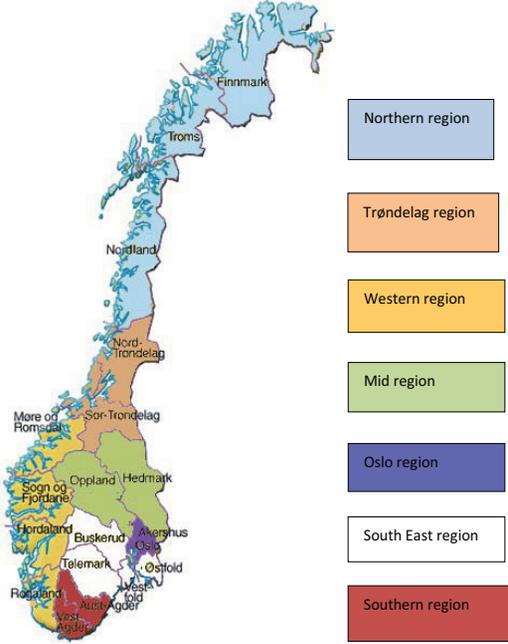


Figure 1. Seven regions of Norway (Statistics Norway, 2008)

The cultural predictors and regional data for the seven regions are more fully discussed in the complete thesis.

With post-World War II governmental policies to promote all districts in Norway still very much in focus today, all regions have experienced and will continue to experience an increase in the number of foreign collaboration partners. In the southern, south eastern, western, mid and Oslo regions of the country, the growth of the oil and gas business in the services sector, knowledge economy, experience economy and tourism, business and finance services, aqua farming and military sector has led to a growth in international alliances. In the more northern regions, international business related to the growing oil exploration business, tourism and technical innovation will continue to support international co-operation projects. Hence it is hoped that the research findings from this thesis will make a contribution to business communication knowledge with and between these regions and with foreign alliance partners in the future.

## The research questions and corresponding hypotheses

(i) To determine whether perceptions of societal cultural practices of Norwegian managers differ from those of managers from Norway’s main western trading partners – namely Sweden, Denmark, Finland, England and the US

(ii) To determine whether perceptions of societal cultural practices of Norwegian managers vary in different regions of Norway

Emanating from the research questions, 17 hypotheses are derived: H1.1, H.2.1, H3.1, H4.1, H5.1, H6.1, H7.1 and H8.1 that address sub-question (i), namely inter-cultural differences. H1.2, H2.2, H3.2, H4.2, H5.2, H6.2, H7.2, H8.2, and H9.2 address research sub-question (ii) which focuses on intracultural differences within a Norwegian context. A benchmark study of research question and hypotheses development (directional and non-directional) within societal cultural studies (Hofstede, 1980; Hoppe, 1990; Smith, Dugan and Trompenaars, 1996; Grennes, 1999; Bond; Tanure, 2002; Bertsch, 2009; Murphy and Domicone, 2010; McPherson, 2009) substantiates the formulation of the research questions and hypotheses in this study. These hypotheses, their theoretical linkages are summarized in Table 1 below.

