

Volume 10, Number 1, Spring 2004

### TABLE OF CONTENTS

From the editor's desk <i>Raymond L. Hogler</i>	vi
The Sarbanes-Oxley Act of 2002: An Analysis of and Comments on the Accounting-Related Provisions <i>Cecily Raiborn, &amp; Chandra Schorg</i>	1-13
A Question of Fit: The Links among Environment, Strategy Formulation, and Performance <i>Robert J. Harrington, David J. Lemak, Richard Reed, &amp; Kenneth W. Kendall</i>	15-38
Retrenchment in Declining Organizations: Towards an Integrative Understanding <i>John D. Francis, &amp; Timothy L. Pett</i>	39-52
Business Faculty Job Selection: Factors Affecting the Choice of an Initial Position <i>Steven C. Hunt</i>	53-71
An Examination of Salient Factors Affecting Expatriate Culture Shock <i>Robert H. Sims, &amp; Mike Schraeder</i>	73-87



ISSN: 1535-668X

Frequency: Quarterly (Winter/Spring/Summer/Fall)

Editorial Offices: Journal of Business and Management  
213 Rockwell Hall  
Department of Management  
Colorado State University  
Fort Collins, CO 80523-1275

Phone: (970) 491-5221

Fax: (970) 491-3522

Website: <http://www.biz.colostate.edu/jbm/JBM-Frames.htm>

Editor-in-Chief: Raymond L. Hogler  
Raymond.Hogler@colostate.edu

Associate Editor: Myron Hulen  
Myron.Hulen@biz.colostate.edu

Editorial Assistant: Jaclyn Olana  
luvs2swing@hotmail.com

Production Manager: LaurieAnn L. Ray  
Laurie.Ray@biz.colostate.edu

Office Manager: Margaret Parks  
Margaret.Parks@biz.colostate.edu

Subscription Rates: \$50.00 for Individuals  
\$100.00 for Institutions

The *Journal of Business and Management* (JBM) is published by the Department of Management at Colorado State University with the sponsorship of Western Decisions Sciences Institute (WDSI). The goal of the *Journal* is to provide a forum for contributions in all areas of business and related public policy. *JBM's* audience includes both academics and practitioners. Original research, reports and opinion pieces are welcome. The style should emphasize clarity of expression and avoid technical detail and jargon.

The views expressed in published articles are those of the authors and not necessarily those of the editors, executive board, editorial board, WDSI, or Colorado State University. All submissions will be initially reviewed by the editor, and if appropriate, sent to referees for review. The authors are responsible for the accuracy of facts stated in the articles.

Subscription forms and submission guidelines are included in each issue. You may also download forms and guidelines from the *JBM* website.

Copyright © 2004 Department of Management, Colorado State University.

## Executive Board

Krishna S. Dhir, President, WDSI

Miles G. Nichols, President-Elect, WDSI

Raymond Hogler, Editor in Chief

## Editorial Board

Joseph R. Biggs

*California Polytechnic State University*

Henry Brehm

*University of Maryland*

Terry E. Dielman

*Texas Christian University*

Sung S. Kwon

*Rutgers University, Camden*

Moshe Hagigi

*Boston University*

Ronald H. Heck

*University of Hawaii at Manoa*

Richard C. Hoffman

*Salisbury State University, Maryland*

Willie Hopkins

*Colorado State University*

Shirley Hopkins

*University of Denver*

Marc T. Jones

*University of Otago, New Zealand*

Erdener Kaynak

*Pennsylvania State University*

Thomas Kelly

*State University of New York, Binghamton*

George R. LaNoue

*University of Maryland*

Eldon Y. Li

*California Polytechnic State University*

George A. Marcoulides

*California State University, Fullerton*

John Preble

*University of Delaware*

Arie Reichel

*Ben-Gurion University of the Negev, Israel*

Elizabeth L. Rose

*University of Auckland, New Zealand*

Anne S. Tsui

*Hong Kong University of Science and Technology*

Michael Useem

*University of Pennsylvania*

# **JBM** JOURNAL OF BUSINESS AND MANAGEMENT

---

**Volume 10, Number 1, Spring 2004**

## **TABLE OF CONTENTS**

From the editor's desk <i>Raymond L. Hogler</i>	vi
<hr/>	
The Sarbanes-Oxley Act of 2002: An Analysis of and Comments on the Accounting-Related Provisions <i>Cecily Raiborn, &amp; Chandra Schorg</i>	1-13
<hr/>	
A Question of Fit: The Links among Environment, Strategy Formulation, and Performance <i>Robert J. Harrington, David J. Lemak, Richard Reed, &amp; Kenneth W. Kendall</i>	15-38
<hr/>	
Retrenchment in Declining Organizations: Towards an Integrative Understanding <i>John D. Francis, &amp; Timothy L. Pett</i>	39-52
<hr/>	
Business Faculty Job Selection: Factors Affecting the Choice of an Initial Position <i>Steven C. Hunt</i>	53-71
<hr/>	
An Examination of Salient Factors Affecting Expatriate Culture Shock <i>Robert H. Sims, &amp; Mike Schraeder</i>	73-87
<hr/>	





## FROM THE EDITOR'S DESK

*JBM* is now embarking on its tenth year of publication. This issue is the first in Volume 10 and contains timely and informative articles on the Sarbanes-Oxley Act, academic job markets, strategic theory, and expatriate employees. I think you will find a useful mix of subject matter and research methods.

This issue also represents my last official activity as editor of *JBM*. For some time, WDSI officers have been engaged in a discussion about *JBM*'s future. I have agreed to assist the next editor in a transition from *JBM*'s location at Colorado State to its new home. Many details about the journal remain to be decided, including the nature and extent of WDSI's financial support for *JBM* and future expectations for the publication. If you have opinions regarding *JBM*, you should make those opinions known to the WDSI officers.

For my own part, editing *JBM* has been a rewarding experience. The rewards were working with authors, reviewers, and *JBM*'s readers. Our academic community rests on the willingness of individuals to support, encourage, and engage in scholarly research. Over the past four years, I've been fortunate to participate in the process and to work with dedicated and talented people from around the world. I very much appreciate the opportunity to have been of service.

Thanks to all of you who have an interest in *JBM*.

Raymond L. Hogler  
Professor of Management  
Colorado State University

## **The Sarbanes-Oxley Act of 2002: An Analysis of and Comments on the Accounting-Related Provisions**

Cecily Raiborn and Chandra Schorg, Loyola University New Orleans

*This paper reviews the most significant aspects of several accounting provisions (Titles I, II, III, and X) of the Sarbanes-Oxley Act of 2002, discusses some of their underlying rationale, and reflects on what appear to be some potential pitfalls in the Act or its enforcement. Finally, the ability of the Act to accomplish its goals is addressed.*

### **INTRODUCTION**

Lack of independence. Subversion of professional responsibilities. Financial irregularities. These phrases have, unfortunately, become common in today's business climate—so common, in fact, that the United States government could no longer sit idly by and listen to public outcries. It was time for an overt and decisive response to pressures for legislation addressing the wide-spread and financially devastating business scandals that had taken place in the preceding twelve-to-eighteen months: Enron, Global Crossing, Tyco, Adelphia, and WorldCom, to name just a few. After a gathering storm of momentum, Congress passed the Sarbanes-Oxley Act (SOX or the "Act") to address accounting reform, improve corporate governance, and restore investor confidence. The Act was signed into law by President George W. Bush on July 30, 2002.

The Sarbanes-Oxley Act is named for Senator Paul Sarbanes (D., Maryland) and Representative Michael Oxley (R., Ohio). This Act is probably the most monumental piece of legislation to impact corporations, their executives, and their independent auditors since the Securities and Exchange Act of 1937.

Sarbanes-Oxley has eleven specific provisions or titles (Table 1). However, for purposes of this paper, only the four starred sections (Titles I, II, III, and X) are discussed because of their direct relevance to the accounting profession. Although the section on financial disclosures with an emphasis on special purpose entities (SPEs) is also accounting-related, a discussion of SPEs is beyond the scope of this paper.

### **TITLE I: PUBLIC COMPANY ACCOUNTING OVERSIGHT BOARD**

The Public Company Accounting Oversight Board (PCAOB or "Board") has replaced the recently disbanded (March 31, 2002) Public Oversight Board, a regulatory body that was funded by public accounting firms. The PCAOB is a full-time, independent, nongovernmental, not-for-profit body that will oversee the audit function for public companies that are subject to securities laws. To fund its start-up, the Board received a \$1.9 million loan from the Treasury Department in 2002. Primary funding for the PCAOB will be provided by assessing a mandatory fee on publicly-held companies, mutual funds, and public accounting firms.



**TABLE 1**  
**Titles of the Sarbanes-Oxley Act of 2002**

Provision	Section Heading
Title I	Public Company Accounting Oversight Board*
Title II	Auditor Independence*
Title III	Corporate Responsibility*
Title IV	Enhanced Financial Disclosures
Title V	Analyst Conflict of Interest
Title VI	Commission Resources and Authority
Title VII	Studies and Reports
Title VIII	Corporate and Criminal Fraud Accountability
Title IX	White-Collar Crime Penalty Enhancements
Title X	Corporate Tax Returns*
Title XI	Corporate Fraud and Accountability

Fees can be assessed and collected from companies having an average monthly market capitalization of more than \$25 million and on mutual funds having a net asset value of more than \$250 million. It is estimated that approximately 87 percent of the Board's funding will be provided by corporations and the maximum annual corporate fee will be approximately \$1.3 million (Burns, 2003) and the largest fee for accounting firms is \$390,000 (Norris, 2003).

The Board is to be comprised of five people (two practicing or non-practicing Certified Public Accountants (CPAs) and three non-CPAs who understand financial statements, financial reporting, and audit responsibilities). Appointments will be made by the Securities and Exchange Commission (SEC) in consultation with the Federal Reserve Chairman and Treasury Secretary. Board members cannot hold other positions nor receive any payments, except for retirement benefits, from public accounting firms.

Constitution of the Board was shaky from the start. First, the annual salary levels for board personnel (\$556,000 for the chairman and \$452,000 for board members) was hotly debated, given that the President of the United States is paid only \$400,000; however, approval for the salaries was finally gained. Second, finding a chairman for the Board created additional difficulties. The first person selected for that position was former Federal Bureau of Investigation Director William Webster, who resigned quickly because of "a flap over his watchdog role at a company now facing fraud accusations" (Gordon, 2003). Webster's resignation required the appointment of Charles Niemeier as acting chairman. In April 2003, the SEC chose William McDonough, chief executive and president of the Federal Reserve Bank of New York to head the Board; Mr. McDonough was confirmed in June 2003. The remaining members of the newly constituted Board are Daniel Goelzer (term to expire in 2006), Kayla Gillan (2005), Willis Gradison, Jr. (2004), and Charles Niemeier (2003).

The SOX requirements for PCAOB registration seem to be having an impact on the availability of public accounting firms that want to audit publicly-held companies, making some people, including Senator Paul Sarbanes, wonder about the “increasing concentration” of the audit “industry” (Solomon, 2003). As of the end of August 2003, fewer than 90 of the 850-plus firms that performed public company audits for the prior year had registered (*CPA Firms*, 2003). Although the deadline for U.S. public accounting firms is October 22, 2003, there is an approximate 45-day review period for the registrations. Additionally, once a firm registers with the PCAOB, withdrawal from the practice of public company auditing may not be necessarily a quick and easy task: under a proposal made in July 2003, “accounting firms facing disciplinary action will be automatically barred from discontinuing registration with the Board ... [which] will have authority to delay other requests for registration withdrawal by as much as two years” (Rankin, 2003).

The PCAOB may be viewed by some as the savior of financial reporting and terminator of corporate fraud; others may view this body as the guardian of government interference and the annihilator of the auditing profession. One of the most important duties for the Board is the establishment of standards for auditing and related attestation, quality control, ethics, and independence standards to be used by public accounting firms that prepare and issue audit reports for SEC companies. In determining these standards, the Board may adopt auditing or other professional standards that have been issued or proposed by certain “designated” or “recognized” professional groups of accountants. The wording in the Act indicates that the Board could wholesale adopt, amend, or reject pronouncements such as the current American Institute of Certified Public Accountant (AICPA) Statements on Auditing Standards. It would seem likely that it would not behoove the Board to take a “start from scratch” attitude—but given the apparent failures in recent audits, there are likely to be some new recipes for audit preparation and implementation. However, at a public meeting on April 16, 2003, Board members “voted to take control of the auditing and other professional standard setting processes, effectively ending the 60-plus year era of self-regulation of the profession” (*Era of...*, 2003).

Given the Arthur Andersen LLP paper-shredding situation that occurred in the Enron Corporation case, it is no surprise that retention of audit work papers is specifically mentioned in the Act. Partially in response to the Enron fiasco, the Auditing Standards Board (ASB) issued Statement on Auditing Standards (SAS) No. 96, Audit Documentation, in January 2002. This SAS replaced SAS No. 41, but retained that statement’s record retention policy: audit documents should be kept long enough to meet the firm’s needs and “to satisfy any legal or regulatory requirements of record retention” (ASB, 2002). It appears, however, that SAS No. 96 did not provide substantial enough guidance. Under Sarbanes-Oxley, public accounting firms are mandated to “prepare, and maintain for a period of not less than 7 years, audit work papers, and other information related to any audit report, in sufficient detail to support the conclusions reached in such report” (Congress, Sec. 103(a)(2)(A)(i)). Section 802 of the Act discusses penalties for destruction of corporate audit records.

While this retention mandate appears reasonable on the surface, there are at least two potential underlying difficulties. First, who makes the determination of what documentation should be retained? This decision has generally been under the purview of the partner in charge of the engagement; when items are questionable, engagement partners typically



utilize the extensive consultation networks that exist in their firms. Possibly, document decisions of a "keep or kill" nature will need to be made by the audit engagement partner in conjunction with the concurring partner or independent reviewer who is required to be part of the audit process under the Act. If the parties agree on the relevance of a document, it would seem obvious that the document would be retained. However, if both parties agree to destroy documentation because it does not appear to be essential to support the audit opinion, will the engagement partner be more liable than the reviewing partner in the event that the documentation is requested in the event of an investigation? Or will the reviewing partner be more liable because of the oversight role?

Second, when is second-guessing allowed as to the propriety of the decision to destroy documents? Most auditing firms have document retention (or, depending on the viewpoint, document destruction) policies in place. Such policies, as well as basic common sense, would recognize that shredding documentation after an investigation has begun would be construed, at a minimum, as an audit flaw; at maximum, shredding has been legally designated as an obstruction of justice. But, in the general process of performing an audit engagement, the idea of retaining all drafts, e-mail, or staff review notes seems both impractical and overly burdensome. What might originally have been prepared as an innocent comment or question could, under this "pack-rat provision," become a smoking gun in the eyes of the courts. Will *all* supporting documentation of *every* audit engagement need to be retained for seven years because there *may* be a possibility that a court case could ensue? Or will the probable, reasonably possible, and remote designations of the Financial Accounting Standards Board SFAS No. 5 on Accounting for Contingencies apply—although those designations certainly never would be considered to have conclusive and incontrovertible definitions? Additionally, there is an issue of who will bear the costs for storing and retrieving the documents or their electronic counterparts. Although approximately 95 percent of information in organizations is currently electronic in nature, electronic storage "creates its own headaches: as operating systems and other technologies evolve, there is no guarantee that records stored electronically will be able to be read in the future" (Violino, 2003).

The issue of document retention/destruction has already reached the legal battlefield. The first case of obstruction of justice prosecution based on the document destruction provisions of SOX occurred in September 2003 when federal agents arrested a former Ernst & Young audit partner for allegedly destroying audit work papers related to the NextCard, Inc., audit engagement (Bryan-Low & Weil, 2003); the outcome of this case remains to be seen at the time of this writing.

Under the Act, the audit report must describe the scope of testing performed on the client's internal control structure and procedures. The audit report, or a supplemental report, is required to (1) describe the findings from the tests, (2) evaluate whether the internal controls would provide reasonable assurance that transactions are properly recorded and are made with management authorization, and (3) describe any material weaknesses in the internal control system. This provision likely stems from the numerous instances in the recent business scandals of improper accounting, especially for revenues (such as Dynegy's illusory swap trades) and expenses (such as WorldCom's capitalization of current expenses). It is likely that these disclosure requirements will generally be included in a separate report because of the potential length of the discussion and be the cause of substantially greater compliance

and substantive testing by the auditor. The potential impact of this provision is difficult to assess, however, given that the PCAOB “has yet to issue standards regarding how many controls must be tested, in what manner, and according to what criteria” (Nyberg, 2003b).

It will be interesting to assess how, or whether, this provision creates a radically different audit process than that which currently exists—especially as it changed after the issuances in the 1970s of the “books and records” provision of the Foreign Corrupt Practices Act of 1977 (FCPA). At what point will the auditing firm be able to have finished its internal control tests and *not* be liable if, at some future time, it is found that one or more individuals at the client company did “knowingly circumvent or knowingly fail to implement a system of internal accounting controls or knowingly falsify any book, record, or account” (FCPA, 1977)?

Lastly, under this provision of Sarbanes-Oxley, the Board is mandated to conduct inspections of public accounting firms and their personnel to assess compliance with the provisions of the Act. The frequency of the inspections depends on the number of publicly-held company audits that are conducted by the firm. The Act, however, does not indicate in what depth the reviews are to take place—will “spot checks” or superficial, cursory reviews meet the letter (or the spirit) of the Act? If violations are found during these inspections, the Board can require testimony by audit firm members and production of audit documentation as well as institute remedial sanctions or disciplinary actions, including suspension or revocation of practice and civil monetary penalties. At least the first of these requirements was possibly driven by the reluctance of Arthur Andersen LLP personnel to testify about audit engagement activities.

### AUDITOR INDEPENDENCE

The second accounting-related element in Sarbanes-Oxley places major restrictions on public accounting firms’ ability to engage in certain types of services, two of which have become main-stream activities for most large firms: (1) financial information systems design and implementation and (2) internal audit outsourcing. An exception exists if the total amount of non-audit services is less than five percent of the annual revenues obtained from a client firm. The presumption underlying an external audit is that the auditing firm is independent from the client. This presumption may be weakened (or destroyed) if the firm is auditing an accounting or internal control system designed by its own personnel or developing external audit tests and procedures after relying on internal audit activities that were performed by its own personnel—regardless of the fact that consulting, internal audit, and external audit divisions may not be commingled in an office or a firm.

The independence element contained in Sarbanes-Oxley is not a new issue. As early as the 1950s, management consulting services were being addressed in professional literature. In 1957, a *Journal of Accountancy* article included the following comment: “On the question of maintaining independence and auditing work for a client who regularly seeks the accountant’s advice upon management problems or for whom various other management services are rendered, it is probable that all doubts as to complete independence cannot be avoided” (Mednick & Previts, 1987). However, as consulting became a more and more important primary revenue generator for the large public accounting firms, the following quote seemed to encompass the auditing industry’s attitude:



The SEC appears concerned about the potential lack of independence created by large consulting and internal audit relationships at audit clients. Apparently, the Commission believes the pure audit model would best serve the public interest. We do not believe there is any evidence that these relationships create actual independence conflicts. ... While the SEC may be genuinely trying to improve the audit process, in my view, they currently look confused and are taking a very simplistic approach to the independence issue. Unless it wants a legacy of destroying the best financial reporting, financial watchdog and capital formation system in the history of the planet, they need to step back and seriously assess long-term ramifications of their actions and opinions (Emerson, 2000).

The eyes examining this conflict of interest became more near-sighted and focused on the issue of independence in fact rather than the public's view of independence in appearance. In 2000, Enron reported paying Andersen \$25 million for audit services and \$27 million for non-audit work; a review of filings for 25 of the 30 companies comprising the Dow Jones Industrial Average indicated that their auditing firms were paid "2.73 times as much for non-audit services as they did for audit services" (Editorial Staff, 2002). After reviewing the audit-to-non-audit service fee disclosures (or proxy fee multiples) of reporting companies, then-Acting SEC Chairman Laura Unger pondered whether the auditor who is supposed to be the corporate watchdog could really be "in a situation to bark should the company attempt to steal some biscuits" (Editorial Staff, 2001). In hindsight, it sometimes seems that accounting firms' near-sightedness about independence issues looks more like total blindness.

On the other hand, the ratios being bandied about concerning the proportion of audit fees to non-audit fees may be slightly askew. Based on the SEC fee disclosure requirements, many client charges for items that will, in fact, find their way to the financial statements (such as accounting research performed to support the handling of a complicated tax issue) are currently classified as non-audit charges. Possibly, if the SEC classification standards were revisited and amended, the ratios might not look so disproportionate and a more meaningful and accurate calculation of audit fees would be determinable.

Additionally, it must be noted that non-audit work for audit clients should not necessarily be presumed to be inappropriate. Some non-audit services may, in fact, be invaluable in helping the auditing firm obtain a better understanding of the client than could be gained from simply performing a periodic audit. Such services may dramatically improve the auditors' ability to exercise professional judgment in performing audit. It is essential that auditing firms be able to continue to provide non-audit services that enhance audit preparation and performance as well as provide value to client management, while excising non-audit services that could impair independence in fact or in appearance. For example, tax services have been pointed to as generally being "appropriate" non-audit services as long as these services are approved by the company's audit committee; tax services (including tax planning activities) can assist in the audit process in the determination of the reasonableness of interperiod tax allocations and the recognition of deferred tax assets and liabilities.

A second major item under the independence provision is that the partner in charge of an audit engagement must be rotated every five years. This rotation provision is unsurprising, given one Enron juror's comment that "There was a lack of auditor independence. David

Duncan, we believe, got too close to Enron" (Weil, Barrionuevo, & Bryan-Low, 2002). Such a rotation process will, however, be costly. There will definitely be a learning curve as new partners take over engagements with which they have no familiarity. In case partner rotation may not be sufficient to inhibit fraternization with clients, the Comptroller General of the United States has one year from the enactment of Sarbanes-Oxley to study and report on the possible implications of requiring mandatory auditing firm rotations. Even if mandatory rotation is not required, some companies are beginning to think that it is a good idea. For example, in April 2003, Intel's audit committee indicated that it would consider changing auditors regularly in order to obtain "a fresh look" at its financial accounting and internal controls and would also "consider the advisability and ramifications of a formal rotation policy" (Hill, 2003).

The final important item in the independence title of the Act is a "red-shirt" provision. An auditing firm is barred from doing any audit work for a client if that client has hired, in an executive-level position (i.e., CEO, controller, CFO, or chief accounting officer), a member of the auditing firm who worked on the client's audit within the past year. This provision recognizes that audit firm alumni bring to their new positions substantial knowledge of how the audit engagement is planned and implemented, including details of audit testing that could be used to circumvent the audit process. This prohibition severely impacts the often-lauded aspect of working for a public accounting firm: the ability to move into client operations in high-level positions. A valid example of why such a provision might be seen as necessary is that, until 1997, every CFO and chief accounting officer in Waste Management's history had previously worked as an auditor at Arthur Andersen. The accounting fraud at Waste Management revealed "exaggerated" earnings of \$1.4 billion from 1992-1997, causing investors to lose approximately \$26 billion (Levitt, 2002).

### CORPORATE RESPONSIBILITY

One provision in this title of the Act requires that each publicly-held company have an audit committee, comprised of a majority of independent members, which will be responsible for appointing, compensating, and overseeing the work of the company's public accounting firm (Congress, Sec. 301). In theory, the idea of an independent and responsible audit committee is commendable. In practice, it may be difficult to achieve because the rash of corporate problems have caused "regulators, legislators, and litigious investors [to blame] directors for letting so much slip by" (Thornton & Lavelle, 2002). Prior to the passage of Sarbanes-Oxley, a McKinsey & Co. survey of 200 directors sitting on a total of 500 boards indicated that one-fourth either refused a new board seat or quit because of liability issues (Thornton & Lavelle, 2002). Since the Act, an executive recruiter has estimated that "90% of director candidates are turning down invitations to sit on boards" (Dunham, 2002). If the prestige of a board seat is not enough to entice outsiders to help manage a company, why would they now be willing to accept a position on the audit committee and be held responsible for the one entity (the public accounting firm) that has been considered, at least in part, the enabler of the majority of corporate evils that have occurred recently?

Additionally, this title of the Act contains the "Boy Scout oath" requirement for CEOs and CFOs. Certifications must be made periodically that each quarterly or annual report issued is truthful, does not omit any material facts, and *based on the officer's knowledge*, fairly



represents all significant aspects of the company's financial condition and results of operations for that reporting period. The italics were added in the last sentence because, in the event of misstatements in the future, it is important to note that finding an executive guilty of making a false certification rests with proving what he or she had knowledge of and when that knowledge arose. If executives certify the information knowing that it is false, they face fines under Section 906 of Sarbanes-Oxley of as much as \$5 million or imprisonment for as long as 20 years, or both. There seems to be a definite potential for corporate executives to adopt the military "don't ask, don't tell" rule as well as "if you don't tell, I can't either."

Certifications were first required under a June 27, 2002, SEC order directed at firms with annual revenues of \$1.2 billion or more (SEC, 2002a). Statements by top executives at about 700 of 950 firms with annual revenues of \$1.2 billion or more were due August 14, 2002, because those companies had calendar year-ends. The certifications can be viewed at the SEC web site ([www.sec.gov](http://www.sec.gov)) under the "CEO, CFO certifications" tag-line. These one-time oaths are not part of the Sarbanes-Oxley Act. The Act makes the filing of certifications mandatory for all SEC-registered companies, domestic and foreign, as well as mutual funds (Schroeder, 2002). Executives who were unable to meet the certification deadlines were required to file a statement of explanation, such as those that were filed by 16 company executives whose reports were due on August 14 (SEC, 2002b).

On August 14, 2002, two of the individuals who submitted such attestations were Richard M. Scrushy and Weston L. Smith, the CEO and CFO respectively, of HealthSouth Corporation. Both swore that "To the best of my knowledge, ... no covered report contained an untrue statement of a material fact as of the end of the period covered by such report ..." (HealthSouth, 2002). On March 20, 2003, the SEC charged HealthSouth (SEC, 2003a) and Mr. Scrushy with a \$1.4 billion accounting fraud; on April 1, 2003, fraud charges were filed against Mr. Smith (SEC, 2003b). Such a circumstance following in less than one year after the enactment of Sarbanes-Oxley makes one wonder about the effectiveness of the sworn statements.

Another important provision of the corporate responsibility section relates directly to the certifications issued by executives. The Act states that CEOs and CFOs must forfeit both bonuses or incentive-based pay received from the company and profits realized from the sale of company securities in the year following a restatement of earnings due to material misconduct or noncompliance with securities laws. This stipulation in the Act, as well as the one that denies executives the right to trade company stock during black-out periods required by employee retirement plans, should be lauded by everyone who has ever been harmed by the fall-out of management fraud. Executives will now be required to surrender the monetary benefits reaped from their misdeeds.

Previously, the right of "Pinocchio CEOs" to retain "their loot" was "an incentive to steal" rather than to perform (Lowenstein, 2002). In this provision, however, the Act, may not go far enough: who is the ultimate arbiter of whether the restatements result from "material misconduct or noncompliance" and when will the determination be made? Consider the arrest of the five executives at Adelphia Communications (Markon & Frank, 2002) and the indictment of two executives at WorldCom (Solomon & Pulliam, 2002) for organizational fraud as well as the trials of the CEO and CFO of Tyco International for "using the company

as their personal piggy bank" (Sorkin, 2003): will the ill-gotten gains still be available for access from the executives when all is said and done?

The issue of restitution has become more visible and, quite likely, more important to the investing public since the passage of Sarbanes-Oxley. However, there is a recent example of how restitution—even that which is not required by law—could fail to properly compensate the investment community. Gary Winnick, founder of Global Crossings (a collapsed "high-flyer" and, like Enron, an Arthur Andersen audit client), sold 25 percent of his shares for over \$730 million, while creditors and small investors suffered losses in the billions of dollars when the company filed for bankruptcy (Fabrikant & Romero, 2002). Accounting practices were investigated at the company, but the Justice Department announced that its investigation into Global Crossing would not lead to criminal charges (Hopkins, 2002). However, in October 2002, Mr. Winnick (who resigned on December 31, 2002) volunteered to use a mere \$25 million of his own funds to help "pay back pensioners who lost money in Global Crossing" (O'Shea, 2002). Given Winnick's reported compensation of \$512 million from 1999 to 2001 (Citizen Works, 2003), the paltry \$25 million probably should not be viewed as restitution, but merely an attempt to throw a bare bone to the starving investors, who are looking to regain a small portion of what they lost.

As to Richard Scrushy, the ousted CEO of HealthSouth, whose restitution will actually fall under the provisions of Sarbanes-Oxley, the SEC has, at least temporarily, frozen his assets. Mr., Scrushy earned \$68 million in salary and exercised \$55.5 million of stock options in 2002; but the SEC could seek \$785 million or more in damages and disgorgement of ill-gotten gains—more if insider trading is found (Reeves, 2003). Whether these restitution amounts can actually be obtained is one issue, and whether they are severe punishment or merely a slap on the wrist for Mr. Scrushy is yet another.

### CORPORATE TAX RETURNS

Title X is the shortest provision of Sarbanes-Oxley and states that the chief executive officer of a corporation *should* sign the corporate tax return. Unfortunately, the term *should* does not mandate the same degree of necessity as the term *must*. What recourse is there if a corporate executive refuses to sign the return? How can the board of directors (if that is the appropriate body) force executives to sign the tax returns? Should the corporate board of directors establish a mandate that insists on the signing of the tax return by the CEO and, if he or she does not sign, the CEO is admonished/penalized/terminated?

Potentially this wording will be clarified in that Section 511 of Senate Bill No. 1971 of the 107<sup>th</sup> Congress suggests changing the wording from "should" to "shall." Will such a change, though, cause wrongdoers such as Richard Scrushy to be any less leery of signing the tax return than did the provision to certify the accuracy of the financial statements? Or will the change make things more complicated and hard to enforce, given that a Deloitte & Touche survey indicated that "96 percent of corporate tax directors ... stated 'their CEO was not very knowledgeable' about [tax] issues reflected in the corporate tax return" (Nyberg, 2003a)?



## CONCLUSION

In the early part of the 20<sup>th</sup> century, when auditing was first developing into a profession, the "most important objective of audits was the discovery of errors and irregularities or even fraud, if it existed or was suspected" (Roth, 1969). As the profession changed and evolved, so did the audit objective until it arrived at an objective of providing "reasonable assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud" (ASB, 1997). However, the investing public's concept of an audit's purpose, for the most part, still resides in that objective from a century ago.

The Sarbanes-Oxley Act is not the first attempt to address corporate fraudulent financial reporting. The National Commission on Fraudulent Financial Reporting, generally known as the Treadway Commission, was created in 1985 to address issues of what then seemed to be a significant increase in corporate financial reporting frauds. Relative to public accountants, the Commission recommended a higher level of responsibility for detecting fraudulent financial reporting, improvements in audit quality especially relative to high-risk audit areas, and enhanced communications in the audit report about the limitations of finding fraud during an audit engagement. The 1992 Report by the Committee of Sponsoring Organizations (COSO) focused on the issues of internal control systems as a comprehensive means by which management may become more aware of, in part, the reliability of financial reporting and legal compliance.

The Auditing Standards Board, in recognition of the necessity for auditors to be a part of any widespread effort to minimize fraud in audited companies, issued Statements on Auditing Standards No. 54 (Illegal Acts by Clients, 1988), No. 82 (Consideration of Fraud in a Financial Statement Audit, 1997), and No. 99 (Consideration of Fraud in a Financial Statement Audit, 2002), which supersedes No. 82. Although it has always been the opinion of the accounting profession that management "is responsible for the prevention and detection of fraud and plays a significant role in deterring fraud by establishing a positive control environment and appropriate control activities" (Barnett, 1998), SAS No. 99 provides more detailed guidance on effective ways to detect fraud in financial statement audits in accordance with generally accepted auditing standards (GAAS) than its predecessors. Two important purposes of SAS No. 99 are to (1) enhance an auditor's awareness of warning signs of fraud and (2) enforce a company's awareness that the independent audit is simply one in an entire collection of tools that can be used to aid in the prevention and detection of fraud (Thomas and Porter, 2003).

The earlier attempts (exclusive of SAS No. 99) to create a basis from which the potential flood of fraudulent financial reporting might be stemmed obviously were less than successful. Neither the government, accounting profession, nor stock exchanges could possibly have foreseen the calamitous events that would occur in the bastions of business enterprise after the turn of the new century. SAS No. 99 was promulgated by the auditing profession and Sarbanes-Oxley was enacted by the government to embrace earlier directives and expand their scope. Businesses and auditors have been catapulted onto a stage with spotlight scrutiny under the Sarbanes-Oxley Act. SOX can either be viewed as a beam that will highlight all the flaws and ugliness in these entities or as a medium for illuminating the potential for guiding the way to a better market. Hindsight is a good thing; if only more attention had been

paid to the events of the 1980s and 1990s, some of the recent disasters might have been preventable.

The “expectation gap” that exists between what the public believes and what the profession (with limited audit engagement time and fees) can do looms large. Regardless of the fact that the majority of audits are performed with care and expertise and that the majority of executives are honest, the lack of public trust in what the auditing profession does is like a cancer that is metastasizing. Given the massive abuses that have battered the profession in recent years, it would seem that there are only two means of eliminating the expectation gap problem. The first alternative is to allow auditing firms to charge an audit fee that is large enough to cover all costs necessary to detect *any* instances of material fraud or misstatement in an organization and to earn a reasonable profit in addition to those costs. The second alternative is to educate the investing public (regardless of their financial literacy levels) as to why an audit is not a “Good Housekeeping Seal of Approval” that all is absolutely and undeniably right with the financial reporting in an audited firm. Unfortunately, neither of these alternatives is really feasible: thus, there will always be an expectation gap between what an audit is and what much of the public believes it to be. It is unlikely that the SOX legislation will eliminate the gap, but potentially time and education can help minimize it. Maybe instead the focus should not be on eliminating the expectation gap but eliminating financial fraud in organizations.

Laws such as Sarbanes-Oxley can be enacted to help curtail the financial shenanigans taking place in both the auditing firms and corporate offices. But laws, corporate codes of conduct, and professional codes of ethics are not, and have never been, substitutes for ethics. Maybe the solution is, in fact, to find ways to instill higher levels of ethics in the people in boardrooms and auditing firms. To quote Emerson, “There can be no high civility without a deep morality.”

## REFERENCES

- Auditing Standards Board (ASB). (1997). *Statement on auditing standards no. 82: consideration of fraud in a financial statement audit*. New York: AICPA.
- Auditing Standards Board (ASB). (2002). *Statement on auditing standards no. 96: audit documentation*. New York: AICPA.
- Barnett, A. H., Brown, J. E., Fleming, R., & Read, W. J. (1998, May). The CPA as fraud-buster. *Journal of Accountancy*, 69-73.
- Bryan-Low, C., & Weil, J. (2003, September 26). Former partner at Ernst is arrested. *Wall Street Journal*, pp. A3, A10.
- Burns, J. (2003, August 6). Companies, funds get look at cost of oversight board. *Wall Street Journal*, C9.
- Citizen Works. (2003). *The many faces of corporate greed*. Retrieved April 29, 2003 from <http://www.citizenworks.org>.
- Congress of the United States of America. (2002). Sarbanes-Oxley Act of 2002. Retrieved August 27, 2002 from <http://www.findlaw.com>.
- CPA firms are backing away from offering auditing services (2003). *Accounting Web*. Retrieved August 27, 2002 from <http://www.accountingweb.com>.
- Dunham, K. (2002, August 29). Reforms turn search for directors into a long, tedious task. *Wall Street Journal*, pp. B1, B3.



- Editorial Staff (2001, July 23). Audit conflicts are worse than originally thought, Unger says. *Investor Relations Business*, pp. 4-5.
- Editorial Staff (2002, June 3). Many companies fail to address auditor independence. *Investor Relations Business*, p. 1.
- Emerson, James (2000). *Emerson's 2000 Big Five Annual Report*. Bellevue, WA: The Emerson Company.
- Era of self regulation comes to an end. (2003). *Accounting Web*. Retrieved April 17, 2003 from <http://accountingweb.com/cgi-bin/item.cgi>.
- Fabrikant, G., & Romreo, S. (2002, February 11). How executives prospered as Global Crossing collapsed. *New York Times*, p. C1.
- Foreign Corrupt Practices Act. (1977, as amended). 15 U.S.C. §§ 78dd-1, *et seq.*
- Gordon, M. (2003, April 16). SEC picks new accounting watchdog. *New Orleans Times-Picayune*, p. C-5.
- HealthSouth Corporation. (2002). *Form 8-K, Item 9 Statement under oath of principal executive officer and principal financial officer regarding facts and circumstances relating to Exchange Act filings*. Retrieved August 14 from <http://www.sec.gov/archives/edgar/data>.
- Hill, A. (2003, April 3). Intel to invite bids for its audit business. *New York Times*. Retrieved April 3, 2003 from <http://www.nytimes.com>.
- Hopkins, J. (2002, December 30). Justice ends scrutiny of Global Crossing. *USA Today*. Retrieved December 30, 2002 from <http://finance.pro2net.com>.
- Levitt, A. (2002). *Take on the street*. New York: Pantheon Books.
- Lowenstein, R. (2002, August 16). Make Pinocchio CEOs pay. *Wall Street Journal*, p. A8.
- Markon, J. & Frank, R. (2002, July 25). Five Adelphia officials arrested on fraud charges. *Wall Street Journal*, pp. A3, A6.
- Mednick, R. & Previts, G. J. (1987, May). The scope of CPA services: a view of the future from the perspective of a century of progress. *Journal of Accountancy*, 220-228.
- Norris, F. (2003, August 5). Accounting oversight board begins sending out its bills. *New York Times*. Retrieved August 5, 2003 from [www.nytimes.com](http://www.nytimes.com).
- Nyberg, A. (2003a, August). Signature move. *CFO*, p. 18.
- Nyberg, A. (2003b, September). Sticker shock. *CFO*, pp. 51ff.
- O'Shea, D. (2002). Rethinking reform. *TelephonyOnline.com*. Retrieved April 25, 2003, from <http://analysiscorner.telephonyonline.com/microsites/newsarticles.asp>.
- PCAOB lists public accounting firm registration applicants. (2003, August 28). *Accounting Web*. Retrieved August 28, 2003 from [www.accountingweb.com](http://www.accountingweb.com).
- Rankin, K. (2002, July 29). PCAOB warns: Registration might be forever. *Accountants Media Group*. Retrieved July 29, 2002 from <http://pracpub.printhis.clickability.com>.
- Reeves, J. (2003, April 5). SEC seeks millions from ousted CEO. *New Orleans Times-Picayune*, pp. C5.
- Roth, J. (1969). The role of the auditor. In John Burton (ed.), *Corporate Financial Reporting: Conflicts and Challenges* (pp. 245-258). New York: AICPA.
- Schroeder, M. (2002, August 28). SEC gives broad interpretation of rules for accounting statute. *Wall Street Journal*, p. C4.
- Securities and Exchange Commission (SEC). (2002a, June 27). *File No. 4-460: Order requiring the filing of sworn statements pursuant to Section 21(a)(1) of the Securities Act of 1934*. Retrieved August 28, 2002 from <http://www.sec.gov/rules/other/4-460.htm>.

- Securities and Exchange Commission (SEC). (2002b, August 20). *SEC staff completes processing of CEO, CFO statements*. Retrieved August 28, 2002 from <http://www.sec.gov/news/press/2002-125.htm>.
- Securities and Exchange Commission (SEC). (2003a). *Litigation release 18044: SEC charges HealthSouth Corp., CEO Richard Scrushy with \$1.4 billion accounting fraud*. March 20.
- Securities and Exchange Commission (SEC). (2003b). *Litigation release 18059: SEC charges William T. Owens and Weston L. Smith in connection with the HealthSouth accounting fraud*. April 1.
- Solomon, D. (2003, July 24). Sarbanes and Oxley agree to disagree. *Wall Street Journal*, pp. C1, C7.
- Solomon, D., & Pulliam, S. (2002, August 29). U.S., pushing WorldCom case, indicts ex-CFO and his aide. *Wall Street Journal*, pp. A1, A4.
- Sorkin, A. R. (2003, September 30). 'We are ready for it,' ex-chief of Tyco says as his trial begins. *New York Times*, Retrieved September 30, 2003 from <http://www.nytimes.com>.
- Thomas, C. W., & Porter, M. (2003, March/April). The new fraud standard: new dimensions in professional skepticism. *Today's CPA*, pp. 32-36.
- Thornton, E. & Lavelle, L. (2002, July 29). It's getting tough to fill a boardroom. *Business Week*, 80-81.
- Violino, B. (2003, Summer). File under 'nightmare'. *CFO-IT*, pp. 60-63.
- Weil, J., Barrionuevo, A. & Bryan-Low, C. (2002, June 17). Andersen win lifts U.S. Enron case. *Wall Street Journal*, pp. A1, A10.
- Whitman, J. (2003, March 25). Sarbanes-Oxley begins to take hold. *Wall Street Journal*, p. C9.



## A Question of Fit: The Links among Environment, Strategy Formulation, and Performance

Robert J. Harrington, Nicholls State University

David J. Lemak, Washington State University at Tri-Cities

Richard Reed and Kenneth W. Kendall, Washington State University

*This study replicates and extends previous research on strategy formulation. Specifically, it examines the effect that environmental dynamism has on realized strategies that were initially intended versus those that emerged during the formulation process. We argue that firms match their strategy-formulation process with the level of dynamism, and that a fit between the balance of deliberate and emergent strategies with the environment enhances financial performance. Support for those arguments was found using a sample of firms drawn from industries that allowed us to maximize dynamism heterogeneity.*

The strategy literature is rich with studies that examine specific aspects of the strategic process. For example, it has been addressed in terms of strategic decision-making (e.g., Eisenhardt, 1989; Sharfman & Dean, 1997), strategy implementation (e.g., Bryson & Bromiley, 1993; Nutt, 1989), and planning (e.g., Bracker & Pearson, 1986; Rhyne, 1986; Hopkins & Hopkins, 1997), with the latter receiving the most research attention. In the empirical tests of the relationship between strategic planning and performance, the findings have provided mixed results (Boyd, 1991; Miller & Cardinal, 1994). Researchers have suggested this outcome may arise from things like the use of unidimensional constructs, inconsistent measures, and a lack of controls for other theoretically important variables (Boyd, 1991; Brews & Hunt, 1999; Miller & Cardinal, 1994). Conceptual and methodological developments have, however, been made (Brews & Hunt, 1999; Mueller, Mone, & Barker, 2000), and the purpose of this work is to build upon this new and improved base. Specifically, we focus on the proportion of planned versus unplanned parts of firms' strategy as it is eventually realized, how the environment influences it, and how it affects performance. We thus draw on the notion of deliberate and emergent strategies (Mintzberg & McHugh, 1985; Mintzberg & Waters, 1985). Deliberate strategies are defined as "intentions realized" from strategies that are formulated in advance, whereas an emergent approach produces evolving strategic patterns "despite or in the absence of intentions" (Mintzberg & McHugh, 1985, p. 161). A major contribution this study makes is to develop and operationalize a more comprehensive version of the deliberate-emergent construct than has been done to date.

We adopt a contingency perspective by arguing that an effective strategic process depends in large part on the nature of the environment in which the organization operates (Scott, 1998). This contingency approach is consistent with previous strategy research (e.g., Ansoff, 1987; Bourgeois & Brodwin, 1984; Chaffee, 1985; Grandori, 1984; Hart, 1992; Mintzberg, 1973; Mintzberg & Waters, 1985; Nonaka, 1988), and with the notion that "fit" with the environment improves firm performance. We define fit as "matching" (Venkatraman, 1989).

In the following sections, we explore the extant literature, develop theoretical arguments, and articulate our hypotheses. An explanation of the study's research design and the reporting of results follow, along with a discussion of our findings and their implications for future research.

### STRATEGIC PLANNING LITERATURE

Typically, strategic planning has been measured as level of formality, the number of written documents, planning horizon or comprehensiveness (e.g., Fredrickson, 1984; Fredrickson & Iaquinto, 1989; Fredrickson & Mitchell, 1984; Rhyne, 1985, 1986). Some researchers found a positive relationship with formal planners achieving higher performance (e.g., Thune & House, 1970; Karger & Malik, 1975; Robinson, Vorzikis, & Pearce, 1981) while others found no consistent relationship (e.g., Fulmer & Rue, 1974; Leontiades & Tezel, 1980; Robinson & Pearce, 1983). While such studies have generated mixed results—a positive, negative, or no relationship with performance (Pearce, Freeman & Robinson, 1987)—they do permit some interesting observations. First, Rhyne (1985) found that the environment affects the planning process. Second, planning persistence pays off (Bracker & Pearson, 1986; Brews & Hunt, 1999), but the type of strategic plans and processes seem to vary on a continuum whether described as structured/unstructured, formal/informal, comprehensive/non-comprehensive, or deliberate/emergent (Bracker & Pearson, 1986; Fredrickson & Iaquinto, 1989; Mintzberg & Waters, 1985; Rhyne, 1985). Third, the strategic-planning construct appears to be multi-dimensional in nature; differing findings may thus be a result of inconsistent or incomplete measurement (Brews & Hunt, 1999; Mueller et al., 2000).