Dimensions	Intercultural comparisons: Hypotheses	Regional hypotheses	Theoretical linkages
Performance Orientation ‘as is’ values (societal cultural practices)	<b>H1.1:</b> Variation will be found between Performance Orientation scores in Norway compared to scores in Denmark, Sweden, Finland, US and England <b>hypothesis confirmed</b>	<b>H1.2:</b> Performance Orientation scores will be higher in the north <b>no evidence found to support this hypothesis</b>	Weber, 1904; Parsons and Shils, 1952; Kroeber and Kluckhohn, 1952; McClelland, 1968; Trompenaars and Hampden-Turner, 1998; House et al., 2004; Chhokar et al., 2007.
Future Orientation ‘as is’ values (societal cultural practices)	<b>H2.1:</b> Variation will be found in Future Orientation scores in Norway compared to scores in Denmark, Sweden, Finland, England and US <b>hypothesis confirmed</b>	<b>H2.2:</b> Future Orientation scores will be moderately high in all regions <b>hypothesis confirmed</b>	Trompenaars, 1993; Inglehart et al., 2004; Trompenaars and Hampden-Turner, 1998; Hofstede, 2001; House et al., 2004; Chhokar et al., 2007.
Gender Egalitarian ‘as is’ values (societal cultural practices)	<b>H3.1:</b> Variation will be found in Gender Egalitarianism scores in Norway compared to scores Denmark, Sweden, Finland, England and US. <b>hypothesis confirmed</b>	<b>H3.2:</b> Gender Egalitarianism scores will be higher in the Oslo region <b>hypothesis partly confirmed</b>	Rokeach, 1968; Hofstede, 1980; Schwartz, 1999; Coltrane, 1992; Schein, 1992; Inglehart et al., 2004; House et al., 2004; Chhokar et al., 2007; Kvande, 2009
Assertiveness ‘as is’ values (societal cultural practices)	<b>H4.1:</b> Variation will be found in Assertiveness scores in Norway compared to scores in US, England, Denmark, Sweden and Finland <b>hypothesis confirmed</b>	<b>H4.2:</b> Assertiveness Scores will be lower in the south <b>hypothesis confirmed</b>	Kluckhohn and Strodtbeck, 1962; Trompenaars, 1993; Schwartz, 1999; Inglehart et al., 2004; Trompenaars and Hampden-Turner, 1998; Hofstede, 2001; House et al., 2004; Chhokar et al., 2007
Collectivism 1 & 2 ‘as is’ values (societal cultural practices)	<b>H5.1:</b> Variation will be found in Collectivism 1 & 2 scores in Norway compared to scores in Denmark, Sweden, Finland, US and England <b>hypothesis confirmed</b>	<b>H5.2:</b> Collectivist 1 & 2 scores will be lower in the Oslo Region <b>hypothesis partly confirmed</b>	Parsons, 1949; Kluckhohn, 1956; Hall, 1959; Hofstede, 1980 ; Trompenaars, 1993; Schwartz, 1999; 1993; Schwartz, 1993; Triandis, 1995; Trompenaars and Hampden-Turner, 1998; House et al., 2004; Chhokar et al., 2007
Power Distance ‘as is’ values (societal cultural	<b>H6.1:</b> Variation will be found in Power distance scores in Norway compared to	<b>H6.2:</b> Power Distance Scores will be lower in the	Haire et al., 1966; McClelland, 1961; Haire, Ghiselli and Porter, 1966;

practices)	scores in Denmark, Sweden, Finland, England and US <b>hypothesis confirmed</b>	north <b>hypothesis confirmed</b>	Mulder, 1977; Trompenaars, 1993; Hofstede, 1980; Schwartz, 1999; House et al., 2004; Chhokar et al., 2007
Humane Orientation 'as is' values (societal cultural practices)	<b>H7.1:</b> Variation will be found in Humane Orientation scores in Norway compared to the scores in Denmark, Sweden, Finland, England and US <b>hypothesis confirmed</b>	<b>H7.2:</b> Humane Orientation scores will be higher in the north <b>hypothesis confirmed</b>	Kluckhohn & Strodtbeck, 1961; Rokeach, 1968; Schwartz, 1999; Espen-Anderson, 1987; Trompenaars and Hampden-Turner, 1998; House et al., 2004; Chhokar et al., 2007
Uncertainty Avoidance 'as is' values (societal cultural practices)	<b>H8.1:</b> Variation will be found in Uncertainty Avoidance scores in Norway compared to Sweden, Denmark, Finland, England and US <b>hypothesis confirmed</b>	<b>H8.2:</b> Uncertainty Avoidance scores will be lower in the north <b>hypothesis confirmed</b>	Frenkel – Brunsvik, 1949; Budner, 1962; Hall; 1959; Hofstede, 1980 & 2001; Inglehart et al., 2004; Triandis, 1995; Ting-Toomey, 1999; House et al, 2004; Chhokar et al., 2007
High vs. Low Context 'as is' values (societal cultural practices)	<b>N/A (no quantitative data available)</b>	<b>H9:</b> Context practices levels will be lower in the north <b>hypothesis confirmed</b>	Hall, 1959; Hertzskovits, 1973; Hofstede, 1980; Gudykunst and Nishida, 1986; Trompenaars and Hampden-Turner, 1998; Ting-Toomey, 1999; Ohashi, 2000; House et al., 2004.