As already suggested, divergent findings on planning and performance could largely be an artifact of methodological problems. Boyd and Reuning-Elliott (1998) indicated that measurement error (when using single indicators) would cause researchers to conclude that criterion variables are unrelated to planning 50 % of the time. Thus, a multi-indicator approach to the planning and performance constructs could reduce Type II error rates and substantially increase statistical power. Organizational size, industry, context, and timeframe are critical variables to be considered in strategic planning research. In addition, measurement validity is a central issue of concern in this stream of literature (Pearce, Freeman, & Robinson, 1987).

Mueller et al. (2000) suggested that the equivocal results arose from the confounding effects of a variety of constructs. They concluded that some of the equivocality was caused by a lack of decomposition of the planning-rationality construct into its component parts. Similarly, Brews and Hunt (1999) used a multidimensional measure to test the impact of planning-versus-learning approaches and the effect on firm performance. In their study, they decomposed the deliberate strategy construct into the specificity of strategic ends (e.g., objectives) and means (e.g., resource allocations). The types of ends and means, the number of ends and means, and how specific they were, measured the level of specificity. The specificity score for ends and means was a summed total of the types, number, and level of specificity. Although it was not shown in their study whether the difference in summed scores (between firms in stable and unstable environments) was caused by different types, numbers, or specificity of ends and means, their findings indicated that firms in unstable environments used higher specificity in strategic ends and means. This suggested to Brews and Hunt that the environment neither moderated the need for formal planning, nor the



direction of the planning-performance relationship. But, they noted that the environment did moderate planning capabilities and planning flexibility. Although the Brews and Hunt (1999) study was imperfect (i.e., the work relied upon self-report measures, for a relatively homogeneous sample, and used a one-item measure of planning flexibility) it does constitute a large step forward in this stream of research.

## CONSTRUCTS, THEORY, AND HYPOTHESES

### Environment

In the studies that have considered environmental effects (e.g., Eisenhardt, 1989; Hart & Banbury, 1994), the tendency has been to use an all-encompassing measure of uncertainty that is rooted in early conceptualizations of the environment (Lawrence & Lorsch, 1967; Thompson, 1967). Although Dess and Beard's (1984) multi-dimensional conceptualization has been widely adopted in organization research, it has been used by only a handful of scholars studying strategy formulation (e.g., Rhyne, 1985). Therefore, while it is widely recognized that dynamism, complexity, and munificence can affect the firm in numerous and different ways, knowledge of their impact on strategy formulation remains incomplete.

Dess and Beard's (1984) seminal work provides a theoretical and empirical characterization of dynamism as a construct that is separate from complexity. Dynamism is defined as unexpected change or change that is hard to predict (Dess & Beard, 1984). Quantitative measures used as a proxy for dynamism have included the volatility of net sales in an industry, and the volatility of operating income (Boyd, 1995; Dess & Beard, 1984; Keats & Hitt, 1988). Dess and Beard's (1984) definition for complexity reflected the geographic dispersion of activities in their sample, but complexity has been most often operationalized as the concentration (dispersion) of firms within an industry (e.g., Boyd, 1995; Keats & Hitt, 1988; Palmer & Wiseman, 1999; Rasheed & Prescott, 1992). Environmental munificence is defined as resource abundance and the resulting capacity to support growth (Dess & Beard, 1984).

Following the work of Brews and Hunt (1999), we consider the relative stability or instability of the environment (i.e. dynamism) to be the driving force in deliberate-emergent decisions of strategy formulation. But, to partial out the pure effects of dynamism from other environmental variables, we include environmental complexity and munificence as control variables.

### Deliberate versus Emergent Strategies

The question of whether strategy formulation is a rational and comprehensive process (the deliberate view) or a more incremental and trial-and-error type of approach (the emergent view) remains unanswered because, again, the results of empirical studies are mixed (Boyd, 1991; Brews & Hunt, 1999; Mueller et al., 2000). One reason may be the tendency to view deliberate and emergent strategies as dichotomous (Boyd, 1991), whereas the original conceptualization offered by Mintzberg and McHugh (1985) and Mintzberg and Waters (1985) described the two processes as ends of a continuum with multiple elements. We have adopted the original view in this study.

The deliberate perspective is based on an early view of strategic management that assumes a predictable environment and perfect foresight by managers. This perspective is typified by the work of Ansoff (1965), Andrews (1971), and Porter (1980), and is generally viewed as an analytical approach to strategy formulation, driven by formal structure and planning systems (Hart & Banbury, 1994). The ideas underpinning the emergent approach to strategy formulation were primarily promoted by Mintzberg and colleagues (Mintzberg, Ahlstrand, & Lampel, 1998; Mintzberg & McHugh, 1985; Mintzberg & Waters, 1985) and Quinn (1980). Many of those ideas are based on an earlier manuscript by Lindblom (1959) where he discusses "incrementalism" as part of the art of "muddling through." These concepts reflect the idea that strategy is developed within a group of strategic subsystems that use interactive learning, testing, and innovation to formulate and implement strategy in an iterative process (Quinn, 1980). The strategic process is thus seen as both a learning and a maneuvering process (Mintzberg et al., 1998) that allows managers to "make decisions as late as possible consistent with the information available and needed" (Quinn, 1980, 22) which, in turn, allows them to respond to the vagaries of a dynamic environment.

Because we view the deliberate and emergent approaches to strategy formulation as ends of a continuum, any change between what was intended and what is realized includes the "replacement" of deliberate with emergent strategies. Further, as Mintzberg et al. (1998) indicate, emergent strategies can be new, additional strategies, and can thus be additive in nature. Strategy makers may thus find that their original intentions are realized, but that additional strategies have also emerged during the strategic process. Therefore, following Mintzberg and colleagues, we propose that a more accurate differentiation between a primarily deliberate or emergent approach is a measure of strategy that is "realized" (Mintzberg's term). Realized strategy can be conceptualized as the combination of deliberate components (intentions defined in advance) and emergent components (the level of replacement and additive strategies). Consequently assessment of the deliberate-emergent nature of a firm's strategy formulation process should include factors that capture the complex nature of the phenomenon; i.e., the number of strategic ends and means, the types of ends and means, the level of specificity of ends and means, and the number of ends and means that are realized.

The concept of strategic ends and means is well established and has been widely used in the strategic-management literature (e.g., Andrews, 1971; Chandler, 1962; Hofer & Schendel, 1978). Brews and Hunt (1999) argued that high specificity of ends and means is consistent with a deliberate approach, and low specificity is consistent with a more emergent approach. This basic idea is sound, but it does not go far enough. Mintzberg and McHugh (1985) described the emergent approach as "despite or in the absence of intentions" (p. 161), which implies that movement on the deliberate-emergent continuum also reflects emergent strategies replacing intentions as well as emergent strategies modifying intentions. Therefore, a measure of the emergent elements of strategy formulation should include the number of changes to intended strategies, the magnitude of change to intended strategies, and the number of additive strategies that emerge between intended and realized strategies.

### Hypotheses

While dynamism does not seem to have a strong relationship with firm planning *per se* (Brews & Hunt, 1999; Miller & Cardinal, 1994), research has suggested that it may impact



flexibility and adaptability, particularly with regard to strategic ends and means (Brews & Hunt, 1999; Mintzberg et al., 1998). Because unexpected change created by dynamism is difficult to plan for, it is likely that firms in a highly uncertain environment will value flexibility and will have strategies that are more emergent in nature (Chaffee, 1985; Fredrickson & Mitchell, 1984; Mintzberg et al., 1998). Thus, higher levels of change in a firm's environment will result in strategic patterns emerging over time (e.g., Mintzberg et al., 1998; Mintzberg & McHugh, 1985; Mintzberg & Waters, 1985; Quinn, 1980), and this is thought to occur either *despite* intentions in advance or in the *absence* of intentions (Mintzberg & McHugh, 1985). Consequently, there should be a positive relationship between the level of environmental dynamism and the emergent nature of a firm's strategic process. As dynamism increases, accurate predictions of the future become more difficult and strategy formulation, in terms of both ends and means, will become less deliberate and more emergent, and intended strategies will constitute a decreasing proportion of realized strategies. We therefore postulate that firms in a more (less) volatile environment will create a smaller (greater) number of strategic ends and means, and these firms will reduce (increase) the level of specificity in those strategic ends and means. Therefore:

**H1a:** *There will be a direct and negative relationship between dynamism and the number of strategic ends.*

**H1b:** *There will be a direct and negative relationship between dynamism and the number of strategic means.*

**H2a:** *There will be a direct and negative relationship between dynamism and the level of specificity of strategic ends.*

**H2b:** *There will be a direct and negative relationship between dynamism and the level of specificity of strategic means.*

As dynamism increases, accurate predictions of the future become more difficult and strategy formulation—in terms of both ends and means—will also be increasingly emergent. In accordance with the arguments of Mintzberg & McHugh (1985), we postulate that firms in a more (less) volatile environment will have a higher (lower) number of new ends and means emerge during the strategic process, have a higher (lower) frequency of change that takes place in the ends and means (from intention to realized), and have a higher (lower) magnitude of change to ends and means (i.e. minor changes versus significant modifications). Intended strategies thus will constitute a decreasing proportion of actual strategies. Therefore:

**H3a:** *There will be a direct and negative relationship between dynamism and the strategic ends that are realized.*

**H3b:** *There will be a direct and negative relationship between dynamism and the strategic means that are realized.*

Contingency theory would suggest that a fit between the environment and the strategic process should have a positive effect on performance. From our arguments thus far, we can deduce that, all else being equal, firms operating in an environment with low (high) dynamism

should use a more deliberate (emergent) strategy formulation process. Because firms with a fit with their environment are utilizing their resources more efficiently and effectively in the strategic process, it is hypothesized that they will achieve higher relative performance than firms without a fit. Therefore:

*H4: Firms whose strategy formulation process fits their environment will have higher performance than those that do not have a fit.*

## METHODS

We have used both primary and secondary data to assess convergent and discriminant validity in our environmental and performance variables; environmental variables and firm performance were both calculated from archival sources (Boyd, 1995; Li & Simerly, 1998) and self-report measures. Survey responses were also used to establish strategy formulation dimensions for each firm.

### Sample and Procedures

We followed the method of Boyd (1995) and Li and Simerly (1998) and identified a sample frame of 56 industries (at the 4 digit SIC code level) using information provided in U.S. Industry & Trade Outlook for the years 1995-1999. This period gave us five years of the most recent available data for our longitudinal design. From the initial examination, we selected 18 industries that maximized heterogeneity on the dynamism dimension to ensure a sufficient level of variation to increase the power in our tests of hypotheses. This process was consistent with contingency-theory studies going back nearly 35 years (Lawrence & Lorsch, 1967).

Our survey instrument contained both intact and modified scales used in previous studies, as well as some new items (see Appendix). The validity and reliability of the intact items are well documented (Brews & Hunt, 1999; Hart & Banbury, 1994). Modifications were improvements (e.g., making the measure of strategic ends more specific), whereas most of the new items were, by necessity, developed to measure emergent strategies. To assess the impact of modifications and new scale items in the instrument, two pretests were performed. The first pretest of the instrument was done using a group of 21 executives and managers. Based on this initial pretest, several changes were made. After these changes, a second pretest of the instrument was done using input from a different group of 12 executives and managers. Based on the feedback from the second pretest, the final instrument received only minor changes.

*Mailing Procedures.* The self-report survey was administered following a modified Dillman (2000) procedure. The initial mailing, which went out to 490 top executives (senior VP and above) resulted in 68 usable responses from firms in 18 different industries. The response rate of 14% was comparable to other recent surveys of this population (Agle, Mitchell, & Sonnefeld, 1999; Isobe, Makino, & Montgomery, 2000; Simons, Pelled, & Smith, 1999). To assess the presence of non-response bias in our data, we compared the firms that responded to our survey to the entire sample on three characteristics: sales, total assets, and percentage of service to manufacturing firms. No significant differences were found.



## Measures

*Environment.* Dynamism was operationalized as a standardized measure of the volatility of industry sales growth rate over the 1995-1999 period. By regressing values of industry sales against time (1995-1999) and dividing the standard error of the regression slope coefficient of the time dummy by the mean value of industry sales, standardized indices of environmental dynamism were obtained (Boyd, 1995; Li & Simerly, 1998). Table 1 provides the measures of dynamism for the 18 industries used in this study. For the sake of completeness, Table 1 also includes measures for the environmental control variables of complexity and munificence.

**TABLE 1**  
**Industry Environmental Measures**

Industry	Dynamism	Complexity <sup>a</sup>	Munificence
General Components	0.0030	0.6918	0.0574
Photography Equipment/Supplies	0.0020	0.6259	0.0344
Book Publishing	0.0018	0.7496	0.0391
Household Appliances	0.0019	0.7777	0.0043
Motorcycles/Bicycles	0.0008	0.5140	0.0286
Musical Instruments	0.0024	0.5284	0.0389
Telecommunication Services	0.0013	0.9622	0.0855
Eating Places	0.0016	0.9344	0.0473
Pulp Mills	0.0401	0.3449	-0.0379
Plastic Material/Resins	0.0144	0.7882	0.0324
Printed Circuit Boards	0.0407	0.7997	0.0758
Construction Machinery	0.0215	0.2276	0.0401
Mining Machinery	0.0190	0.6551	-0.0373
Oil/Gas Field Machinery	0.0264	0.7285	0.0541
Aircraft - Aerospace	0.0226	0.4020	0.1361
Lawn/Garden Equipment	0.0074	0.7873	0.0316
Medical Supplies	0.0071	0.9422	0.0906
Management Consulting Services	0.0069	0.9015	0.1092

a The complexity score shown is the Herfindahl score (Boyd, 1995).

*Realized Strategy Ratio.* We constructed a ratio to be used as a proxy for firms' realized strategy. In line with our earlier argument that a weakness of previous empirical studies was treating deliberate and emergent strategies as distinct strategies, instead of ends of a continuum, we constructed a continuous (ratio) measure that is consistent with theory. The ratio measures both deliberate and emergent strategy in absolute and relative terms, which we deemed to be more accurate than using simple scores on individual items:

$$R = (D-E)/(D+E)$$

where R is the measure of the realized strategy (from -1.0, purely emergent, to +1.0, purely deliberate), D is the measure of deliberate strategy (calculated as the number of strategies multiplied by their level of specificity), and E is the measure of emergent strategy (calculated as the frequency of change in strategies multiplied by the percentage of change). Note that this ratio can be used for both strategic ends and means.

*Fit.* We used two indicators to evaluate fit: the strategic-ends realized-strategy ratio and the strategic-means realized-strategy ratio. The breakpoints used to determine fit from these indicators were the mean values. Whether a firm was above or below the mean for each realized ratio gave an indication as to whether its process was predominantly deliberate or emergent. Using the "fit as matching" concept (mentioned earlier) a firm was considered to have a "fit" if there was a match between its environment and each indicator. Firms were coded 1 if placed in the fit group, 0 otherwise. Thus, each firm achieved a score of 0, 1, or 2 with 0 meaning no fit, 1 meaning a fit with one indicator, and 2 meaning a fit with both indicators.

*Performance.* Given that 56 % of the firms in our sample reported that they had been using their current strategy formulation process for 5 years or less, averaging performance across the study period was deemed inadequate for inferring causality in a fit-performance relationship. Therefore, to provide a sufficient level of stability and consistency, while still representing each firm's current situation, we used secondary data to assess performance for the past three years (1998-2000). Secondary data reflecting current situations were necessary for validity checks on the self-report measures of each firm's profitability, stock-price performance, and overall performance, relative to peers.<sup>1</sup>

Consistent with recent studies (e.g., Audia, Locke, & Smith, 2000; Simons et al., 1999), we calculated performance from the secondary data as change in profitability, rather than average profitability. This approach effectively controls for past performance, industry differences, and variance in performance across firms (again, see Simons et al., 1999). The change was measured as the slopes of the regressions of return on sales (ROS) and return on assets (ROA). Earnings before interest and tax were used to control for differences in debt levels and/or tax rates between firms.

## Controls

Based on previous research in this area, we chose to control for firm size, complexity, and munificence (Boyd, 1991; Miller & Cardinal, 1994; Pearce et al., 1987). Size has been conceptualized in a variety of ways in the literature (e.g., Hart & Banbury, 1994); we used what is probably the most common measure—the natural log of total employment for each firm (Keats & Hitt, 1988). Following the work of Boyd (1995), we operationalized environmental complexity as one minus the sum of squared market shares for all firms in an industry group with a resulting value that ranges from 0 to 1 (i.e. a Herfindahl score). A score approaching 1 implies greater complexity, while a score approaching zero implies less complexity (as in an oligopoly) (Boyd, 1995). Munificence was operationalized as a standardized measure of

<sup>1</sup> These self-report measures used a 5-point (quintiles) scale taken intact from Brews and Hunt (1999).



industry sales growth over a 5-year period. Measures of munificence were established by regressing values of industry sales against time over 5-years (1995-1999) and dividing the regression slope coefficient by the mean value of industry sales (Boyd, 1995).

### Validity and Reliability

Construct validity for munificence, dynamism, and complexity has been established elsewhere (Boyd, 1995; Boyd & Reuning-Elliott, 1998; Dess & Beard, 1984; Keats, 1988; Rasheed & Prescott, 1992) and, therefore, did not require further validation here. The conceptualization of a deliberate and emergent strategic process as a continuum has construct validity in the literature and some preliminary empirical support (Boyd, 1991; Boyd & Reuning-Elliott, 1998; Brews & Hunt, 1999; Mintzberg et al., 1998; Mintzberg & Waters, 1985).

To assess the convergent and discriminant validity between primary and secondary measures of dynamism and complexity, a multitrait-multimethod matrix was constructed (Campbell & Fiske, 1959; Venkatraman & Ramanujam, 1986). An analysis of the matrix showed that secondary industry measures did a good job of matching managers' perceptions of dynamism and complexity. Further, it was clear that dynamism and complexity were separate constructs.<sup>2</sup>

To assess reliability, we used Cronbach's alpha, with the traditional value of .70 as the threshold to demonstrate consistency. All of the environmental-variable scales used in previous research that were included in this study surpassed the .70 minimum, ranging from .86 to .91. The modified items measuring the deliberate dimension of strategy formulation came out at .80, but the newly developed items for the emergent dimension were somewhat low at .66. Given that we are breaking new ground, and this construct did not have the rich empirical support of the other well-established constructs used in this study, we concluded that this was an adequate level of reliability.

### Data Analysis

SPSS was used to run linear regression statistical tests. Size, complexity and munificence were included as controls in all tests to partial out their effects from hypothesized main effects. A visual inspection of the variable correlation matrices suggested that no problems of multicollinearity existed. A check for any violations in the assumptions was performed by inspecting residual plots, inspecting normal probability plots, and using Levene's Test of Equality of Error Variances. These three methods showed no evidence that parametric-test assumptions had been significantly violated.

Because of the possible artificial deflation of the standard deviation when using variables in fractional (proportional) form, secondary tests were performed with the variables transformed to arcsine (Cohen & Cohen, 1983). These tests produced the same results as the raw data, so only the tests using the raw data are reported. Fractional variables included dynamism, the realized ratios, complexity, and munificence.

---

<sup>2</sup> Because of space limitations, results are not shown; specific results are available from the first author.

## RESULTS

Descriptive statistics and Pearson correlations for variables used in testing the hypotheses are shown in Table 2. There is nothing particularly surprising or unanticipated in the correlations.

**Table 2**  
**Correlations and Descriptive Statistics**

Variables	Mean	s.d.	1	2	3	4	5	6	7	8	9
1 Size	2.91	.82									
2 Munificence	.065	.037	-.43**								
3 Complexity	.80	.20	-.25*	.46**							
4 Dynamism	.01	.01	.19	-.20	-.35**						
5 Number of Ends	3.53	.83	.29*	-.05	-.35**	.00					
6 Number of Means	6	1.95	.13	-.37**	-.35**	-.21+	.26*				
7 Ends Specificity	7.08	1.43	-.04	-.02	.09	-.59**	-.06	.19			
8 Means Specificity	7.12	1.59	-.01	.02	-.00	-.31*	.38**	.41**	.25*		
9 Realized Ratio Ends	-.31	.30	-.21+	-.17	.04	-.44**	.09	.34**	.38**	.42**	
10 Realized Ratio Means	-.26	.29	.25*	-.42**	-.09	-.20	.11	.57**	.16	.25*	-.46**

\*\*  $p < 0.01$

\*  $p < 0.05$

+  $p < 0.10$

## Tests of Hypotheses

As shown in Table 3, hypothesis 1a was not supported; the relationship was in the predicted direction but non-significant. Size ( $B = .31$   $p < .01$ ) and munificence ( $B = .25$   $p < .10$ ) had significant positive relationships with the number of strategic ends. In addition, complexity had a significant negative relationship ( $B = -.45$   $p < .001$ ). The results provide strong support for hypothesis 1b. The effect was in the predicted direction with a highly significant negative relationship between dynamism and the number of strategic means ( $B = -.38$   $p < .01$ ). The change in  $R^2$  indicated that dynamism explained 12% more of the variance in the number of means than did the restricted model alone (change in  $F = 10.61$ ). While munificence ( $B = -.28$   $p < .05$ ) and complexity ( $B = -.35$   $p < .01$ ) had a significant negative relationship with the number of strategic means, size had a non-significant one ( $B = .02$ ).



**TABLE 3**  
**Test of Hypothesis 1a & 1b: Number of Strategic Ends/Mean**  
**(Regression Results)**

	Strategic Ends: Restricted model	Average Number Full Model	Strategic Means: Restricted model	Average Number Full Model
<i>Control Variables</i>				
Size	.30*	.31**	-.03	.02
Munificence	.25+	.25+	-.24*	-.28*
Complexity	-.39**	-.45***	-.23*	-.35**
<i>Hypothesis Testing</i>				
Dynamism		-.17		-.38**
F	5.60**	4.76**	4.49**	6.55***
R	.46	.48	.43	.55
R <sup>2</sup>	.21	.23	.18	.30
Adj. R	.17	.18	.14	.26
Chg. R <sup>2</sup>		.02		.12
Chg. F		1.99		10.61**
df	3, 64	4, 63	3, 61	4, 60
N	68	68	65	65

All betas are standardized.