Table 1. A summary of the hypotheses and theoretical links

### The philosophical position of this study

In order to address the research questions presented above, an empirical approach was applied (Remenyi et al., 1998). The empirical and contextual background for the research questions are reviewed in the complete thesis. In relation to the philosophy of research, a choice must be made by the researcher in terms of 1) the philosophical position, the values and assumptions of the researcher, 2) any precedent set by earlier research, and 3) the choice made in terms of different research methods and methodology applied in these two seemingly polar philosophical positions of positivistic and interpretive approaches (Easterby-Smith et al., 2002).

This researcher recognizes the strengths of combining etic and emic research approaches and has a willingness to consider the application of both qualitative and quantitative research methods. All researchers, however, have to make choices related to research design and methodology, if only for practical reasons related to cost and time budgets (Remenyi et al., 1998; Easterby-Smith et al., 2002) This researcher has used a mixed method approach with a predominantly quantitative approach to data collection for two key reasons. Firstly, in relation to the community of practice, this is the traditional choice in comparative research related to cultural societal studies, and secondly, it is chosen due to practical reasons related to cost and time.

In the complete thesis the philosophical position of the research project and the research strategy are discussed more fully. More specifically, the complete thesis presents 1) the GLOBE measurement instrument and design with the definition of each cultural construct, its underlying theoretical linkages and corresponding hypotheses; 2) The development of the exploratory variable High-Low Context (Hall, 1959) and, 3) The post-quantitative focus group interview methodology carried out in this study is discussed in the context of a mixed method element within this study. In addition, discussion of the key elements of reliability and validity in relation to this research project are also presented in the complete thesis. To summarize, thirty-nine items of the validated GLOBE instrument Beta, which relate to the 'as is' lived values within society, the 'societal practices', were used in the quantitative element of the research. An exploratory element of the quantitative stage was the inclusion of an additional five items designed to test 'High-Low Context' (Hall, 1959). Confirmatory focus group interviews were carried out at the post-quantitative stage as the qualitative element of the research to complement and annotate the quantitative findings (Merton et al., 2005:388).

### **Summary of the results within an intercultural perspective**

Table 2 below offers a summary of the mean scores for societal cultural dimensions of 'as is' GLOBE instrument scores for Norway and five of her main trading partners – namely Sweden, Denmark, Finland, England and the USA. In addition, the mean score for the complete GLOBE scores are also presented for a more holistic comparison. Regarding the Norwegian scores, starting at the higher end, results show high aggregated scale scores for 1) In-Group Collectivism (M=5.34), 2) Humane Orientation (M=4.81), 3) Uncertainty Avoidance (M=4.31), and 4) Gender Egalitarianism (M=4.03). Consequently, in an international comparison, Norway can in general be identified as a society with clear elements of collectivism and where equality between men and women is relatively high. The moderately high level of uncertainty avoidance indicates that Norway has a number of large public institutions and state structures with rules and procedures in place which serve to reduce uncertainty in people's work and daily lives.

Moderate country scores for Future Orientation (M=4.48), Performance Orientation (M=4.18) and Institutional Collectivism (4.07) indicate that Norwegian society in general does not specifically emphasize or reward individual performance or long-term planning. Furthermore, low country scores for Assertiveness (M=3.37) and Context (3.11) reveal that Norwegian

society can be described as non-assertive, where a sense of fairness and honesty is valued over diplomacy. The country score for power distance (M=4.13) indicates an egalitarian society with few hierarchical traditions. The table below summarizes the mean scores for society practices (House et al., 2004) for Norway, three of her closest neighbours (Sweden, Denmark and Finland) and two of her other key trading partners, England and the US (Statistics Norway, 2009).