\*\*\*  $p < .001$

\*\*  $p < 0.01$

\*  $p < 0.05$

+  $p < 0.10$

As shown in Table 4, hypothesis 2a received strong support. The dependent variable for the overall test was calculated as the average level of specificity across all types of strategic ends. As predicted, there was a significant negative relationship between environmental dynamism and ends specificity ( $\beta = -.64$ ,  $p < .001$ ). The change in  $R^2$  indicated that dynamism explained 36% more of the variance in ends specificity than did the restricted model alone (change in  $F = 35.81$ ). The effects of size, munificence, and complexity were non-significant in the full model for strategic ends specificity. Similarly hypothesis 2b received strong support. The dependent variable for this test was the average level of strategic means specificity. Results indicated a negative, significant relationship between level of dynamism and strategic means specificity ( $\beta = -.36$ ,  $p < .01$ , change in  $F = 7.88$ ). The change in  $R^2$  indicated that dynamism explained 11% more of the variance in means specificity than did the restricted model alone. Again none of the control variables were significant in this test.

**TABLE 4**  
**Test of Hypothesis 2a & 2b: Level of Specificity in Strategic Ends/Mean**  
**(Regression Results)**

	Strategic Ends:	Specificity	Strategic Means:	Specificity
	Restricted model	Full Model	Restricted model	Full Model
<i>Control Variables</i>				
Size	-.05	.03	.00	.04
Munificence	-.09	-.09	.03	.03
Complexity	.12	-.09	-.02	-.13
<i>Hypothesis Testing</i>				
Dynamism		-.64***		-.36**
F	.28	9.28***	.01	1.98+
R	.11	.61	.03	.33
R <sup>2</sup>	.01	.37	.00	.11
Adj. R	-.03	.33	-.05	.06
Chg. R <sup>2</sup>		.36		.11
Chg. F		35.81***		7.88**
df	3, 64	4, 63	3, 64	4, 63
N	68	68	68	68

All betas are standardized.

\*\*\*  $p < .001$

\*\*  $p < 0.01$

\*  $p < 0.05$

+  $p < 0.10$

As shown in Table 5, the results provide strong support for hypothesis 3a. The relationship was in the predicted direction with a highly significant negative relationship between dynamism and the realized strategy ratio for strategic ends ( $\beta = -.47$   $p < .001$ ). The change in  $R^2$  indicated that dynamism explained 19% more of the variance in the realized ratio than did the restricted model alone (change in  $F = 18.02$ ). In addition, size ( $\beta = -.29$   $p < .05$ ) and munificence ( $\beta = -.37$   $p < .01$ ) had significant negative relationships with the realized ratio. The results also provide strong support for hypothesis 3b. The effect was in the predicted direction with a highly significant negative relationship between dynamism and the realized strategy ratio for strategic means ( $\beta = -.29$   $p < .01$ ). The change in  $R^2$  indicated that dynamism explained 7% more of the variance in the realized ratio than did the restricted model alone (change in  $F = 6.39$ ). While munificence ( $\beta = -.44$   $p < .001$ ) had significant negative relationship with the realized ratio, size ( $\beta = .13$ ) and complexity ( $\beta = .04$ ) had a non-significant one.



**TABLE 5**  
**Test of Hypothesis 3a & 3b: Realized Ratio of Strategic Ends/Mean**  
**(Regression Results)**

	Strategic Ends:	Realized Ratio	Strategic Means:	Realized Ratio
	Restricted model	Full Model	Restricted model	Full Model
<i>Control Variables</i>				
Size	-.34**	-.29*	.10	.13
Munificence	-.37**	-.37**	-.44**	-.44***
Complexity	.13	-.02	.13	.04
<i>Hypothesis Testing</i>				
Dynamism		-.47***		-.29**
F	3.48*	7.81***	5.16**	5.79***
R	.38	.58	.44	.52
R <sup>2</sup>	.14	.33	.20	.27
Adj. R	.10	.29	.16	.22
Chg. R <sup>2</sup>		.19		.07
Chg. F		18.02***		6.39**
df	3, 64	4, 63	3, 64	4, 63
N	68	68	68	68

All betas are standardized.

\*\*\*  $p < .001$

\*\*  $p < .01$

\*  $p < .05$

+  $p < .10$

The results for tests on fit and performance are shown in Table 6. Hypothesis 4 received only weak support. All three self-report measures were in the predicted direction but only one was significant. Profitability and stock performance had positive but non-significant relationships with our measure of fit. Overall performance had a significant positive relationship with fit ( $\beta = .24$   $p < .05$ ), and membership in the fit group explained 6% more overall performance variance (change in  $F = 4.73$ ). For archival measures of performance, there were no significant relationships. Both change in ROS and change in ROA had non-significant relationships with our measure of fit.

Size had a highly significant and positive relationship with all three self-report measures of performance: profitability ( $\beta = .41$   $p < .01$ ), stock performance ( $\beta = .41$   $p < .01$ ), and overall performance ( $\beta = .45$   $p < .001$ ). Munificence and complexity had non-significant relationships with the self-report measures of performance. Munificence had negative and significant relationship with both archival measures of change in performance: ROS ( $\beta = -.30$   $p < .05$ ) and ROA ( $\beta = -.28$   $p < .10$ ). Size and complexity had non-significant relationships with our archival measures of performance.

**TABLE 6**  
**Test of Hypothesis 4: Fit and Performance Relationships**  
 (Regression Results)

	Self Report Measures			Archival Measures	
	Profitability	Stock Performance	Overall Performance	ROS Trend	ROA Trend
<i>Control Variables</i>					
Size	.41**	.41**	.45***	-.09	-.09
Munificence	-.04	.13	.20	-.30*	-.28+
Complexity	-.02	-.20	-.04	.09	.16
<i>Hypothesis Testing</i>					
Fit Measure (0,1,2)	.13	.12	.24*	.07	-.01
F	3.84**	4.19**	4.46**	1.08	.92
R	.44	.46	.47	.26	.24
R <sup>2</sup>	.20	.21	.22	.07	.06
Adj. R	.15	.16	.17	.01	-.01
Chg. R <sup>2</sup>	.02	.02	.06	.01	.00
Chg. F	1.38	1.18	4.73**	.29	.01
df	67	67	67	66	65
N	68	68	68	67	66

All betas are standardized.

\*\*\*  $p < .001$

\*\*  $p < 0.01$

\*  $p < 0.05$

+  $p < 0.10$

## DISCUSSION

The findings in this study provide support for a contingency relationship between environmental dynamism and a firm's strategy formulation process. In line with theoretical arguments (e.g., Aldrich, 1979) and empirical findings (Dess & Beard, 1984; Rasheed & Prescott, 1992), we treated dynamism, complexity, and munificence as separate constructs. As per our hypothesized relationship, dynamism was consistently associated with emergent strategy formulation. The observed relationship for complexity and munificence was not consistent. Thus, the approach used in this study points to the importance of separating these environmental constructs, rather than the favored method of combining them both into a single measure.<sup>3</sup>

<sup>3</sup> The combination of dynamism and complexity is often justified by the argument that they interact to create "uncertainty." Second-guessing ourselves, we ran a *post hoc* check and found no meaningful evidence of an interaction effect (results not shown).



Two issues need to be reiterated here. First, our measurement of the deliberate-emergent construct is more sophisticated than those used in prior studies. The debate between Mintzberg (1990, 1991) and Ansoff (1991) typifies the view that firms' strategy formulation processes are either deliberate or emergent. Consequently, the norm has been to separate strategy formulation into deliberate and emergent categories. We treated it as a continuum to better tap into the idea that both approaches can be present in organizations. The notion of "requisite variety" suggests that a system should be as intricate as its environment, and because our measure is more intricate than previous ones, we contend that it captures the deliberate-emergent construct more completely and accurately than past efforts. Second, our measure of strategy formulation addresses the relative emphasis placed on deliberate and emergent approaches. Consequently, even with low (high) levels of dynamism, some emergent (deliberate) strategies were still evident. Because dynamism and its associated uncertainty are on a continuum, managers do not have an either/or approach to strategy formulation. Where Brews and Hunt (1999) argued that their finding of a relationship between uncertainty and planning specificity contradicts the "rigidity hypothesis" (Hart & Banbury, 1994), our findings move that argument to a new level—managers are cognizant of the environment and they respond by manipulating the strategy formulation process.

Futurists (e.g., Toffler, 1980) have long maintained that change in the environment is increasing at an increasing rate. That idea fits well with a steady stream of reports in the popular business press that managers have to deal with increasingly difficult and more competitive operating environments. In short, there is the belief and anecdotal evidence to suggest that dynamism is increasing. More dynamism means more uncertainty, and we may therefore expect firms increasingly to adopt a more emergent form of strategy formulation. Therefore, questions such as what sort of skills do managers need to best manage an emergent process, and how can an organization culture that is rooted in deliberate processes be changed to accommodate emergent strategy formulation, need to be addressed by future research.

We found limited support for a fit between dynamism and strategy formulation translating into improved performance. Our results support the contingency view only for a fit between environment and strategy formulation leading to higher overall performance as indicated by a self-reported measure. It is interesting to note that organization size was a particularly strong predictor of managerial perceptions of performance (accounting measures were not affected by size). Previous studies on strategy formulation and performance that have not controlled for size may thus have overstated their findings. Given conventional thinking on the relationship between industry growth and performance, it is somewhat surprising that munificence had very little effect on any of the self-report measures of performance but had a negative impact on change in ROS and change in ROA.

Our findings point to the importance of managerial skills as a valuable organizational resource (Polanyi, 1967) and their consequent implications for performance (Barney, 1991). A manager's ability to judge how deliberate or emergent the strategy formulation process should be (given the external environment) is a skill that is tacit and therefore difficult to imitate (Reed & DeFillippi, 1990). Thus, research is needed to identify the signals from the environment that managers use in their decisions on how to design or modify the strategic process. It would also be useful to identify how much they adjust the process in response to particular signals.

Although this study provides improvements over previous research designs, there are still some limitations that should be mentioned. Firstly, we have extended some established survey instruments to better tap into emergent strategies. We were careful to use the same format and we pre-tested the additional items but, obviously, a replication of this work, using a different sample, is needed to fully validate the instrument. Secondly, the lack of correspondence between self-report measures for performance and historical measures may reflect a lag effect; i.e., managers perceive improved performance that has not yet materialized. Thirdly, even with multiple years of archival data for our two non-subjective measures of performance (i.e., ROA, ROS) it is not possible to completely disentangle causality. A longitudinal study that explores performance before and after the implementation of a new strategy formulation process would confirm the causal direction. Fourthly, we believe the nature of our sample—varying firm size, multi-industry—makes the results generalizable, but it would be prudent to replicate the work using different populations (e.g., non-U.S. firms). Finally, although our survey response rate of 14% is in line with other studies, and there was no apparent response bias, it still has to be cited as a cause for concern. The fact that it is in line with the response rate achieved by others is troubling and suggests that, as a field of study, we either need a new approach for improving senior-management response rates, or we need to adopt alternative methods of eliciting information.

In conclusion, this study has made progress in untangling the relationship between environment and strategy formulation. We have shown that it is insufficient to see strategy formulation simply in terms of either deliberate or emergent strategies because firms can (and should) use both approaches, as dictated by environmental dynamism.

## REFERENCES

- Agle, B. R., Mitchell, R. K., & Sonnefeld, J. A. (1999). Who matters to CEOs? An investigation of stakeholder attributes and salience, corporate performance and CEO values. *Academy of Management Journal*, 42, 507-525.
- Aldrich, H. E. (1979). *Organizations and environments*. Englewood Cliffs, NJ: Prentice-Hall.
- Andrews, K. R. (1971). *The concept of corporate strategy*. Homewood, IL: Dow Jones Irwin.
- Ansoff, H. I. (1965). *Corporate strategy*. New York: McGraw Hill.
- Ansoff, H. I. (1987). The emerging paradigm of strategic behavior. *Strategic Management Journal*, 8, 501-515.
- Ansoff, H. I. (1991). Critique of Henry Mintzberg's 'The design school: Reconsidering the basic premises of strategic management'. *Strategic Management Journal*, 12, 449-461.
- Audia, P.G., Locke, E., & Smith, K. G. (2000). The paradox of success: An archival and laboratory study of strategic persistence following radical environmental change. *Academy of Management Journal*, 43, 837-853.
- Barney, J.B. (1991). Firm resources and sustained competitive advantage. *Journal of Management*, 17, 99-120.
- Barringer, B. R., & Bluedorn, A. C. (1999). The relationship between corporate entrepreneurship and strategic management. *Strategic Management Journal*, 20, 421-444.
- Bourgeois, L. J., III, & Brodwin, D. R. (1984). Strategic implementation: Five approaches to an elusive phenomenon. *Strategic Management Journal*, 5, 241-264.
- Boyd, B. K. (1991). Strategic planning and financial performance: A meta-analytic review. *Journal of Management Studies*, 28, 353-374.



- Boyd, B. K. (1995). CEO duality and firm performance: A contingency model. *Strategic Management Journal*, 16, 301-312.
- Boyd, B. K., & Reuning-Elliott (1998). A measurement model of strategic planning. *Strategic Management Journal*, 19, 181-192.
- Bracker, J. S., & Pearson, J. N. (1986). Planning and financial performance of small, mature firms. *Strategic Management Journal*, 7, 503-522.
- Brews, P. J. & Hunt, M. R. (1999). Learning to plan and planning to learn: Resolving the planning school/learning school debate. *Strategic Management Journal*, 20, 889-913.
- Burgelman, R. A. (1988). Strategy making as a social learning process. *Interfaces*, 8, 74-85.
- Bryson, J. M., & Bromiley P. (1993). Critical factors affecting the planning and implementation of major products. *Strategic Management Journal*, 14, 319-337.
- Campbell, D. T., & Fiske, D. W. (1959). Convergent and discriminant validation by the multitrait, multimethod matrix. *Psychological Bulletin*, 56, 81-105.
- Chaffee, E. E. (1985). Three models of strategy. *Academy of Management Review*, 10, 89-98.
- Chandler, A. (1962). *Strategy and structure*. Cambridge, MA: MIT Press.
- Cohen, J., & Cohen, P. (1983). *Applied multiple regression/correlation analysis for the behavioral sciences* (2<sup>nd</sup> ed.). Hillsdale, NJ: Lawrence Erlbaum Associates.
- Dess, G. G., & Beard, D. W. (1984). Dimensions of organizational task environments. *Administrative Science Quarterly*, 29, 52-73.
- Dillman, D. A. (2000). *Mail and telephone surveys: The total design method* (2<sup>nd</sup> ed). New York: John Wiley & Sons, Inc.
- Eisenhardt, K. M. (1989). Making fast strategic decisions in high-velocity environments. *Academy of Management Journal*, 32, 543-576.
- Fredrickson, J. W. (1984). The competitiveness of strategic decision processes: Extension, observations, future directions. *Academy of Management Journal*, 27, 445-466.
- Fredrickson, J. W., & Iaquinto, A. L. (1989). Inertia and creeping rationality in strategic decision processes. *Academy of Management Journal*, 32, 516-542.
- Fredrickson, J. W., & Mitchell, T. R. (1984). Strategic decision processes: Comprehensiveness and performance in an industry with an unstable environment. *Academy of Management Journal*, 27, 399-423.
- Fulmer, R. M., & Rue, L.W. (1974). The practice and profitability of long-range planning. *Managerial Planning*, 22, 6, 1-7.
- Grandori, A. (1984). A prescriptive contingency view of organizational decision-making. *Administrative Science Quarterly*, 29, 192-209.
- Hart, S. (1992). An integrative framework for strategy-making processes. *Academy of Management Review*, 17, 327-351.
- Hart, S., & Banbury, C. (1994). How strategy-making process can make a difference. *Strategic Management Journal*, 15, 251-269.
- Hofer, C., & Schendel, D. E. (1978). *Strategy formulation: Analytical concepts*. St. Paul, MN: West Publishing Company.
- Hopkins, W. E., & Hopkins, S. A. (1997). Strategic planning—financial performance relationships in banks: A causal examination. *Strategic Management Journal*, 18, 635-652.
- Isobe, T., Makino, S., & Montgomery, D. B. (2000). Resource commitment, entry timing and market performance of foreign direct investments in emerging economies: The case of Japanese international joint ventures in China. *Academy of Management Journal*, 43, 468-484.



- Karger, D. W., & Malik, Z. A. (1975). Long-range planning and organizational performance. *Long Range Planning*, 8(6), 60-64.
- Keats, B. W. (1988). The vertical construct validity of selected business economic performance measures. *Journal of Applied Behavioral Science*, 24(2), 151-160.
- Keats, B. W., & Hitt, M. A. (1988). A causal model of linkages among environmental dimensions, macro organizational characteristics, and performance. *Academy of Management Journal*, 31, 570-598.
- Lawrence P. R., & Lorsch, J. W. (1967). *Organization and environment managing differentiation and integration*. Boston, MA: Harvard University.
- Leontiades, M., & Tezel, A. (1980). Planning perceptions and planning results. *Strategic Management Journal*, 1, 65-76.
- Li, M., & Simerly, R. L. (1998). The moderating effect of environmental dynamism on the ownership and performance relationship. *Strategic Management Journal*, 19, 169-179.
- Lindblom, C. (1959). The science of "muddling through." *Public Administration Review*, 19, 79-88.
- Miller, C. C., & Cardinal, L. B. (1994). Strategic planning and firm performance: A synthesis of more than two decades of research. *Academy of Management Journal*, 37, 1649-1665.
- Mintzberg, H. (1973). Strategy-making in three modes. *California Management Review*, 16(2), 44-53.
- Mintzberg, H. (1990). The design school: Reconsidering the basic premises of strategic management. *Strategic Management Journal*, 11, 171-195.
- Mintzberg, H. (1991). Learning 1, planning 0. Reply to Igor Ansoff. *Strategic Management Journal*, 12, 463-466.
- Mintzberg, H., Ahlstrand, B., & Lampel, J. (1998). *Strategic safari*. New York: The Free Press.
- Mintzberg, H., & McHugh, A. (1985). Strategy formulation in an adhocracy. *Administrative Science Quarterly*, 30, 160-197.
- Mintzberg, H., & Waters, J. (1985). Of strategies deliberate and emergent. *Strategic Management Journal*, 6, 257-272.
- Mueller, G., Mone, M., & Barker, V., III. (2000). *Strategic decision making and performance: Decision processes and environmental effects*. Best Paper presented at the annual meeting of the Academy of Management Meeting, Toronto.
- Nonaka, I. (1988). Toward middle-up-down management: Accelerating information creation. *Sloan Management Review*, 29, 9-18.
- Nutt, P. C. (1989). Selecting tactics to implement strategic plans. *Strategic Management Journal*, 10, 145-161.
- Palmer, T. B., & Wiseman, R. M. (1999). Decoupling risk taking from income stream uncertainty: A holistic model of risk. *Strategic Management Journal*, 20, 1037-62.
- Pearce II, J. A., Freeman, E. B., & Robinson, R. B., Jr. (1987). The tenuous link between formal strategic planning and financial performance. *Academy of Management Review*, 12, 658-675.
- Polanyi, M. (1967). *The tacit dimension*. Garden City, NY: Anchor.
- Porter, M. E. (1980). *Competitive strategy*. New York: Free Press.
- Quinn, J. B. (1980). *Strategies for change logical incrementalism*. Homewood, IL: Richard D. Irwin, Inc.
- Rasheed, A. M. A., & Prescott, J. E. (1992). Towards an objective classification scheme for organizational task environments. *British Journal of Management*, 3, 197-206.

- Reed, R., & DeFillippi, R. J. (1990). Causal ambiguity, barriers to imitation, and sustainable competitive advantage. *Academy of Management Review*, 15, 88-102.
- Rhyne, L. C. (1985). The relationship of information usage characteristics to planning system sophistication: An empirical examination. *Strategic Management Journal*, 6, 319-337.
- Rhyne, L. C. (1986). The relationship of strategic planning to financial performance. *Strategic Management Journal*, 6, 319-337.
- Robinson, R. B. & Pearce, J. A. (1983). The impact of formalized planning on financial performance in small organizations. *Strategic Management Journal*, 4, 197-208.
- Robinson, R. B., Vozikis, G. S., & Pearce, J. A. (1981). *Stage of development as a contingency on the strategic planning performance relationship: An empirical study within a small firm environment*. Paper presented to the annual meeting of the Academy of Management, San Diego.
- Scott, W. R. (1998). *Organizations rational, natural, and open systems* (4<sup>th</sup> ed.). Upper Saddle River, NJ: Prentice-Hall, Inc.
- Sharfman, M. P., & Dean, J. W., Jr. (1997). Flexibility in strategic decision making: Informational and ideological perspectives. *Journal of Management Studies*, 34, 191-217.
- Simons T., Pelled, L. H., & Smith, K. A. (1999). Making use of difference: Diversity, debate, and decision comprehensiveness in top management teams. *Academy of Management Journal*, 42, 662-673.
- Thompson, J. D. (1967). Organizations in action. In J.M. Shafritz and J.S. Ott (Eds.), *Classics of Organization Theory* (4<sup>th</sup> ed., pp. 287-301). Orlando, FL: Harcourt Brace & Co.
- Thune, S. S., & House, R. J. (1970). Where long-range planning pays off. *Business Horizons*, 13(4), 81-87.
- Toffler, A. (1980). *The third wave*. London: Collins.
- Venkatraman, N. (1989). The concept of fit in strategy research: Toward verbal and statistical correspondence. *Academy of Management Review*, 14, 423-444.
- Venkatraman, N. & Ramanujam, V. (1986). Measurement of business performance in strategy research: A comparison of approaches. *Academy of Management Review*, 11, 801-814.

## APPENDIX

### SURVEY INSTRUMENT

**Section 1: Missions, Goals, and Objectives: WHAT** an organization intends to achieve.

1. If included in your firm's strategic plan, *first*, indicate the approximate **NUMBER** of missions, goals and objectives and, *second*, indicate **HOW SPECIFIC** (i.e. detailed specifics, quantified measures, time limits, etc.) you perceive each component to be. For example, if you determine that your firm has two mission statements that are highly specific, you would circle "2" for the number and maybe "8" for level of specificity.