**Mean 'as is' scores for Norway, Sweden, Finland, England and the USA**

Summated scales	Norwegian study (mean amended summated scales)	Swedish results (House et al., 2004)	Danish results (House et al., 2004)	Finnish results (House et al., 2004)	English results (House et al., 2004)	US results (House et al., 2004)	Median scores: for 62 societies (House et al., 2004)
Context	3.11	n/a	n/a	n/a	n/a	n/a	n/a
Gender Egalitarianism	4.03	3.84	3.93	3.35	3.67	3.34	3.20
Collectivism 1	4.07	5.22	4.80	4.63	4.27	4.20	4.20
Collectivism 2	5.34	3.66	3.53	4.07	4.08	4.25	5.31
Assertiveness	3.37	3.38	3.80	3.81	4.15	4.55	4.20
Performance Orientation	4.18	3.72	4.22	3.81	4.08	4.49	4.10
Humane Orientation	4.81	4.10	4.44	3.96	3.72	4.17	4.11
Power Distance	4.13	4.85	3.89	4.89	5.15	4.88	5.25
Future Orientation	4.48	4.39	4.44	4.24	4.28	4.15	3.75
Uncertainty Avoidance	4.31	5.32	5.22	5.02	4.65	4.15	4.21
Number of respondents	710	896	Average: 251*	438	81	188	17,370

*Table 2. Results for the nine GLOBE Cultural Dimensions at the society 'as is' level*

\* In terms of sample sizes, these are not specified for all countries by House et al., (2004). It is stated that a total of 17,370 respondents completed the questionnaire and that the number of respondents by society ranged from 27-1,790 with an average of 251 respondents per society.

In conclusion, the results in the above table highlight that within a multi-national comparison Norway has a slightly lower level of Power Distance and a lower level of Uncertainty Avoidance than her Nordic region partners, a higher level of Collectivism than its key trading partners of Britain and the US, and is the society which most prioritizes Gender Equality. In

terms of validity, these results correlate very closely with Hofstede's empirical findings (Hofstede, 2006).

### Summary and key results within an intracultural perspective

A one-way between-groups analysis of variance was conducted to explore the impact of region on the cultural variables of Uncertainty Avoidance, Future Orientation, Collectivism 1, Humane Orientation, Context, Performance Orientation, Collectivism 2 and Assertiveness. Subjects were divided into the seven geographical regions related to where they live and work in Norway as depicted in Table 3 below

	Context	Gender Eg.	Coll 1	Coll 2	Ass.	Perf. Or	Humane Or.	Power D.	Future Or.	Uncertainty Av.
Oslo & Akershus region	3.02	4.76	<b>3.68*</b>	5.42	<b>3.95*</b>	<b>4.54*</b>	<b>4.51*</b>	3.92	<b>4.80*</b>	4.62
Mid region: Hedmark & Oppland	<b>3.56*</b>	4.72	4.44	5.23	<b>3.13*</b>	<b>3.82*</b>	4.46	3.93	<b>4.26*</b>	4.63
South eastern region: Østfold, Telemark, Vestfold, Buskerud	<b>3.28*</b>	4.60	4.00	5.39	<b>3.54*</b>	4.12	4.58	3.80	4.68	4.47
Southern region: Vest-Agder & Aust-Agder	<b>3.38*</b>	<b>4.44*</b>	4.06	5.45	<b>3.01*</b>	4.33	<b>4.87*</b>	3.82	<b>4.52*</b>	<b>4.64*</b>
Western region: Hordaland, Rogaland, Sogn og Fjordane, Møre og Romsdal	2.96	4.70	4.02	5.30	<b>3.50*</b>	4.22	4.74	3.67	4.75	4.42
North & South Trøndelag	3.08	<b>4.87*</b>	4.36	5.14	<b>3.08*</b>	<b>4.09*</b>	4.68	3.86	<b>4.14*</b>	4.46
Northern region: Finnmark, Troms & Nordland	<b>2.58*</b>	4.73	<b>4.15*</b>	5.30	<b>3.21*</b>	<b>4.00*</b>	<b>4.98*</b>	3.63	<b>3.79*</b>	<b>4.18*</b>

Table 3. ANOVA results: mean scores for 'as is' values per region (Examples of significant differences as 0.05 level at  $p < .05$  indicated with \*)

As an indication of the **intracultural** findings, the data indicate significant differences in perceptions of Norwegian managers, for example in terms of 1) a more direct approach in communication in the northern region, 2) higher levels of Individualism, Assertiveness and Performance Orientation in the Oslo region, and 3) higher levels of Gender Egalitarianism in the Trøndelag region.

## In-depth focus group interviews: key findings

The purpose of the interviews was to explore in some depth how business people in different regions define regional business and societal culture both implicitly and explicitly (Chhokar et al., 2007:983). The focus group interviews in this Norwegian study were conducted by means of semi-structured interviews. The interviews, which were carried out in Norwegian to avoid response bias in a second language, were taped and key texts were transcribed and then back-to-back translated into English (detailed transcriptions can be found in the thesis appendix). Content analyses were then carried out to discover which key definitions of regional culture were repeatedly used by respondents. Table 4 below offer a summary of the qualitative data from a selection of regions and concludes what quantitative data are supported by the qualitative findings.

	Statements used to describe the northern region	Statements used to describe the Trøndelag region	Statements used to describe the Oslo region	Statements used to describe the southern region
<b>Illustrative statements from qualitative interviews used by people from other regions to describe people's cultural norms in this region</b>	<p>Not afraid of upsetting others</p> <p>Call a spade a spade Don't waste words</p> <p>Say it how it is More outgoing</p> <p>More time for others Always ready to help out</p> <p>Get straight to the point</p>	<p>Less aggressive Not openly ambitious</p> <p>Proud of the Technical University NTNU which is located in the region</p> <p>Pleased that so many NTNU graduates, both men and women, choose to stay and hold technical and managerial jobs in the region</p> <p>Rural culture where you try to look after others</p>	<p>More aggressive, stressed, busy, ambitious</p> <p>Less time to get to know others</p> <p>Colder, less trusting</p> <p>A good place for men and women who want to do well</p> <p>Less time for voluntary work</p> <p>Urban anonymous culture, more assertive</p> <p>More focused on work and career and professional performance</p>	<p>More conservative</p> <p>More religious, Christian communities</p> <p>Proud, more reserved</p> <p>Less direct, less outgoing, less open to newcomers</p> <p>Less willing to call a spade a spade</p> <p>Strong family values, traditional jobs and roles at work and home</p> <p>Stronger family focus, less 'urban', less busy</p>
<b>Quantitative findings supported by the qualitative data</b>	<p><b>Collectivist</b> values highest in the north (m=4.14) vs. Oslo (m=3.68)</p> <p><b>Humane Orientation</b> values higher in the north (M=4.98) vs. south (M=4.87)</p> <p><b>Lowest context</b> in the north (M=2.58) vs. south (M=3.38).</p>	<p><b>Gender Egalitarian</b> values highest in Trøndelag (M=4.87 vs. south (M=4.44).</p>	<p><b>Performance Orientation</b> highest in Oslo (M=4.48 vs. north (M=4.00).</p> <p><b>Future Orientation</b> highest in Oslo region (M=4.80) vs. north (M=3.79).</p> <p><b>Assertiveness</b> highest in Oslo (M=3.95).</p>	<p><b>Power Distance</b> highest in the south</p> <p><b>Uncertainty Avoidance</b> highest in south (M=4.64) vs. north (M=4.18).</p> <p><b>Lowest Assertiveness</b> (M=3.00)</p> <p><b>Highest context</b> in south (M=3.38) vs. north (M=2.58)</p>