Number of Each Component										Component Type	Specificity Level of Each Component									
Zero					Many						No Specifics					Fully Specified				
1	2	3	4	5	6	7	8	9	10	Mission Statement	1	2	3	4	5	6	7	8	9	10
1	2	3	4	5	6	7	8	9	10	Basic Business Purpose	1	2	3	4	5	6	7	8	9	10
1	2	3	4	5	6	7	8	9	10	Key Strategic Goals	1	2	3	4	5	6	7	8	9	10
1	2	3	4	5	6	7	8	9	10	Specific Financial Targets	1	2	3	4	5	6	7	8	9	10
1	2	3	4	5	6	7	8	9	10	Specific market share/sales growth statements	1	2	3	4	5	6	7	8	9	10
1	2	3	4	5	6	7	8	9	10	Key result areas/objectives for many/all areas of the firm	1	2	3	4	5	6	7	8	9	10



2. If included in your firm's strategic plan, *first*, indicate the **FREQUENCY OF CHANGE** (1 = never changes, 10 = continuously changing) in each component and, *second*, indicate the approximate **PERCENTAGE OF CHANGE** (i.e. the magnitude of change) that is expected or allowed during their execution. For example, if your firm's Key Strategic Goals receive changes very frequently and the changes are highly significant at approximately 70% change, you might circle an "8" for frequency of change and a "7" for percentage of change next to Key Strategic Goals.

Frequency of Change										Component Type	Percentage of Change									
Never					Continuously						Zero					100%				
1	2	3	4	5	6	7	8	9	10	Mission Statement	1	2	3	4	5	6	7	8	9	10
1	2	3	4	5	6	7	8	9	10	Basic Business Purpose	1	2	3	4	5	6	7	8	9	10
1	2	3	4	5	6	7	8	9	10	Key Strategic Goals	1	2	3	4	5	6	7	8	9	10
1	2	3	4	5	6	7	8	9	10	Specific Financial Targets	1	2	3	4	5	6	7	8	9	10
1	2	3	4	5	6	7	8	9	10	Specific market share/sales growth statements	1	2	3	4	5	6	7	8	9	10
1	2	3	4	5	6	7	8	9	10	Key result areas/objectives for many/all areas of the firm	1	2	3	4	5	6	7	8	9	10

3. Indicate the additional number of missions, goals and objectives that **EMERGE DURING THE EXECUTION OF YOUR FIRM'S STRATEGIC PLAN.**

Never    1    2    3    4    5    6    7    8    9    10    All Emerge

**Section 2: Strategies, policies, alternatives, programs and action plans. HOW** an organization intends to achieve its mission, goals and objectives.

4. Please indicate **HOW COMPREHENSIVE** you perceive your firm's strategies, policies, programs and action plans to be.

No Strategies/Plans    1   2   3   4   5   6   7   8   9   10    Highly Comprehensive Strategies/Plans

5. Please indicate the response that most closely describes the **NUMBER** of strategies, policies, alternatives, programs and action plans included in your firm's strategic plan.

Unspecified    1   2   3   4   5   6   7   8   9   10    Many

6. Indicate **HOW SPECIFIC** you perceive your firm's strategies, policies, alternatives, programs and action plans to be in general.

None    1   2   3   4   5   6   7   8   9   10    Totally Specified

7. Please indicate which response best describes **HOW** your firm's strategies, policies, alternatives, programs and action plans **ARE FORMED** (i.e. fully formed prior to execution, partially formed prior to execution, form during execution).

None Formed in Advance    1   2   3   4   5   6   7   8   9   10    Fully Formed in Advance

8. Please indicate the response that most closely describes the **NUMBER OF EXPECTED CHANGES** during execution of your firm's strategies, policies, alternatives, programs and action plans.

No Changes    1   2   3   4   5   6   7   8   9   10    All Continuously Change

9. Please indicate the approximate **PERCENTAGE OF CHANGE/ALTERATION** (i.e. the magnitude of change) that is expected and allowed (in strategies, policies, alternatives, programs and action plans) during execution.

Zero    1   2   3   4   5   6   7   8   9   10    100%

10. Indicate in general, the **NUMBER OF ADDITIONAL** strategies, policies, alternatives, programs and action plans that **EMERGE** during the execution of your firm's strategic plans and actions.

None    1   2   3   4   5   6   7   8   9   10    More than 10

11. Please select the one statement that indicates **HOW OFTEN** your firm's strategies, policies, alternatives, programs and action plans **ARE CHANGED**.

Never    1   2   3   4   5   6   7   8   9   10    Continuously

12. How many **YEARS** has your firm been utilizing its current strategy formulation process?

Less than    1   2   3   4   5   6   7   8   9   10    or More

**Section 3: Industry Ratings:** Please rate your firm's **PRIMARY** industry according to factors listed below.

13. Volatility in sales, on an annual basis	No Volatility	1	2	3	4	5	6	7	8	9	10	High Volatility
14. Volatility in earnings, on an annual basis.	No Volatility	1	2	3	4	5	6	7	8	9	10	High Volatility
15. Rate of change in technology.	Low Rate	1	2	3	4	5	6	7	8	9	10	High Rate
16. Rate of change in government regulation.	Low Rate	1	2	3	4	5	6	7	8	9	10	High Rate
17. Rate of product/service obsolescence.	Low Rate	1	2	3	4	5	6	7	8	9	10	High Rate
18. Degree of pressure to research and develop new products/services, applications, etc.	Low Pressure	1	2	3	4	5	6	7	8	9	10	High Pressure
19. Degree of difficulty in forecasting industry trends/developments/changes.	Low Difficulty	1	2	3	4	5	6	7	8	9	10	High Difficulty
20. Degree of technological complexity.	Low Complexity	1	2	3	4	5	6	7	8	9	10	High Complexity
21. Degree of complexity in the general business environment	Low Complexity	1	2	3	4	5	6	7	8	9	10	High Complexity
22. Degree that your actions directly affect your competitors.	Low Degree	1	2	3	4	5	6	7	8	9	10	High Degree
23. The number of firms relative to other industries.	Relatively Low	1	2	3	4	5	6	7	8	9	10	Relatively High



24. **Firm Performance Measures:** Please circle a choice in each line, which best indicates how your firm currently compares to peers in your **PRIMARY** industry.

Characteristic	NA	Lowest 20%	Next 20%	Middle 20%	Next 20%	Top 20%
a. Overall profitability/financial performance	XX	1	2	3	4	5
b. Stock price performance		1	2	3	4	5
c. Overall firm performance/success	XX	1	2	3	4	5

25. Please describe the primary industry from which your firm receives the majority of its revenue:

---

26. Please describe your current title/position with your firm:

---

27. Describe the primary responsibility or duty of your current position:

---

28. Approximately how many employees (in full time equivalents) does your organization employ?

---

## Retrenchment in Declining Organizations: Towards an Integrative Understanding

John D. Francis, Iona College

Timothy L. Pett, Wichita State University

*We address the debate among researchers and revisit the issue of whether retrenchment is a consequence of performance downturns or an integral strategic response. We build a model of factors and test their relationship to retrenchment (either the reduction of assets and expenses) for a sample of manufacturing firms dealing with ROI downturns. The results indicate that retrenchment is not ubiquitous to all firms undergoing decline. Instead this strategy is mainly employed depending on how severe or rapidly the decline occurred. Also, different forms of retrenchment are utilized depending on how productively the firm uses its human and capital resources.*

### INTRODUCTION

With the recent increase of business failures, the study of organizational decline and turnaround responses have taken on renewed importance. Most firms experience some type of downturn, whether due to external business factors or poor internal performance. However, the growing intensity of global competition and the complexity of organizational environments have caused this pattern to become increasingly familiar. With the broad range of issues and implications that are associated with decline and turnaround, the ability to formulate appropriate strategic responses is of prime consideration for management researchers and practitioners. This is, of course, made more difficult by the dysfunctional consequences of declining firms. These can include shrinking resources, poor morale, skeptical stakeholders, conflict, turnover, scapegoating, and time constraints (Cameron, Whetten, & Kim 1987; Hambrick 1985; Lohrke and Bedeian, 1998). Bibeault (1982) noted that most firms do not turn around, but cease to exist as independent entities.

It therefore follows that successful turnarounds are difficult and that many firms fail when experiencing deteriorating profitability and declining return on investment. This, of course, has several implications for researchers. Not only must the decline process be understood, as far as causality, but also the various responses to decline must be studied in order to determine the most appropriate strategy. The knowledge of what works when faced with deteriorating situations is of great relevance to firms, which find themselves in this position.

One typical organizational response to decline is retrenchment. This tactic incorporates the basic reduction of assets and expenses within the firm and necessitates many turbulent actions such as layoffs or divestments. While research has been undertaken on the impact of retrenchment within a turnaround attempt, little empirical analysis has been centered on developing an understanding of the retrenchment process itself. Debate on this topic continues

in the academic literature. During the latest economic downturn several firms have utilized layoffs and other forms of retrenchment clearly believing, that these measures will help them perform better in the long run. Many top managers argue that layoffs, combined with a careful revamping, can set the stage for growth. Some researchers suggest that retrenchment is an integral component of a firm's strategy, which enables it to improve its performance (Pearce & Robbins, 1994). Others, however, contend that companies that avoid cutting jobs reap huge benefits in loyalty and productivity. Recently, the *New York Times* reported that there is little real evidence that typical retrenchment activities such as layoffs actually help firms in the long run. Barker and Mone (1994) argue that retrenchment is merely a consequence of firm decline and not essential to achieve a turnaround.

Overall we agree with the latter position that while some firms utilize retrenchment during performance declines they are not essential for a turnaround and that the evidence is unclear as to the true benefits to this type of strategy (Barker, Mone, Mueller & Freeman, 1998). Therefore, the question remains—what influences a firm to utilize a retrenchment strategy besides merely a knee-jerk reaction to declining profitability? This research proposes to build on the existing literature by examining this issue in order to produce a clearer understanding of retrenchment activities and to provide illumination for the primary basis for this turnaround response.

## LITERATURE REVIEW

Retrenchment is one of the basic concepts in the organizational decline and turnaround literature, which is in itself very broad and diverse. Much of the research in this area posits that management must take an active role in overcoming organization decline (Barker, Patterson & Mueller, 2001; Barker & Mone, 1994; Bonnici & Fredenberger, 1994). A key conceptual work in the early formation of this research stream is Hofer's (1980) contingency theory for turnaround strategies. This study conceptualized the distinction between operational and strategic approaches to decline, defined as either improving efficiency or changing the firm's basic strategy in order to achieve a fit with environmental conditions. This dichotomy can also be understood using Tushman and Romanelli's (1985) convergence/reorientation framework. They describe convergence as consisting of actions being aimed at achieving greater consistency between an organization's strategy and internal activity. On the other hand, reorientation is a fundamentally different approach which involves complete changes in a firm's strategy, structure, power and control systems.

Early evidence of the importance of retrenchment to a firm's turnaround success is provided in a study by Hambrick and Schecter (1983). They compare the turnaround efforts of poor performing strategic business units, in terms of their pre-tax ROI as it relates to the cost of capital, and conclude that successful turnarounds of these units consist primarily of reductions in assets, costs and withdrawal from selective products and markets, not from wholesale strategic change. Other researchers similarly suggested that decreasing expenses or assets was a critical element in the turnaround process (Schendel, Patton & Riggs, 1976; Ramanujam, 1984; Thietart, 1988; Arogyaswamy, 1992).

As previously discussed, the perspective that decline strategies can be categorized as either convergence or reorientation responses generally prevails in the literature. Most researchers



include retrenchment as a primary ingredient of a convergence approach, yet not necessary to a strategic reorientation. However, Robbins and Pearce (1992) argue that understanding decline responses in this manner is inaccurate. Instead, retrenchment is a separate component within the turnaround effort and is appropriate regardless of whether a firm attempts an efficiency or strategic turnaround. They suggest that the purpose of retrenchment is to stabilize the declining organization so that a firm will have the means to attempt its recovery strategy. The findings of their research indicate that retrenching firms attain a better than average improvement than non-retrenchers and firms which successfully improve after experiencing severe declines are more likely to reduce assets. They also found that the severity of an organization's decline moderates the effect of retrenchment on its turnaround performance. In another study, Pearce and Robbins (1994) point out that instead of retrenching, many firms continue to increase asset and expenditures during their declines. Therefore, retrenchment should be evaluated as a specific tactic of deteriorating firms instead of simply a result of decline. They suggest that a better understanding of this issue is to view the reduction of assets and expenditures as a response to "steep" rather than "gradual" declines.

The arguments that retrenchment should be an element of any successful turnaround attempt set the stage for much debate. For example, Barker and Mone (1994) maintain that there is little evidence supporting the assertion that retrenchment is integral to turnaround success. They argue that instead, it is merely a consequence of performance declines resulting from the critical nature of the situation and that the actual performance of retrenching firms is not significantly better than that of non-retrenching firms.

More recently, Castrogiovanni and Bruton (2000) reexamined the issue of whether retrenchment and the addition of capital resources were essential to turnaround firms that were recently acquired. Their findings indicate that neither of these variables influences the turnaround of the firms in their sample providing evidence that retrenchment is not essential to turnaround. Similarly, in his recent book on restructuring, Cascio (2002) notes that employee downsizing does not necessarily lead to improved financial performance. These authors acknowledge that their studies have problems comparing their findings across different research contexts, however this evidence indicates that the debate concerning the importance of retrenchment and the factors that consistently lead to turnaround still open and in need for further research.

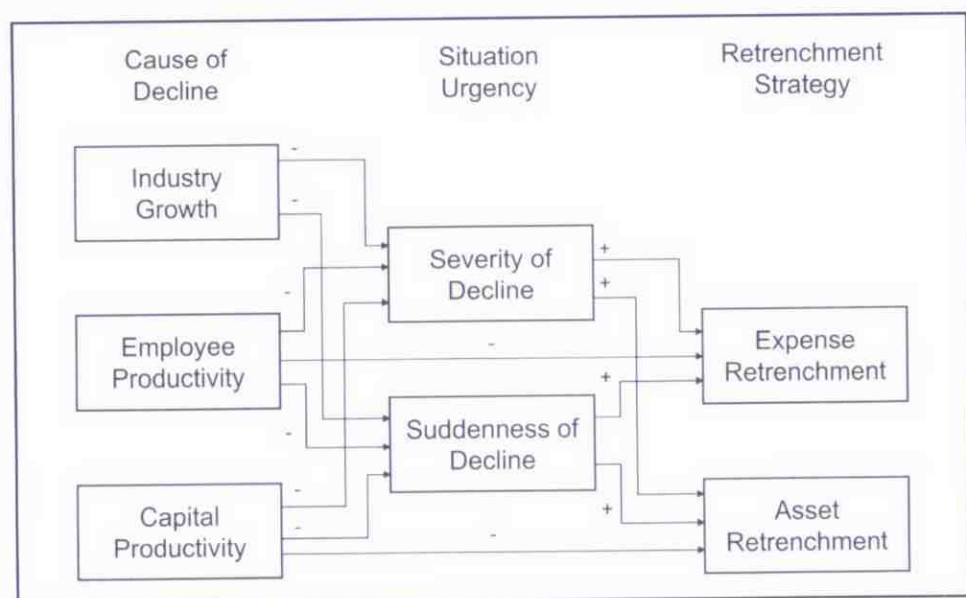
Overall, it is evident based on the number of firms that make asset and expense reductions that retrenchment is one of the primary strategies available to firms as they respond to performance difficulties. However, we feel that more recent studies (Barker & Mone, 1994; Cascio, 2002; Castrogiovanni & Bruton, 2000) indicate that retrenchment is not integral to turnaround. Therefore, it is important to understand what the factors are that drive a firm to retrench, beyond just the overall condition of performance decline.

### **THEORETICAL FRAMEWORK AND HYPOTHESES**

The question of what drives a firm's retrenchment activities is subject to various interpretations. Declining firms are faced with extreme pressures to reduce expenses and increase revenues and cash flows. Thus, in determining whether to initiate the turbulent actions surrounding retrenchment such as layoffs or plant closings, firms must consider

numerous financial, competitive, and operating dimensions. As can be discerned from the previous discussions, a retrenchment response is driven partly by the strategic orientation of the firm and by the requirements of the situation. This is inherent in the literature, which suggests that the nature of a turnaround attempt depends upon the sources of a firm's poor performance and the urgency of the decline crisis (Robbins & Pearce, 1992).

The sources of a firm's decline can be classified as either external to the firm, such as industry contraction, or internal to the firm, where performance is sub par to that of competitors and can be attributed to the actions of those within the organization (Whetten, 1987; Cameron, Sutton and Whetten, 1988). As for the urgency of the situation, Robbins & Pearce (1992) and D'Aveni (1989) provide methods for considering this dimension, suggesting that decline severity and the rapidity of the decline as important situational elements. Overall, we expect that aspects of the causes of decline and the urgency of the situation have important influences on why retrenchment is pursued by certain firms and not undertaken by others. Figure 1 conceptualizes the proposed relationship of these factors to firm retrenchment and attempts to integrate the various elements contained in the contrasting arguments.



**Figure 1. Research model.**

The model displays five factors as sub dimensions of decline source and situation urgency. It also indicates that two types of retrenchment must be considered. The first type is that of expense retrenchment, which simply refers to the reduction of firm expenditures. Typically, expense retrenchment refers to any reductions on the expense side of the ledger including salaries, inventories, leases, utilities, etc. The second type of retrenchment concerns asset reductions, which is entailed by the sell-off of firm property, plant and equipment. The literature suggests that expense retrenchment indicates a short-term response, whereas the reduction of assets denotes more long-term effects (Hofer, 1989; Robbins & Pearce, 1992). Therefore, in order to fully consider the construct of retrenchment the model includes both.



Figure 1 proposes that the causes of decline can impact the type retrenchment outcomes and are mediated by the urgency of the situation. The logic behind this type of influence is that whatever the source of decline, action will more likely occur if the firm is facing critical circumstances and less likely to occur if not. As such, the financial health of declining organizations may force them to respond in ways that are uncomfortable, yet necessary. Evidence of this is suggested in a study by D'Aveni (1989), who found that firms in declines with internal resource constraints were more extensively engaged in asset reduction activities. In a related study, Schendel, Patton, & Riggs (1976) maintain that severe performance downturns are more likely to cause management action than milder downturns. Also, Miller & Friesman (1977) indicate that firms which experience gradual declines are increasingly numb to activities in their external environment.

Figure 1 proposes that there are two aspects to situational urgency, which can mediate the cause of decline on the retrenchment response. The first measure concerns the extent or severity of the decline as conceptualized by Pearce & Robbins (1992). In their study, decline severity, which is associated with the overall financial health of the organization in the midst of decline, was found to moderate the effect of retrenchment on turnaround performance. Another factor discussed by D'Aveni (1989) in his study of declining firms suggests a different aspect of situation urgency. He proposed that there are patterns to decline in terms of how rapidly or gradually resources deteriorate, which can be classified as sudden, gradual, or lingering, and they suggest that a sudden decline produces an element of shock to the management of an organization through abrupt resource scarcity. In a study of firms with few than 500 employees, Chowdhury and Lang (1993) found that small firms do respond better to crisis declines rather than gradual declines. As Tichy and Devanna maintain (1986), this is similar to the "boiled frog" syndrome, where a frog will react instantaneously to hot water, but not if the water is gradually heated over time. These patterns along with the steepness of a firm's decline, as mentioned by both Barker & Mone (1994) and Pearce & Robbins (1994), illustrate important elements driving its retrenchment response. Therefore, this paper argues that the suddenness of a firm's decline along with its severity would have a positive relationship to retrenchment by dictating urgent action by the firm in responding to more urgent situations. The model includes both of these dimensions in order to capture separate, but associated elements of situation urgency.

Figure 1 also illustrates three sources of decline categorized as either an external or internal cause discussed earlier. The external-based measure is that of industry growth or contraction. This factor can be a source of firm decline regardless of whether it is a short-term cyclical phenomenon or a decline stage of an industry life cycle. Either of these industry actions may cause firms to struggle in maintaining market share and financial performance. O'Neill (1986) suggests that even firms with strong positions in their industry have to make adjustments to increase their performance in the midst of industry contraction. On the other hand, if an industry is expanding and firm rivals are expanding their businesses, the management of a declining firm could perceive that reducing business development expenses, such as marketing or research and development might lead to a future loss of business. Therefore, the external state of industry growth or contraction would influence a firm's decision to utilize retrenchment.



The same logic applies to declining industries. Harrigan (1980) maintains that reductions in expenses could have negative impacts for declining firms who want to remain viable competitors in a contracting industry. As such, this element of a firm's domain would affect the retrenchment response and could actuate a poor turnaround attempt. Therefore, retrenchment is not an automatic option if a declining firm's industry is contracting and should also be considered very carefully if the industry is growing and healthy. This reasoning suggests that there is no clear relationship between either industry contraction or growth and retrenchment. It can be argued, however, that there is an association between the industry's health and the urgency of a situation for a declining firm and that in this way its retrenchment activities would be influenced. In keeping with Industrial Organization theory, a declining firm in a shrinking industry would face increased pressure to respond appropriately, whereas many firms in healthy industries can perform at acceptable levels primarily due to industry membership (Porter, 1981). Therefore, Figure 1 posits that industry growth will not directly lead to retrenchment, yet will indirectly influence the retrenchment response through the urgency of the situation as measured by severity and suddenness. Thus, the model and previous arguments suggest the following hypothesis:

*H1: Industry growth is negatively related to severity and suddenness, which are positively related to both expense and asset retrenchment.*

Descriptions of internal sources of decline are numerous in the literature; however, our model concentrates on a dimension that is relevant to the ongoing competitiveness of the organization. Firm productivity is an encompassing construct that may include many dimensions of firm-based problems involving strategy, management, manufacturing, and human resources and is perceived as one of the most important areas in which management can maintain or improve corporate performance (Shetty & Butler, 1990; Klein, 1988). Figure 1 employs productivity, or the lack thereof, as an internal source of organizational decline. Also, as firms can be either capital or labor intensive, two productivity measures are used to comprehensively capture this construct.

The model indicates that each of these measures of productivity have both direct and indirect relationships with retrenchment activities. It can be argued that a firm which is experiencing a lack of employee productivity would more likely respond to decline by attempting to reduce expenses in an attempt to become more efficient and thus more competitive. In similar fashion, a declining organization, which lacks capital productivity, would attempt to reduce unproductive or wasteful assets. Thus, this problem would influence the type of decline response by the firm. Therefore, the following hypotheses are offered:

*H2: Employee productivity is negatively related to expense retrenchment.*

*H3: Capital productivity is negatively related to asset retrenchment.*

Last, Figure 1 proposes that productivity would also involve indirect relationships with retrenchment that are mediated by the two measures of decline urgency. If an organization is productive, it has positioned itself in a way that crisis situations can be minimized. Therefore, a negative relationship to severity and suddenness can be argued. A lack of urgency can translate into a capacity to engage in numerous response strategies and be associated with

a reduced need to retrench. These arguments suggest the following hypotheses:

*H4: Employee productivity is negatively related to severity and suddenness.*

*H5: Capital productivity is negatively related to severity and suddenness.*

### RESEARCH METHODOLOGY

The research design formulated in this study is intended to carefully test the above hypotheses and provide generalizable results concerning the findings. This enables researchers and practitioners to have a richer understanding of the retrenchment actions of organizations facing decline. One key component of any turnaround research is to develop an accurate sample of firms that have undergone decline. The literature suggests that several criteria should be used for this. The study sample was drawn from industrial and commercial machinery and computer equipment manufacturing firms distinguished in SIC major group 35. This allows the testing of different industries as required by the research questions, while at the same time limiting the broadness of the categorizations. The timeframe of the sample covers the fiscal years 1980 through 1993 allowing sample firms the appropriate amount of time for performance declines and strategic responses. Also, this time interval is considered appropriate as it includes cyclical recessions, growth, and stagnation, which provide a wide range of environmental conditions. The firms examined in this study met the following performance criteria:

- Two consecutive years of Return on Investment above the risk-free rate of return. As modeled by Barker and Duhaime (1997) the return rate for six month U.S. treasury notes at auction, reported in the *Economic Report of the President*, were used as a proxy for risk-free rate. Important to this criterion is that it excludes from the sample firms which are continually failing and limits the study to those that are truly in turnaround situations.
- At least three consecutive years of ROI below the risk-free rate. Porter (1980) proposes that a firm is failing in economic terms if it does not earn a return greater than the risk-free rate.
- At least one year within the three years of decline with a negative net income. This was proposed by Barker (1992) as an additional conservative criterion and represents a firm's inability to cover its costs.

The initial phase of the study applied the sample criteria to the COMPUSTAT database and determined 110 potential participants for the study. Data was then collected for each of the constructs previously hypothesized as having an influence on the decline response of the sample firm. Organizations for which the required data was not available were removed yielding a final sample of 97 firms. By following the examples of previous turnaround research, the study collected data at three points in time on a firm-by-firm basis. Time 1 included the year of peak performance in the two years prior to the downturn. Time 2 included the year in which the sample firm's decline reached its lowest point. Time 3 measured the year when asset and expense reductions were discontinued or if no reduction was undertaken then this point equaled a year where the elapsed time was equal to a firm's average turnaround time of three to four years (Robbins & Pearce, 1992).

The dependent variables concerning expense and asset reductions were gathered from firm financial data at Time 2 and Time 3. Expense data and asset data was used to create a continuous variable as follows:

$$\text{EXPENSE RETRENCHMENT} = (\text{Expenses Time 3} / \text{Expenses Time 2}) - 1$$

$$\text{ASSET RETRENCHMENT} = (\text{Assets Time 3} / \text{Assets Time 2}) - 1.$$

Thus, a negative value for these dependent variables indicates reductions in expenses or assets, whereas a positive value denotes an increase in assets or expenses over this time period. The value itself equals the percentage change in either assets or expenses from time 2 to Time 3.

The two measures of situation urgency are also taken from the turnaround literature. **DECLINE SEVERITY** has been well established in the strategy literature and is typically determined by using Altman's (1968) Z value method. This measure predicts financial health in terms of how close to bankruptcy an organization is. It provides a score between one and five, with one being the most severe state. Scores of three or above mean that one can confidently predict that a firm will not go bankrupt in the short term. The data for this variable were gathered at Time 2, the lowest point of decline. **SUDDENNESS OF DECLINE** was measured in terms of the number of years it took of firm to go from a healthy financial position measured at Time 1, to the lowest point in its decline cycle measured at Time 2. Therefore, the lower the number of years, the more the sudden the decline of the firm.

The third element under study is that of market growth or contraction. As proposed in Figure 1, this is an external cause of firm decline. This variable is primarily concerned with the industry or industries that a firm is active in. The data were collected from *Predicast's Industry Reports* which details industry shipments for each 4-digit SIC code per year. The initial step for collecting this data was to determine each firm's main industry at Time 2. This was accomplished by analyzing a firm's sales per 4-digit code as provided by the COMPUSTAT database. Of the 97 firms in the sample, all but eight indicated at least two-thirds of its sales in one 4-digit SIC industry. For these eight firms, each of its major industries was identified along with the percentage of firm sales attributed to each. After this process was completed, data on each firm's industry shipments was collected at Time 1 and Time 2. For the eight firms, which participate in more than one major SIC industry, a figure was determined by including the percentage of sales for each SIC code and the weighted industry average for each time period. To ensure that this method properly captured the growth or contraction of a firm's industry shipments, the results were checked with the change between Time 1 and Time 2 for each individual SIC industry code. For each subject, the direction of growth or contraction of the weighted average figure agreed with the direction for each of the individual industries. Lastly, each industry determined at Time 2 was checked with a firm's 4-digit SIC codes at Time 1 and Time 3 to ensure that the reported industries remained consistent for each subject over the designed time period of the study. Once the industry data were collected for each firm at Time 1 and Time 2, they were transformed into a continuous variable as follows:



$$\text{INDUSTRY GROWTH} = (\text{Industry Shipments Time 2} / \text{Industry Shipments Time 1}) - 1.$$

Thus, positive values indicate a growing industry; whereas negative values denote a contracting industry.

To assess the firm's employee productivity, two procedures were undertaken. First, the firm's total sales were divided by the number of employees to determine a productivity ratio at Time 2. Second, this measure was examined in relation to competing firms in its industry for the same time period. The industry average was collected from the COMPUSTAT database for each firm's primary SIC code. For those eight firms that significantly participated in more than one SIC industry, weighted averages were again calculated to determine a productivity figure. Once the data were collected, employee productivity for each firm was computed by employing the following formula:

$$\text{EMPLOYEE PRODUCTIVITY} = \text{Firm Productivity} / \text{Industry Average Productivity}.$$

Values greater than one indicate that the firm's employees are more competitive than its rivals, whereas values less than one provide evidence that its productivity is worse. In the same manner, the firm's capital productivity was determined by calculating both firm and industry's sales divided by property, plant, and equipment at Time 2. Thus, the following indicates the computation of the variable for the capital productivity of each declining firm:

$$\text{CAPITAL PRODUCTIVITY} = \text{Firm Capital Productivity} / \text{Industry Average Productivity}.$$

## RESULTS

Descriptive statistics and correlations for each variable are presented in Table 1. The means of the dependent variables are both close to zero; however the standard deviation for both Expense Retrenchment and Asset Retrenchment is in the 50% range. This indicates that the sample includes firms which retrenched during the decline and also those that increased assets and expenses. Therefore, the sample contains firms which pursued a full range of retrenchment activities and is appropriate for examining the previously discussed research questions. Also, note that the two retrenchment variables are significantly correlated with each other, demonstrating a positive relationship; however it is not so strong that each variable measures the same construct. Table 1 also indicates that this relationship exists between the two productivity measures as well.

TABLE I  
Means, Standard Deviations, and Correlations

	Mean	Std Dev	1	2	3	4	5	6	7
1. Asset Retrenchment	0.041	0.535	1.000						
2. Expense Retrenchment	0.025	0.500	.581**	1.000					
3. Industry Growth	0.158	0.407	-.035	-.129	1.000				
4. Employee Productivity	1.210	1.199	-.339**	-.333**	-.011	1.000			
5. Capital Productivity	1.119	1.360	-.263**	-.320**	.130	.748**	1.000		
6. Decline Severity	1.083	1.980	.148	.056	-.105	-.150	-.199	1.000	
7. Decline Suddenness	3.010	1.046	.275**	.202*	-.130	-.132	-.303	-.163	1.00

\*  $p < 0.05$ \*\*  $p < .01$

The previously discussed hypotheses were tested by using a fully saturated mediated path model. This method was chosen in order to fully test the theoretical propositions simultaneously and is appropriate for examining both direct and indirect relationships (James, Mulaik, and Brett, 1982). The path coefficients were derived by running a path analysis within the Lisrel program. The model also indicates whether the coefficients were significant at the .05 or .01 level.

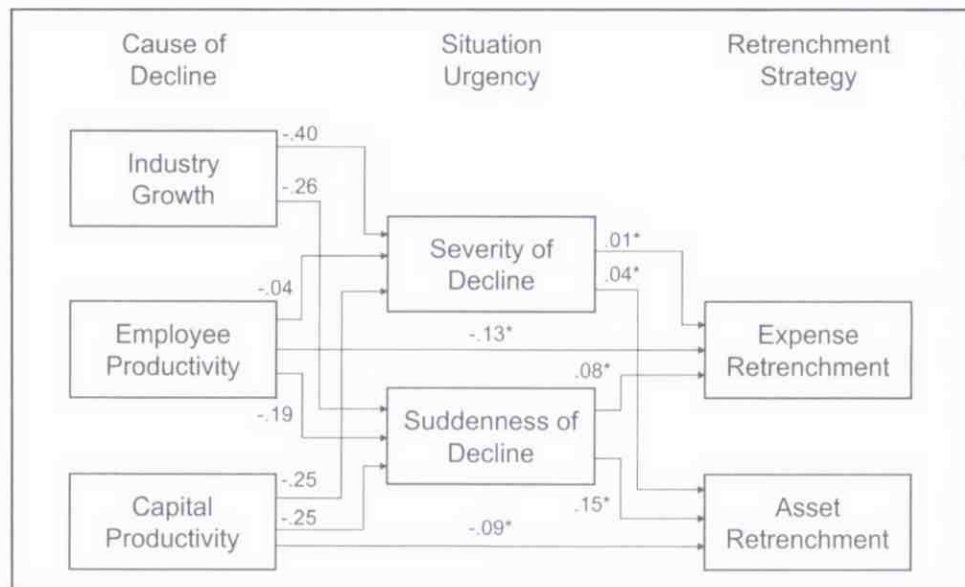


Figure 2. Final path mediation model.

As Figure 2 displays, the model supports many of the proposed hypotheses. Hypothesis 1 relating industry growth to asset and expense retrenchment as mediated by decline severity and suddenness is partially supported. It appears that the relationship between industry growth and the two variables of situation urgency are negative as the hypothesis proposed, but are not significant. However, the results suggest that decline severity and suddenness do impact retrenchment activities as the hypothesis indicated. Each relationship is significant at the .05 level and is found for both asset and expense retrenchment. Figure 2 indicates that this relationship is stronger between the suddenness of the decline and the retrenchment variables.

Overall, it appears that industry performance has little impact on the urgency of a declining firm; however if the situation does become urgent, especially for firms experiencing sudden declines, then retrenchment can be predicted. Also, it appears that the relationship of both urgency and suddenness to asset retrenchment is slightly stronger than the relationship to expense retrenchment, indicating that firms in crisis situations are more likely to feel the need to reduce assets. Likewise, firms experiencing less urgent declines do not reduce assets as heavily. The difference here could lie in the short-term nature of cutting expenses as opposed to assets. Urgent situations bring about more drastic solutions, which involve the long-term ramifications of asset reductions.



As for Hypotheses 2 and 3 regarding the influence of productivity on retrenchment, both are supported. Employee productivity has a significant, negative direct effect on expense retrenchment and, in the same fashion, capital productivity has a significant, negative direct effect on asset retrenchment. This provides support for the argument that retrenchment is not an automatic solution for firms in decline. If declining firms are productive in relation to competitors, then the retrenchment response is considered less appropriate. However, if this is a source of decline, then firms are likely to retrench.

Last, Hypotheses 4 and 5 discussing the relationships between productivity and situation urgency are not supported. Even though the direction of the relationships between employee/capital productivity and the measures of situation urgency are in the hypothesized direction, the results are not significant.

The explained variance for each of the retrenchment outcomes is determined by the squared multiple correlations for this model. These figures are 14% and 17% respectively for expense and asset retrenchment. This finding indicates that the aspects of the decline and the measures of situation urgency employed in this model can be used to explain this level of a declining firm's retrenchment activities.

## DISCUSSION AND CONCLUSION

Overall, the results of the path analysis provide partial support for the previously discussed arguments and contribute to our understanding of retrenchment. As has been stated, the research question in this study dealt with influences on a firm's retrenchment response to decline. The results indicate that both the sources of decline and the urgency of the decline situation must be considered when investigating retrenchment actions. One of the significant contributions this study makes concerns the different retrenchment strategies that firms pursue. As the results regarding productivity indicate, organizations institute turnaround strategies that focus on areas of internal weakness and avoid reducing areas of strength. This is displayed in the findings concerning the influence of firm productivity on retrenchment outcomes. For example, if a firm's assets are highly productive in comparison to competitors, then this is an area of strength to the firm. In this situation the reduction of expenses would be more appropriate for generating cash than reducing assets. The firm could determine that a strategic reorientation is most appropriate since its internal operations are competitive in comparison to industry rivals. In this way the retrenchment cannot be considered merely a consequence of decline as Barker & Mone (1994) suggest because many declining firms do not respond this way when effectively productive.

Another contribution of this study is the examination of the urgency of decline as measured by severity and suddenness. The results suggest that this is an important factor of whether firms pursue retrenchment responses to decline. The findings strengthen the argument that retrenchment is not the answer for all firms in the midst of decline, but is likely for firms in extremely urgent situations. Also, the findings support an integrative approach for explaining a firm's retrenchment actions in that both the urgency of the situation and specific decline characteristics were found to be significant influences. This indicates that determining or predicting the actions of a declining firm cannot be approached in a simplistic manner, but

must consider the strengths and weaknesses of the individual firm and the pressures that it faces.

As with all large sample research investigating corporate turnaround, this study is limited by the difficulty of capturing the totality of this phenomenon precisely. The process can involve such elements as top management characteristics, corporate culture, or strategic momentum (inertia), which are underlying influences to any specific responses that organizations attempt when combating decline. An advancement in this research area would be to combine both archival and direct sources of data in order to capture a richer understanding of these influences on turnaround attempts. It would also be beneficial to expand the sample of firms in various industries to test for differences across industries and among service firms. Of course, for turnaround researchers the primary goal is to be able to determine appropriate responses to organizational decline. This study builds upon previous research by providing researchers and practitioners with a method for seeing beyond simplistic prescriptions for declining firms and for determining the factors driving a firm's actions.

### REFERENCES

- Altman, E. (1968). Financial ratios, discriminant analysis, and the prediction of corporate bankruptcy. *Journal of Finance*, 23, 414-429.
- Arogyaswamy, K. (1992). *Organizational turnaround: A two-stage strategy-contingency model*. Unpublished doctoral dissertation, University of Wisconsin-Milwaukee.
- Barker, V. (1992). *Corporate turnarounds as strategic reorientations: A field study of turnaround attempts from firm-based decline*. Unpublished doctoral dissertation, University of Illinois at Urbana-Champaign.
- Barker, V. and Duhaime, I. (1997). Strategic change in the turnaround companies: Theory and empirical evidence. *Strategic Management Journal*, 18, 18-35.
- Barker, V. & Mone, M. (1994). Retrenchment: Cause of turnaround or consequence of decline? *Strategic Management Journal*, 15, 395-405.
- Barker, V., Mone, M., Mueller, G. & Freeman, S. (1998). Does it add up? An empirical study of the value of downsizing for firm turnaround. *Advances in Applied Business Strategy*, 5, 3-20.
- Barker, V., Patterson, P. & Mueller, G. (2001). Organizational causes and strategic consequences of the extent of top management team replacement during turnaround attempts. *Journal of Management Studies*, 38, 235-269.
- Bibeault, D. (1982). *Corporate turnaround*. New York: McGraw-Hill.
- Bonnici, J. L. & Fredenberger, W. B. (1994). Information priorities in turnaround situations. *Journal of Applied Business*, 11(3), 94-100.
- Cameron, K., Whetten, D., & Kim, M. (1987). Organizational dysfunctions of decline. *Academy of Management Journal*, 30, 126-138.
- Cameron, K., Sutton, R., & Whetten, D. (1988). Issues in organizational decline. In K. Cameron, R. Sutton, & D. Whetten (Eds.), *Readings in organizational decline: Frameworks, research and prescriptions* (pp. 3-19). Boston: Ballinger.
- Cascio, W. (2002). *Responsible restructuring*. San Francisco: Berrett-Koehler.
- Castrogiovanni, G. & Bruton, G. (2000). Business turnaround processes: Reconsidering the role of retrenchment. *Journal of Business Research*, 48, 25-34.

- Chowdhury, S.D. & Lang, J.R. (1993 Oct.). Crisis, decline and turnaround: A test of competing hypotheses for short-term performance improvement in small firms. *Journal of Small Business Management*, 8-17.
- D'Aveni, R. (1989). The aftermath of organizational decline: A longitudinal study of the strategic and managerial characteristics of declining firms. *Academy of Management Journal*, 32, 577-605.
- Hambrick, D. & Schecter, S. (1983). Turnaround strategies for mature industrial-product business units. *Academy of Management Journal*, 26, 231-248.
- Hambrick, D. (1985). Turnaround strategies. *Handbook of business strategy*, 10, 1-10.
- Harrigan, K. (1980). *Strategies for declining businesses*. Lexington, MA: Lexington Books.
- Hofer, C. (1980). Turnaround strategies. *Journal of Business Strategy*, 1, 19-31.
- Hofer, C. (1989). Strategies for business turnarounds. In L. Fahey (Ed.), *The strategic planning management reader* (pp. 164-173). Englewood Cliffs, NJ: Prentice Hall.
- James, L., Mulaik, S., & Brett, J. (1982). *Causal analysis: Assumptions, models, and data*. Beverly Hills, CA: Sage.
- Klein, L. (1988). Components of competitiveness. *Science*, 241, 308-313.
- Lohrke, F.T. & Bedeian, A.G. (1998). Managerial responses to declining performance: Turnaround investments strategies and critical contingencies. *Advances in Applied Business Strategy*, 5, 3-20.
- Miller, D. & Friesman, P. (1977). Strategy-making in context: Ten empirical archetypes. *Journal of Management Studies*, 14, 253-280.
- O'Neill, H. (1986). Turnaround and recovery: What strategy do you need? *Long Range Planning*, 19, 80-88.
- Pearce, J. & Robbins, D.K. (1994). Retrenchment remains the foundation of business turnaround. *Strategic Management Journal*, 15, 407-417.
- Porter, M. (1980). *Competitive strategy*. New York: Free Press.
- Porter, M. (1981). The contributions of industrial organization to strategic management. *Academy of Management Review*, 6, 609-620.
- Ramanujam, V. (1984). *Environmental context, organizational context, strategy and corporate turnaround: An Empirical Investigation*. Unpublished doctoral dissertation, University of Pittsburgh.
- Robbins, D.K. & Pearce, J. (1992). Turnaround: Retrenchment and recovery. *Strategic Management Journal*, 13, 287-309.
- Schendel, D., Patton, G., & Riggs, J. (1976). Corporate turnaround strategies: A study of profit decline and recovery. *Journal of General Management*, 3, 3-11.
- Shetty, Y. & Butler, P. (1990 July). Regaining competitiveness requires HR solutions. *Personnel*, 8-12.
- Thietart, R. (1988). Success strategies for businesses that perform poorly. *Interfaces*, 18(3), 32-45.
- Tichy, N. & Devanna, M.A. (1986). *The transformational leader*. New York: Wiley.
- Tushman, M. & Romanelli, E. (1985). Organizational evolution: A metamorphosis model of convergence and reorientation. In L.L. Cummings and B.M. Staw (Eds.), *Research in organizational behavior* (pp. 171-222). Greenwich, CT: Jai Press.
- Whetten, D. (1987). Organizational Growth and Decline Processes. *Annual Review of Sociology*, 13, 335-358.



## Business Faculty Job Selection: Factors Affecting the Choice of an Initial Position

Steven C. Hunt, Western Illinois University

*This study examines the factors new management faculty consider most important in accepting a particular academic position, their level of knowledge about these factors prior to accepting the position, and their level of confidence that they selected the correct school. Differences were found in importance of factors in job selection between those going to doctoral-granting vs. non-doctoral schools and between male and female respondents. Many applicants had poor levels of understanding of certain variables they ranked highly in their job acceptance decision. Also, information is presented on how interviews with universities were obtained and conducted, and applicants' satisfaction with the process. The results of this study are compared and contrasted to accounting and finance studies to determine general conclusions that apply across business disciplines versus those that are more related to management PhDs.*

### INTRODUCTION

Choosing the best employees is essential to the success of any organization. For the employee, selecting the best initial position is an important determinant of future success. Studying factors of importance to new management faculty in selecting their first academic position should add to the academic literature and also provide practical help to both new PhDs seeking positions and the universities recruiting them. Prospective faculty should find instructive the factors of importance in selecting a first academic position by new faculty who are well satisfied with their position. University administrators and departmental search committees should be interested in the importance applicants place on various factors in selecting a position, in order to attract desirable faculty members. While factors of importance in selecting academic positions have been examined in recent accounting and finance research, I am aware of no such studies in the management area. Research should be performed in individual academic areas because of a) differences in job markets for those in different academic areas of business and b) individual differences that may cause people to choose one major over another. However, this research should be of interest to those in other business areas, since it provides additional support for the generalizability of previous findings across disciplines as well as indicates where differences exist among members of different academic areas.

Selecting one's first academic position is a crucial step in a career. It is important that job applicants obtain sufficient amounts of accurate information about variables they consider important in the job decision. If applicants have a good understanding of the position and the university, they should be more likely to choose the position that is best for them. If applicants accept a position and later discover that they did not receive accurate information,

they are likely to become dissatisfied and leave. Those departments that are seen as particularly forthcoming in these areas may be viewed as more appealing by job applicants and thus be more likely to attract and retain the best faculty. Determining the variables on which applicants have low levels of understanding may help new PhDs focus on areas where they need to obtain more information. Applicants' levels of understanding of such factors have not been examined in previous research.

Prior to making a job decision, applicants must obtain, conduct, and draw inferences from interviews with universities. New management PhDs may benefit from knowing techniques that others have used successfully to obtain interviews. Research on areas of applicant dissatisfaction with the interviewing process may help prospective faculty know what to expect, thus increasing their chances of obtaining on-campus interviews with desirable universities. Such knowledge is important, because with more stringent tenure requirements, new PhDs are competing not only with each other but also with experienced faculty for assistant professor positions. Departmental search committees can use information about areas of applicant dissatisfaction to improve their recruiting processes and better attract and retain the interest of desired faculty. In many departments, those not on an official search committee can still influence hiring decisions through their interaction with potential faculty and their input to the committee; therefore, "department" will be used instead of "search committee" in this article.