Table 4. qualitative findings compared to quantitative findings for northern, Trøndelag, Oslo and southern regions

All participants unanimously saw societal culture and behaviour in business in Norway as regionally different. Illustrative statements from the interviews provided rich data. As shown, interviews with middle managers in regional focus groups support the findings from the quantitative study and give validity to the research results. Validity is another word for truth, and in a research project the researcher is expected to explain how he/she dealt with all data (Awaleh, 2008). Silverman (2005) notes that qualitative researchers with access to single cases have to overcome special temptation – in other words they have to convince themselves and others that their empirical findings are ‘genuinely based on critical investigation of all their data and do not depend on a few well-chosen examples’ (Awaleh, 2008). Silverman refers to this as the problem of anecdotalism. One way to deal with it is known as response validation (Silverman, 2005; Awaleh, 2008).

This suggests that the researcher should go back to the subjects with his/her tentative results and refine them in the light of the subjects’ reactions (Ibid, 215). Such a process is applied in order to test and check whether the empirical material has been correctly understood and correctly interpreted. Kvale (1997) calls this type of triangulation ‘informant triangulation’ since the specific and common themes that form the key focus of the group interviews often reveal interesting findings that the researcher wants other respondents to interpret and reflect upon.

## **Contributions**

In conclusion, methodological contributions of this study include a documented understanding of current societal cultural practices in Norway, using 1) the GLOBE measurement scale (House et al., 2004) and 2) by providing data collected from focus groups interviews in all regions of Norway. Thus, evidence is offered to support the proposition of significant intercultural and intracultural differences in societal practices.

The research contributions also include the development of an exploratory quantitative instrument to measure High-Low Context communication theories. This construct adapts the pioneering qualitative research contributions of Hall (1959) on societal and organizational cultural studies and is made up of a four-item measurement instrument which measures

directness in communication patterns and so complements the theories of project GLOBE (House et al., 2004, Chhokar et al., 2007).

Further contributions of this study are a critique of the statistical data analyses procedures used by project GLOBE researchers (House et al., 2004) and the application of Structural Equation Modelling: Confirmatory Factor Analysis with AMOS (Analysis of Moment Structure). This multivariate analysis software facilitated the testing for Goodness-of-Fit of the model used in this study. It is hoped these theoretical and methodological contributions will help future researchers to apply the GLOBE instrument and GLOBE data successfully in their own studies.

In terms of contributions to management practices and theories, this study offers both quantitative and qualitative data. It is hoped that these findings can assist both Norwegian managers and also their foreign counterparts in understanding current Norwegian societal cultural practices. The study also offers an additional dataset to complement and extend the valuable data from 62 societies from the original GLOBE project (House et al., 2004).

As a summary of the results of the *intercultural* element of the research, findings from a comparison of the data from this study combined with data from project GLOBE (House et al., 2004; Chhokar et al., 2007) from their Swedish, Danish, Finnish, English and US datasets suggest that the Norwegian culture scores mirror Norway's 1) lower context communication style, 2) higher Gender Egalitarian values, 3) stronger sense of In-Group Collectivism and Humane Orientation, 4) moderately high value of Performance Orientation, 5) lower level of Power Distance and Assertiveness and 6) value given to Future Orientation.

As discussed earlier, in terms of *intracultural* findings, the survey and interview data indicate significant differences in perceptions of Norwegian managers, for example in terms of 1) a more direct approach in communication in the northern region, 2) higher levels of Individualism, Assertiveness and Performance Orientation in the Oslo region, and 3) higher levels of Gender Egalitarianism in the Trøndelag region. It is hoped that such data will contribute to cultural management theory and practices in this field in terms of further developing innovation, productivity, effectiveness and value creation within organizations. This contribution can help both future researchers and also practitioners to understand the

significant regional cultural differences in Norway which can impact the success of both intracultural and intercultural business alliances and operations in the future.

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