The remainder of this study is organized as follows. The next section discusses the research questions. The third section briefly reviews the relevant literature. The fourth section discusses the research methodology used. The fifth section presents and discusses the results. Finally, conclusions, limitations and implications for future research are provided.

### RESEARCH QUESTIONS

This research has five major purposes, which follow from the previous discussion. The primary purpose is to empirically examine which factors are important in the selection of academic positions by new management faculty. It also looks for differences in factors for those joining doctoral vs. nondoctoral schools. Information is obtained on actual job selection decisions. Faculty satisfaction with the position selected is also examined.

A second purpose of the research is to determine the extent to which management faculty applicants obtain a good understanding of factors important to their job decision. Some items of likely importance to academic job applicants, such as tenure criteria, may be complex issues for which accurate information may be difficult to obtain. Potential management faculty may have not pursued these issues sufficiently or may have received vague or even misleading information from the school.

A third purpose is to obtain quantitative and qualitative data about the interviewing process, which has received little attention in previous research. A fourth purpose is to empirically examine gender differences in job search and selection of new academic management positions. Finally, results are compared to those of recent accounting and finance studies.

This research focuses on the entire job search and selection process. It is useful to examine applicants' behavior and perceptions from the point of deciding on what schools to contact for initial interviews to conducting those interviews, obtaining information about various attributes of a school, follow-up interviews on campus, receipt of job offers, the acceptance of a position, and finally, later satisfaction with the choice. Knowledge of where in the process problems occur is useful in suggesting improvements.

### LITERATURE REVIEW

Many of the studies involving factors of interest to business faculty have been in the accounting area. Kida and Mannino (1980) sent questionnaires to new PhDs to find out factors that they would consider important in accepting a first academic position. Differences were found between those going to doctoral vs. non-doctoral schools. Holland and Arrington (1987) surveyed accounting faculty who actually accepted positions and found that personal and family matters, such as spouse's happiness, family happiness, and quality of life, were emphasized more than in Kida and Mannino (1980). Those moving to doctoral institutions showed greater concern over research opportunities and ability to get along with the department chair. Both groups considered salary to be important.

Eaton and Hunt (2002) examined factors for accepting faculty positions as well as interviewing factors. They found teaching load, compatibility with other faculty, and spouse's evaluation to be the most important factors. Eaton and Nofsinger (2000) found similar results in the area of finance. Both Eaton and Hunt (2002) and Eaton and Nofsinger (2000) found considerable differences between those going to doctoral and those going to non-doctoral schools. Both found, for example, much higher concern about the likelihood of getting tenure among those going to non-doctoral schools. None of these studies examined job applicants' levels of knowledge about factors of importance to them.

Eaton and Hunt (2002) also examined relocating faculty's decisions. Factors of importance were similar to those of new PhDs. Most left their previous employment voluntarily. The main reasons were incompatibility with other faculty and spouse's evaluation of the area. However, a number of respondents indicated that they were not dissatisfied, but had received an outstanding offer from another university. Those who left involuntarily either did not receive tenure or thought they would not in the future.

Several studies have examined the interviewing process. Hunt and Eaton (1999) and Eaton and Nofsinger (2000) obtained information about applicants obtaining interviews, both initial and on campus, and areas of dissatisfaction with the process. The former study found concern about schools not inviting spouses on the campus interview. Both studies reported complaints about not receiving replies to applications and waiting a long time for an offer, only to be told they had to accept or reject it immediately. Eaton and Hunt (2002) and Ostrowski (1986) obtained limited information on accounting interviewing.

One management study (Hunt & Sawhney, 2003) examined management PhDs' initial interviews at the Academy of Management conference. Respondents contacted approximately 18 schools for interviews and were successful in obtaining interviews about 70% of the time. A moderate level of satisfaction with the process was noted. Major complaints included



rushed interviews with little exchange of information and crowded conditions in a common interviewing room.

A great deal of research has been performed on job search and selection in the psychology, organization behavior and vocational behavior literature. Excellent reviews are provided by Breaugh and Starke (2000) and Ryan and Ployhart (2000). Selected relevant research is discussed below.

It has long been known that various individual differences, such as gender, affect the relative importance of various factors in job selection (Rynes, Heneman, & Schwab, 1980). A recent study by Thomas and Wise (1999), using factors that had proven to be important in previous research, found that both job factors (such as salary, opportunity to use abilities, and challenging and interesting work) and organizational factors (such as corporate reputation, location, job security, and opportunities for advancement) were very important in job selection. Both males and females found job factors to be more important. Females found job factors to be significantly more important than did males.

The effect of gender on job search is an important research area, since lower initial job search by females may lead to lower lifetime earnings (Bain & Fottler, 1980; Howell & Reese, 1986). Results of other research (Huffman & Torres, 2001; Steffy, Shaw, & Noe, 1989; Rynes & Rosen, 1983) has provided inconsistent results. Eaton and Hunt (2002) found few significant differences between males and females in job search. However, females were much more concerned about job opportunities for spouses and showed significantly less satisfaction that they had selected the best faculty position.

One's first employment has significant influence over his or her subsequent career (Rosenbaum, 1979). Thus academic job seekers should apply to a large number of universities, which should lead to more initial interviews, campus interviews, and job offers (Dyer, 1973; Stumpf, Austin, & Hartman, 1984). Interviews are extremely important for both parties. As recruiters evaluate applicants, the applicants are evaluating the organization and the position (Breaugh, 1992). As interviewers, potential colleagues are viewed as particularly valuable sources of information. (Rynes & Barber, 1990).

Job seekers have to make job choices when many of the job characteristics are not known with certainty at the time. There is also the question of what applicants know at the time versus what they think they know (Schwab, Rynes, & Aldag, 1987). They may find later that the information they had obtained prior to a job decision was misleading or incomplete.

Faculty candidates who obtain sufficient accurate information about the university, department and the position should, if hired, be more satisfied, perform better (since their skills and interests are in line with what is required of them), and be less likely to leave (Wanous, 1992). Those who later find that their skills and interests do not fit well with the job or institution frequently blame the organization. Rousseau (1995) found that new hires often consider their employer to have failed to keep promises. So if job applicants receive inadequate or inaccurate information, the result can be poor job selection, followed by poor performance and job satisfaction and finally, eventual turnover (Breaugh & Starke, 2000).

Expectancy theory and signaling theory are useful in analyzing job search and selection. Expectancy theory indicates that applicants will be attracted to jobs that they believe will lead to positive outcomes. The expectancy of being hired times the attractiveness of the organization equals applicant effort to join the organization (Vroom, 1964; Wanous, Keon, & Latack, 1983). How the university treats the applicant during the recruitment process affects the applicant's perceptions of the likelihood of receiving an offer and how he or she would be treated while working there. Signaling theory (Rynes, 1991) also indicates that an organization sends signals about its hiring intentions and overall attractiveness by the way it treats applicants on a site visit. Applicants who are treated badly in the recruiting process expect similar poor treatment as faculty at that institution (Rynes, Bretz, & Gerhart, 1991; Rynes, 1991). This is especially the case since university personnel are expected to be on their "best behavior" during interviews (Ornstein & Isabella, 1993). Improving the recruiting process may benefit both parties. For the applicant, this means reduced stress and greater satisfaction. Benefits to the department include increasing the likelihood that top candidates apply for a position and accept offers (Boudreau & Rynes, 1985; Turban, Forret, & Hendrickson, 1998). This should lead to greater satisfaction and lower turnover of new faculty.

Schwab et al. (1987) noted the importance of the timing issue in job selection. Employers can affect the acceptance of job offers through the amount of time they allow applicants to consider offers. Short time periods create problems for applicants, who may have to make a decision before other employers have made offers. This may result in applicants accepting a position reluctantly and then looking for a better position in the near future.

### RESEARCH METHODOLOGY

I obtained the Academy of Management online academic listing. Faculty were selected if they started a U.S. faculty position in 1997 or 1998 (the listing ended in 1998) and received a Ph.D. degree in the year they started the position or were ABD. I omitted visiting professors, instructors and lecturers because of the likelihood that their positions were not tenure-track. Two hundred seven qualified persons were identified and sent a questionnaire asking for the following information:

- Demographic questions (age, gender, marital status)
- Importance of 32 factors (e.g., teaching load, class size, research funding, spouse's evaluation of the area) on the decision to accept employment at their current school. Respondents were asked to rate each variable on a seven-point scale as follows: 1=not at all important, 7=extremely important. The categories were those used in Eaton and Hunt (2002), which in turn had been adopted from Kida and Mannino (1980) with minor changes.
- The respondent's primary teaching and research areas
- Various characteristics of the respondent's new school
- The percentage of schools contacted by each of nine means of obtaining job interviews
- The number of schools contacted
- The number of on-campus interviews and interviews at management conferences

- The number of job offers received
- The level of confidence that the correct offer was accepted
- Areas of dissatisfaction with the interviewing process

Subjects were assured that their responses would be kept strictly confidential. Postage paid return envelopes were included in the mailing. A small number placed on the back of the return envelope was used to determine who responded to the initial mailing.

I contacted those who had not returned the questionnaire within one month in one of several ways. Those with e-mail addresses in the listing were sent a personal e-mail requesting that they complete and return the questionnaire. I left voicemail messages for those without e-mail addresses. The few whose listing lacked either an e-mail address or voicemail number were mailed second requests. The e-mails were successful in improving the initial response rate of 21%. However, nobody responded to a second mailed request and only two responded to a voicemail message. The final response rate was 68/207 (32.9%). Twenty-seven individuals were no longer at the school on the online listing. Thus the response rate of those still at the original school was 68/180, or 37.8%. No significant differences between early and late responders were noted, except that those who went to doctoral-granting schools tended to take longer to respond than those accepting positions at non-doctoral schools.

## RESULTS AND DISCUSSION

### Demographic Information

A description of various demographic variables relating to the respondents is shown in Table 1. Thirty-two percent of the respondents were female. Average age of respondents was 38.9 years. Approximately three-quarters were married. Sixty percent selected positions at non-doctoral schools. The largest number of faculty was in the area of strategic policy/entrepreneurship for teaching and organizational behavior/human resources for research. Twice as many went to teaching-oriented as to research-oriented schools. The selection process, which was designed to select only tenure-track individuals, was supported when all respondents indicated that they were in tenure-track positions, except one who was in a non-tenured institution. The great majority indicated that they were in AACSB accredited business programs. Most came from public, as opposed to private, institutions.

### Factors of Importance in Selecting a Position

Rankings and mean scores of importance are shown in Table 2. Professional issues dominated for faculty accepting positions at both doctoral and non-doctoral institutions. The most important areas for doctoral faculty were (from first to fifth) teaching load, likelihood of obtaining tenure, compatibility with other faculty, spouse's evaluation of the area, and support available for research. Non-doctoral faculty put teaching load first, followed by compatibility with other faculty, likelihood of obtaining tenure, criteria used for promotion and tenure decisions, and opportunity to teach desired courses. Whereas spouse's evaluation of the area was important (tied for fourth-fifth for doctoral, sixth for non-doctoral), job opportunities for spouse were considered relatively unimportant for both groups. Base salary was of some importance to both groups, (12 for doctoral and 9 for non-doctoral), but opportunities to



**TABLE 1**  
**Demographic Factors**

Factor	Percentage
Gender:	
Male	67.7
Female	32.3
Age (median):	38.9
Marital Status:	
Married	73.8
Single	26.2
Type of School:	
Doctoral	40.2
Non-doctoral	59.8
Primarily teaching-oriented	41.8
Primarily research oriented	19.4
Equally weighted	38.8
Public	61.2
Private	38.8
Accredited by AACSB	
Yes	84.6
No	15.4
Teaching Area	
Strategy & Policy / Entrepreneurship	29.9
Organizational Behavior / Human Resources	28.3
Operations Management	20.9
Other (primarily Management Information Systems)	13.4
Management Theory	3.0
International	3.0
General	1.5
Research Area	
Organizational Behavior / Human Resources	30.3
Strategy & Policy / Entrepreneurship	9.8
Operations Management	9.7
Other (primarily Management Information Systems)	12.2
International	4.5
General	3.0
Management Theory	1.5

TABLE 2

Importance of Factors and Knowledge in Accepting a Faculty Position (Respondents at Doctoral vs. Non-doctoral Schools)

Variable	Importance of Factors				Knowledge of Factors	
	Doctoral		Non-doctoral		Doctoral	Non-doctoral
	Mean	Rank	Mean	Rank	Mean	Mean
Teaching load	6.41	1	6.03	1	6.23	6.46
Likelihood of obtaining tenure	6.00	2	5.78	3	4.56	5.10
Compatibility with other faculty	5.93	3	5.95	2	4.46	4.60
Spouse's evaluation of area	5.63	4.5	5.48	6	5.21	5.65
Support available for research, research assistants, release time for research and secretarial assistance	5.63	4.5	5.20	12	4.65	5.18
Availability of funds for travel to meetings	5.56	6, 7	5.40	7	5.35	5.51
Criteria used for promotion and tenure decisions (e.g., relative emphasis on teaching, research, writing, service)	5.56	6, 7	5.73	4	4.62	5.18
Prestige of school or department	5.44	8	4.53**	22	5.62	5.93
Background, interests and research orientation of other faculty	5.37	9	4.58**	21	5.19	4.20**
Library and computer facilities	5.30	10	5.23	11	5.00	5.43
Opportunity to teach desired courses	5.19	11	5.63	5	4.85	5.60
Base salary	5.15	12	5.30	9	6.42	6.22
Compatibility with dept. head	5.12	13	4.90	12	4.40	4.58
Existence of Ph.D. program	4.96	14	2.44**	32	6.15	6.67*
Fringe benefits package	4.85	15	4.63	17, 18	5.19	5.08
Geographic location of school (e.g., particular part of country)	4.74	16, 17	5.33	8	6.54	6.80

\* Significant at .10 level in Mann-Whitney U test.

\*\* Significant at .05 level.

TABLE 2 (continued)  
Importance of Factors and Knowledge in Accepting a Faculty Position (Respondents at Doctoral vs. Non-doctoral Schools)

Variable	Importance of Factors				Knowledge of Factors	
	Doctoral		Non-doctoral		Doctoral	Non-doctoral
	Mean	Rank	Mean	Rank	Mean	Mean
Availability of supplementary research grants	4.74	16,17	4.10	25,26	4.69	4.15
Quality and motivation of students	4.70	18	4.75	14	4.00	4.18
Cost of living in area	4.67	19	4.63	17-18	4.97	5.70*
Physical facilities (e.g., condition of faculty offices, classrooms, etc.)	4.50	20	4.60	19,20	5.73	5.63
Salary history and salary projection for school	4.11	25	4.28	24	3.24	3.95
Available recreational and cultural activities	4.41	21	4.73	15,16	4.50	5.33*
Existence of Master's program	4.30	22	4.60	19,20	5.89	6.60*
Location of school (i.e., urban vs. rural)	4.22	23	4.78	13	6.15	6.83*
Amount of committee work	4.19	24	4.10	25,26	5.73	5.63
Class size	3.89	26	4.73**	15,16	4.12	5.58**
Compatibility with dean	3.37	27	4.36**	23	2.81	3.69*
Job opportunities for spouse	3.11	28	3.90	27	3.63	4.82*
Distribution of decision-making power: among schools, within university, among departments within business school	3.00	29	3.23	28	2.81	2.60
Availability of summer teaching	2.89	30	3.28	29	5.19	5.40
Consulting opportunities	2.78	31	2.77	31	3.19	3.90
Family ties to region	2.70	32	2.78	30	6.16	6.67

\* Significant at .10 level in Mann-Whitney U test.

\*\* Significant at .05 level.



make additional money (consulting and summer teaching) ranked near the bottom. Respondents were asked to identify other important variables in their decision. Very few did so, which indicates that the 32 variables in the questionnaire well captured the significant factors in the decision to accept a faculty position.

Factors of greatest importance in the current study are somewhat similar to those in Eaton and Hunt (2002) and Eaton and Nofsinger (2000). However, several surprising differences were noted. In the other studies, likelihood of obtaining tenure was significantly more important for those at non-doctoral than at doctoral schools. In the current study, those at doctoral schools placed slightly higher importance on it than those at non-doctoral schools. The previous studies found that those going to doctoral schools found significantly greater concern for research support than did others. Both groups considered it highly important in the current study. Management faculty at all types of institutions seem to be concerned about getting tenure and the related need for research. As compared to accounting and finance faculty, management faculty may be less confident that they will get tenure or perhaps have more interest in a long-term role at their first school, as opposed to simply going elsewhere if they do not obtain tenure. A management colleague suggested that management is a more flexible field than accounting. Faculty may be able to teach in a number of the many areas of management. This may lead to more competition for positions and more uncertainty over obtaining tenure, because faculty might be more easily replaced than in accounting.

The finding that quality and motivation of students did not rank highly (18th for those at doctoral schools and 14th for non-doctoral) might appear somewhat surprising, in view of the teaching orientation of the respondents' schools. Similar results, however, were found in Eaton and Hunt (2002).

Only five items showed significant differences between those at doctoral schools and those at non-doctoral ones. Those at doctoral schools placed higher importance on existence of a Ph.D. program; prestige of school or department; and background, interests, and research orientation of other faculty. Faculty at non-doctoral schools placed greater emphasis on class size and compatibility with the Dean. Overall, new management PhDs showed considerably less variation between those going to doctoral-granting and those going to non-doctoral schools than did other new PhDs in Eaton and Hunt (2002) or Eaton and Nofsinger (2000). This may indicate some important differences in the characteristics of management, as opposed to accounting and finance, PhDs.

The most important factors in accepting a faculty position were similar for male and female respondents, as shown in Table 3. Female respondents' mean scores were highest for teaching load, followed by compatibility with other faculty, spouse's evaluation of the area, availability of funds to travel to meetings, and research support. Males placed greatest importance on teaching load, likelihood of obtaining tenure, criteria used for tenure and promotion decisions, compatibility with other faculty, and availability of funds to travel to meetings.

However, considerable gender differences were found. Generally, females found more items to be important in their decisions than did males. This was found in neither Eaton and Hunt (2002) nor Eaton and Nofsinger (2000). In the current study, females gave 18 of the 32 items an average of 5 or better on a 7-point scale of importance. On the other hand, males had only

11 items with an average of 5 or higher. Females also had significantly higher importance scores than men in ten areas: availability of funds to travel to meetings; job opportunities for spouse; spouse's evaluation of the area; class size; opportunity to teach desired courses; compatibility with other faculty; background, interests, and research orientation of other faculty; quality and motivation of students; location of school (urban vs. rural); and amount of committee work. This and other tests of significance in this study were performed using two-tailed Mann-Whitney U tests.

The significantly greater concern on the part of female subjects over spouse's evaluation of the area and job opportunities is consistent with Eaton and Hunt (2002). Eaton and Nofsinger (2000) also found significantly higher concern by females for spouse job opportunities.

### **Level of Knowledge**

Generally, both groups of faculty indicated a high level of knowledge about the items they considered important in their decision, as shown in Table 2. Although both groups considered compatibility with other faculty to be very important, they rated their knowledge of that factor relatively low. Both doctoral and non-doctoral respondents indicated lower knowledge of research support, likelihood of obtaining tenure and the criteria for tenure decisions than their high importance ranking would indicate. Compatibility with the department head and dean were also ranked relatively low on knowledge.

Those going to non-doctoral schools stated a greater awareness of factors dealing with the community as opposed to the university. This was shown by higher knowledge scores for cost of living in the area, available recreational and cultural activities, and job opportunities for one's spouse.

Few gender differences were found in the level of knowledge about various items. This is somewhat surprising, considering the fact that females rated eleven items significantly higher than males in importance to their job decision. Females, however, reported significantly higher knowledge of research support, university funding for travel to meetings, and job opportunities for spouse. Females reported significantly lower levels of knowledge regarding the likelihood of getting tenure.

### **Interviewing**

Considerable information was obtained about the interviewing process. Respondents contacted an average of 31.1 schools. The range was from one to 100. No significant differences were noted between males and females. These numbers are difficult to compare to those in Hunt and Sawhney (2003), which looked only at conference interviews. However, they are considerably lower than for new finance PhDs in Eaton and Nofsinger (2000). Nearly half (47.7%) of respondents attended a national meeting of the Academy of Management. Only 13.4% attended a regional meeting. The most common methods of obtaining interviews were replying to advertisements in the *Chronicle of Higher Education*, replying to a school advertisement on the Academy of Management website, and having a resume placed on file at the Academy of Management national meeting. In contrast, the most popular method for new accounting PhDs in Eaton and Hunt (2002) was to respond to schools cold (not in response to an advertisement).

TABLE 3  
Importance of Factors and Knowledge by Gender

Factor	Importance of Factors				Knowledge of Factors	
	Male		Female		Male	Female
	Mean	Rank	Mean	Rank	Mean	Mean
Teaching load	6.11	1	6.47	1	6.19	6.67
Likelihood of getting tenure	5.84	2	5.81	7-9	5.20	4.43**
Criteria used for promotion and tenure decisions (e.g., relative emphasis on teaching, research, writing, service)	5.39	3	5.81	7-9	4.91	5.33
Compatibility with other faculty	5.73	4	6.33**	2	4.47	4.62
Availability of funds to travel to meetings	5.32	5	5.95*	4,5	5.17	6.00**
Opportunity to teach desired courses	5.25	6	5.86*	6	5.16	5.57
Support available for research, research assistants, release time for research, and secretarial assistance	5.20	7	5.95	4,5	4.58	5.57**
Base salary	5.18	8,9	5.38	11,12	6.26	6.33
Spouse's evaluation of the area	5.18	8,9	6.00**	3	5.06	5.89
Library and computer facilities	5.14	10	5.48	10	5.14	5.29
Compatibility with department head	5.00	11	5.14	15,16	4.43	4.62
Prestige of school or department	4.91	12	5.05	17	5.72	5.90
Fringe benefit package	4.80	13	4.71	21-23	5.23	5.62
Geographic location of school (i.e., particular part of country)	4.72	14	5.81*	7-9	6.60	6.90
Background, interests, and research orientation of other faculty	4.62	15,16	5.38**	11,12	4.65	4.43
Cost of living in area	4.62	15,16	4.71	21-23	5.00	5.43

\* Significant at .10 level using two-tailed Mann-Whitney U test.

\*\* Significant at .05 level



TABLE 3 (continued)  
Importance of Factors and Knowledge by Gender

Factor	Importance of Factors				Knowledge of Factors	
	Male		Female		Male	Female
	Mean	Rank	Mean	Rank	Mean	Mean
Physical facilities (e.g., condition of faculty offices, classrooms, etc.)	4.47	17	4.91	19	5.65	5.62
Quality and motivation of students	4.45	18	5.23*	14	4.14	4.05
Existence of Master's program	4.36	19	4.57	24	6.26	6.38
Available recreational and cultural activities	4.34	20	5.14	15,16	4.91	5.05
Availability of supplemental research grants	4.27	21	4.53	25	4.33	4.14
Salary history and salary projection for school	4.20	22	4.10	26	3.67	3.50
Class size	4.16	23	5.00*	18	4.95	5.10
Location of school (i.e., urban vs. rural)	4.09	24	5.33**	13	6.56	6.52
Compatibility with dean	3.98	25	4.00	27	4.45	4.62
Amount of committee work	3.91	26	4.76*	20	3.95	4.10
Existence of a Ph.D. program	3.43	27	3.55	28	6.33	6.70
Availability of summer teaching	3.11	28	3.10	30	5.14	5.71
Distribution of decision-making power (among schools, within university, among departments within business school)	3.09	29	3.29	29	2.77	2.67
Family ties to region	2.89	30	2.81	31	6.36	6.65
Job opportunities for spouse	2.88	31	4.71**	21-23	4.06	4.72**
Consulting opportunities	2.84	32	2.50	32	3.63	3.33

\* Significant at .10 level using two-tailed Mann-Whitney U test.

\*\* Significant at .05 level

Respondents received an average of 3.8 on-campus interviews. Male respondents reported 2.73 job offers and females had an average of 2.19. Those who went to doctoral schools had 2.67 offers, while those at non-doctoral schools had 2.52 offers. Neither difference was significant at the .1 level in a two-tailed Mann Whitney U test. These results are similar to those in Hunt and Eaton (2002), but the on-campus interviews and offers are lower than in Eaton and Nofsinger (2000), reflecting a lower number of schools contacted.

Participants were asked to identify negative experiences in the interviewing process in order to provide information to schools as to how they could better attract desired faculty. Approximately one-third of the respondents mentioned problems. Most of these respondents mentioned multiple problems. The most common was schools keeping applicants waiting for a long time after the campus interview without any word of their status. Rynes et al. (1991) observed this phenomenon and indicated it decreased applicants' interest in accepting offers if they eventually were made. On the other hand, once an offer is made, universities often expect an immediate reply. Several participants complained that schools did not respond to applications or even contact them after campus interviews. These complaints were noted in Hunt and Eaton (1999) and Ostrowski (1986).

Several also indicated that interviewers were less than forthcoming about their school's research support and tenure requirements. Three respondents mentioned inappropriate interviewer behavior: sexual overtures or drunkenness. One respondent indicated that he considered reopening his law practice with a specialty in employment law, defending college professors interviewing prospective faculty! No one mentioned a failure of schools to pay for a spouse visit, a major complaint in Hunt and Eaton (1999).

### **Confidence in Selecting the Right Position**

Respondents indicated high levels of confidence that they selected the right faculty position. On a scale of 1 to 7, with 7 representing that one was sure that he or she had chosen the correct offer, those at doctoral schools averaged 6.04, while the mean for those at non-doctoral schools was 6.19. The figures for males versus females were 6.00 vs. 6.45. Neither of these differences was significant. These results contrast with those of Eaton and Hunt (2002), in which accounting faculty at doctoral schools displayed significantly greater confidence than those at non-doctoral schools, and males displayed greater satisfaction than females.

## **CONCLUSIONS, LIMITATIONS, AND SUGGESTIONS FOR FURTHER RESEARCH**

### **Conclusions**

Respondents provided valuable information about factors affecting their decisions to accept particular job offers. Teaching load, likelihood of obtaining tenure, compatibility with other faculty, spouse's evaluation of the area, criteria for tenure, availability of funds to travel to meetings, opportunity to teach desired courses and research support were highly rated factors. These, then, are items that should be stressed in interviews with faculty candidates.

Salaries were not among the top factors of importance for applicants. This implies that schools unable to pay high salaries may still attract desirable faculty by focusing on the issues above and demonstrating concern for the applicants.

A number of differences were found between male and female applicants in factors of importance in accepting a position. Knowledge of these may help universities to target their job announcements and interview approaches to increase the gender diversity of their faculty. For example, females were more concerned about spouse's evaluation of the area and job opportunities for spouses. While inviting spouses to the campus visit might be viewed as a signal of consideration by most applicants, it might be particularly helpful in attracting female faculty. Applicants and spouses should not be rushed onto the plane as soon as the interview is completed, but should be allowed ample time to visit the community. This is particularly important in view of Eaton and Hunt's (2002) finding that spouse's evaluation of the area was a major reason for faculty to leave a previous position. Females are more interested in the geographical location of the school and whether it is in a rural or urban area. This may cause them to automatically dismiss certain schools from consideration. To prevent this, schools need to consider including information on the community in their advertisements. For example, a rural school might mention that it is only 50 miles from a major urban area, while an urban school might discuss its proximity to beaches, mountains, or wilderness areas. Females considered a large number of factors to be highly important in their decision. Recruiting departments need to be prepared to address a wide variety of applicant interests during interviews.

Differences between those going to doctoral vs. non-doctoral schools were less numerous. However, knowledge of them should enable departments to better focus on items of particular importance to applicants. For example, non-doctoral schools may wish to emphasize class size and collegiality of the dean more than doctoral schools. Also, various aspects of the community are more important for those going to non-doctoral schools. This should be emphasized in advertisements and interviews. Those at doctoral schools may wish to emphasize the school's prestige and the research interests of its management faculty.

Some of the results of this study provide further support for findings in the areas of accounting and finance and thus suggest that they may apply to other business areas as well. Overall, factors of importance for job selection of new PhDs are similar across management, accounting, and finance. As in the earlier studies, females were much more concerned with spouse's evaluation of the area and spouse's career opportunities than were males. This indicates that those looking for business faculty would do well to consider these areas of applicant concern.

Areas of applicant dissatisfaction with the recruitment process reflected similarities with previous research. Concerns existed about schools' failure to respond quickly to applications and interviews and to expect rapid replies to job offers. These behaviors are likely to reduce applicant interest in the position.

The results differed sufficiently, however, to demonstrate the need to look at different business disciplines separately and not simply apply the results of a study in one area to the entire spectrum of business faculty. Major differences between the current and previous research include the level of differences in factors of importance between those going to doctoral and



non-doctoral schools. There was less variation in the current study; items such as likelihood of getting tenure and availability of research support are almost equally ranked by those going to doctoral vs. non-doctoral schools, whereas in previous studies, those going to doctoral schools ranked them more highly. In the current study, the level of confidence in selecting the right position was similar for those going to doctoral vs. non-doctoral schools. It was significantly higher for those going to doctoral schools in Eaton and Hunt (2002).

Differences were found among studies in terms of gender. Females in this study found more items to be important than in previous studies. Unlike previous studies, females did not demonstrate lower satisfaction with their job selection.

A major contribution of this research is to examine applicants' level of knowledge about various factors they use to make job choice decisions. The respondents generally showed a high level of knowledge about important factors. However, in certain key areas they rated highly important in selecting a position, the knowledge was relatively low.

Tenure was one area of relatively low applicant knowledge. Several complained that they were misled about tenure requirements. The complexity of tenure considerations may make it difficult for applicants to obtain an accurate understanding during a brief visit. This has implications for applicants on one hand and universities and departments on the other. Job applicants must do considerable research in this area. Discussing the issues with various faculty and administrators and then attempting to resolve discrepancies through later follow-up discussions might be helpful. While it is understandable that departments might prefer to be vague about tenure requirements to increase their flexibility in granting or denying tenure, such vagueness may be highly disturbing to applicants. Departmental faculty who candidly discuss tenure requirements, including how many faculty have been awarded tenure or denied it, projected changes in tenure requirements, and other areas of importance to applicants, may go a long way toward maintaining applicants' interest, as well as reducing turnover of those who accept positions.

Research support was another area in which high rankings of importance did not correspond to high levels of knowledge (for those going to doctoral schools). Several applicants complained of being misled. Departments need to be clear on the amount and nature of support and whether it is guaranteed to avoid later dissatisfaction by those who accept positions. Tenure concerns and concerns about research support are related in that research productivity is an important contributor to a new faculty member's likelihood of receiving tenure.

Compatibility with the department head and other faculty was a third highly important area in which new faculty had fairly low levels of accurate information. Compatibility with administrators and other faculty may be difficult to determine during short interviews, particularly if university personnel are on their best behavior. Universities and departments must be willing to allow enough time for meetings with faculty, both individually and in groups.

The finding that females had higher importance ratings for eleven factors but higher levels of knowledge for only three may indicate problems with obtaining accurate information for

items such as quality and motivation of students. Relatively low knowledge of tenure requirements by females, despite high stated importance, could lead to higher turnover by new female faculty.

Universities and management departments need to be seen as providing considerable amounts of accurate information relating to areas of particular applicant interest. Faculty in management departments should find it beneficial to discuss how to present this information and reply to common questions. This may identify areas of misunderstanding or disagreement that may help in better setting department standards and procedures.

Discussion of areas of dissatisfaction with the process in this paper may help both departments and job candidates. Departments that are perceived as addressing areas of concern to applicants will likely be viewed as more attractive. By alerting potential jobseekers to such common pitfalls, this research may better prepare them for the job seeking experience and thus reduce applicant disappointment and dissatisfaction.

Several examples of extreme unprofessionalism were noted. Improper interviewer behavior (such as sexual overtures or drunkenness) can create loss of respect for the department and university, as well as possible legal action. However, departments may commit less vivid acts of unprofessional behavior on a regular basis. They may feel they bear little risk in treating badly those applicants for whom they have little interest. However, failure to promptly (or at all!) acknowledge applications and interviews may hurt a department's future recruiting success, if disgruntled applicants tell friends in the PhD program about their negative experiences involving the university. Dissatisfaction with recruiting practices may lead to applicant frustration with the system and acceptance of sub-optimal positions, resulting in increased future turnover. Thus a university's poor recruiting actions may ultimately affect other universities.

Even departments' treatment of successful applicants is in need of improvement. Long waits between campus interviews and offers and insistence on immediate replies when offers are made are likely to cause applicant resentment. This may lead to qualified applicants refusing offers or accepting with lowered morale, which may lead to turnover.

### Limitations

There are some limitations to the study. The self-reported nature of the level of knowledge might lead it to be inflated by respondents who did not wish to admit low knowledge. Some new faculty had left employment at their first university and were not located. It is possible that they would have responded differently than others had they been located and sent questionnaires. However, assuming that most such individuals left voluntarily and many of those were dissatisfied with their previous school (Eaton & Hunt, 2002), this indicates that the concerns about lack of accurate knowledge and other complaints described in the paper may have been understated, making the recommendations even more important. The research did not examine why certain job search techniques were used or the applicant's level of satisfaction with them. Psychological factors, such as self-esteem, which might affect job search, were not examined. These limitations somewhat reduce the ability of the research to guide job search behavior by new PhDs. On the other hand, the fact that respondents were



successful in attaining positions with which they were generally well pleased should provide some indication that their job search behavior may be instructive.

### Future Research

There is a need for considerable future research in the area of management faculty job search and selection. Research could examine the nature of differences, such as personalities and values, among those receiving PhDs in various business disciplines. Further research could look at earlier steps in the process, such as how job applicants determine what schools to interview with at a national conference and how experiences at conference interviews increase or decrease applicant interest in pursuing a school further. Future research might attempt to tie the perceptions of the position, the school, and the process together to determine how each affects the decision to accept a particular position. Finally, further research could examine the amount of effort new faculty expended to obtain information about factors of importance to them.

Examining all faculty who accept positions during a given time period would permit comparison of the job search and selection of both new management PhDs and relocating faculty. Determining the sources of information for various factors of importance could be valuable. Further research could look at the factors involved in selecting non tenure-track positions, such as visiting professorships. Finally, those accepting positions internationally could be surveyed to determine whether the factors in this study have international applicability.

### REFERENCES

- Bain, T., & Fottler, M. D. (1980). Male-female professionals: A model of career choice. *Industrial Relations*, 19, 366-370.
- Boudreau, J. W., & Rynes, S. L. (1985). Role of recruitment in staffing utility analysis. *Journal of Applied Psychology*, 70, 354-366.
- Breaugh, J. A. (1992). *Recruitment: Science and practice*. Boston: PWS-Kent.
- Breaugh, J. A., & Starke, M. (2000). Research on employee recruitment: So many studies, so many remaining questions. *Journal of Management*, 26, 405-434.
- Dyer, L. D. (1973). Job search success of middle-aged managers and engineers. *Industrial and Labor Relations Review*, 26, 969-979.
- Eaton, T. V., & Hunt, S. C. (2002). Job search and selection by academic accountants: New and relocating faculty. *Journal of Accounting Education*, 85(2), 67-84.
- Eaton, T., & Nofsinger, J. R. (2000). The new and relocating finance faculty market: Factors affecting job selection. *Financial Practice and Education*, 10, 99-110.
- Holland, R.G., & Arrington, C.E. (1987). Issues influencing the decision of accounting faculty to relocate. *Issues in Accounting Education*, 2, 491-500.
- Howell, F. M., & Reese, W. A. (1986). Sex and mobility in the dual economy. *Work and Occupations*, 13, 77-96.
- Huffman, M. L., & Torres, L. (2001). Job search methods: Consequences for gender-based earnings inequality. *Journal of Vocational Behavior*, 58, 128-141.
- Hunt, S. C., & Eaton, T. V. (1999). *Job search and selection of academic accountants: New and relocating faculty*. Paper presented at Applied Business Research Conference, Denver, CO.



- Hunt, S. C., & Sawhney, R. (2003). Management PhD candidates' job search: The initial interview. *Journal of Education for Business*, 78, 249-254.
- Kida, T. E., & Mannino, R. C. (1980). Job selection criteria of accounting Ph.D. students and faculty members. *The Accounting Review*, 55, 491-500.
- Ornstein, S., & Isabella, L. A. (1993). Making sense of careers: A review 1989-1992. *Journal of Management* 19, 243-267.
- Ostrowski, B. (1986). First-time accounting faculty: The job search, acceptance and support process. *Issues in Accounting Education*, 1, 48-55.
- Rousseau, D. R. (1995). *Psychological contracts in organizations*. Thousand Oaks, CA: Sage Publications.
- Ryan, A. M., & Ployhart, R. E. (2000). Applicants' perceptions of selection procedures and decisions: A critical review and agenda for the future. *Journal of Management*, 26, 565-606.
- Rynes, S. L. (1991). Recruitment, job choice, and post-hire consequences: A call for new research directions. In M. D. Dunnette & I. M. Hough (eds.), *Handbook of Industrial and Organizational Psychology* (2<sup>nd</sup> ed., vol. 2, pp. 399-444), Palo Alto, CA: Consulting Psychologists' Press.
- Rynes, S. L., & Barber, A. E. (1990). Applicant attraction strategies: An organizational perspective. *Academy of Management Review* 15, 286-310.
- Rynes, S. L., Bretz, R. D., & Gerhart, B. (1991). The importance of recruitment in job choice: A different way of looking. *Personnel Psychology*, 39, 729-757.
- Rynes, S. L., Heneman, H. G. III, & Schwab, D. P. (1980). Individual reactions to organizational recruiting: A review. *Personnel Psychology*, 33, 529-542.
- Rynes, S., & Rosen, B. (1983). A comparison of male and female reactions to career advancement opportunities. *Journal of Vocational Behavior*, 22, 105-116.
- Schwab, D. P., Rynes, S. L., & Aldag, R. J. (1987). Theories and research on job search and choice. *Research in Personnel and Human Resources Management*, 5, 129-166.
- Steffy, B. C., Shaw, K. N., & Noe, A. W. (1989). Antecedents and consequences of job search behaviors. *Journal of Vocational Behavior*, 35, 254-269.
- Stumpf, S. A., Austin, E. J., & Hartman, K. (1984). The impact of career exploration and interview readiness on interview performance and outcomes. *Journal of Vocational Behavior*, 24, 221-235.
- Thomas, K. M., & Wise, P. G. (1999). Organizational attractiveness and individual differences: Are diverse applicants attracted by different factors? *Journal of Business and Psychology*, 13, 375-390.
- Turban, D. B., Forret, M. L., & Hendrickson, C. L. (1998). Applicant attraction to firms: influences of organization reputation, job and organizational attributes, and recruiter behaviors. *Journal of Vocational Behavior*, 52, 24-44.
- Vroom, V. H. (1964). *Work and motivation*. New York: Wiley and Sons, Inc.
- Wanous, J. P. (1992). *Organizational entry*. Reading, MA: Addison-Wesley.
- Wanous, J. P., Keon, T. L., & Latack, J. C. (1983). Expectancy theory and occupational/organizational choices: a review and test. *Organizational Behavior and Human Performance*, 32, 66-86.

## **An Examination of Salient Factors Affecting Expatriate Culture Shock**

Robert H. Sims, Western Kentucky University  
Mike Schraeder, Troy State University - Montgomery

*Organizations are faced with numerous challenges as they attempt to remain competitive in an expanding global economy. One of the challenges that these organizations face as they expand into global markets is the successful transfer or placement of U.S. workers (i.e., expatriates) into foreign assignments. Evidence continues to emerge supporting the idea that successful placement depends heavily upon how these individuals react or adjust to the culture and norms of their host country. Often, individuals experience a stress-induced reaction, culture shock, as they are confronted with the realities of their new environment. This article examines salient factors related to culture shock and, consequently, expatriate success. A review of the literature identified five key factors that can affect expatriate culture shock. These factors include: (a) the training the expatriate receives, (b) the demographic characteristics of the expatriate, (c) the dispositional and personality characteristics of the expatriate, (d) the level of organizational support provided to the expatriate, and (e) the level of technical competence of the expatriate. Research propositions were developed relative to how each factor relates to expatriate culture shock. This synthesis of expatriate literature also supports the need for further studies on culture shock in general and the identification of additional factors that affect expatriate culture shock.*

Global expansion is occurring at a feverish pace as organizations continue to pursue strategies in an attempt to remain competitive within the shifting dynamics of our world economy. This global expansion has a number of significant implications for U.S. organizations endeavoring to expand into foreign markets. These implications range from major strategic issues such as the location of foreign operations to the placement of U.S. workers (expatriates) into these new foreign operations.

Given the strategic significance and the burgeoning costs of many expatriate assignments, it is important (both to the organization and to the expatriate employee) that the assignment be successful. Unfortunately, however, this is often not the case. It is estimated that 16 to 40 percent of expatriate assignments end in failure (Black & Gregersen, 1999; Black, Gregersen, Mendenhall, & Stroh, 1999; Black, Mendenhall, & Oddou, 1991), with estimates of failure in some host countries reaching as high as 70 percent (Naumman, 1992). The costs associated with expatriate failure are astounding, often reaching \$1 million or more for each individual failure (Shannonhouse, 1996). This translates into total losses for domestic firms in excess of \$2 billion per year (Punnett, 1997).

Due, in large part, to the aforementioned statistics, a considerable body of knowledge has been developed on various facets of expatriate cross-cultural adjustment (CCA). Dozens of academicians and researchers have written about and studied many topics on expatriates and cross-cultural adjustment. Yet, very little attention has been devoted to what is often cited as the primary obstacle to expatriate adjustment—the phenomenon referred to as “culture shock” (Black, 1990; Furnham & Bochner, 1986; Harrison, 1994; Hisam, 1997; Mumford, 1998; Oberg 1960; Winkelman, 1994). In fact, according to Mumford (1998), “... nobody has attempted to measure [culture shock] or even to validate the concept empirically” (p. 149). This dearth of research is surprising since it is estimated that U.S. organizations spend an average of \$80,000 preparing each prospective expatriate for their assignment and the impending culture shock (Harrison, 1994). Prior to discussing factors related to expatriate culture shock, it seems instructive to take a closer look at this troublesome phenomenon.

### EXPATRIATE CULTURE SHOCK DEFINED

At the most fundamental level, expatriate culture shock is grounded in uncertainty. When expatriates first enter a new culture, there is uncertainty about behavior that is considered acceptable. Further, as time passes, expatriates may discover that many behaviors considered acceptable in their home country are not acceptable in the host country and that some behaviors considered offensive in their home country may be acceptable in the host country (Black & Gregersen, 1991). This is important to consider since, according to Black et al. (1991), when an individual leaves a familiar setting and enters an unfamiliar one, old routines are disrupted, creating psychological uncertainty. This disruption evokes a desire to reduce the uncertainty inherent in the new setting, especially regarding new behaviors that might be required or expected. To the extent that various factors either increase or decrease uncertainty, they also prompt an increase or decrease in culture shock.

From a theoretical perspective, culture shock has been described as the “stress induced by all the behavioral expectation differences and the accompanying uncertainty with which the individual must cope” (Black & Gregersen, 1991, p. 462). Similarly, Solomon (1994) described culture shock as “An emotional and psychological reaction to the confusion, ambiguity, value conflicts, and hidden clashes that occur as a result of fundamentally different ways of perceiving the world and interacting socially between cultures: Disequilibrium” (p. 58).

In summary, culture shock can be described as the wave of emotions an expatriate employee feels immediately upon entering a foreign country—a country with a different culture and perhaps even a different language. Culture shock can hit immediately and be overwhelming, exhausting, and numbing. Culture shock can also have a creeping effect, evolving slowly as the expatriate experiences more idiosyncrasies of their host country’s culture. As such, culture shock may involve an incremental process where the expatriate experiences various levels of frustration that simply build up until the inevitable occurs—an explosion of anger, frustration, depression, and homesickness (Black et al., 1999; Harrison, 1994; Winkelman, 1994).

While researchers have written about culture shock, most of the body of literature on the topic is anecdotal or descriptive in nature. Furthermore, culture shock is often mentioned tangentially, as part of the broader topic of expatriate cross-cultural adjustment (Mumford,



1998). Taking the implications of culture shock into consideration, it is somewhat surprising that there are so few studies, empirical or otherwise, regarding the nature of culture shock, how it affects expatriates, and particularly, identifying salient factors affecting the culture shock experience (Mumford, 1998). Yet, a successful adaptation and adjustment to a new culture by expatriates is incumbent upon a successful resolution of culture shock (Furnham & Bochner, 1986; Harrison, 1994; Hisam, 1997; Mumford, 1998; Oberg, 1960; Winkelman, 1994). Therefore, the following section summarizes salient factors, identified through an extensive review of the literature, which most affect expatriate culture shock and a research proposition is put forth for each factor regarding the relationships being examined. These factors are depicted in figure 1.

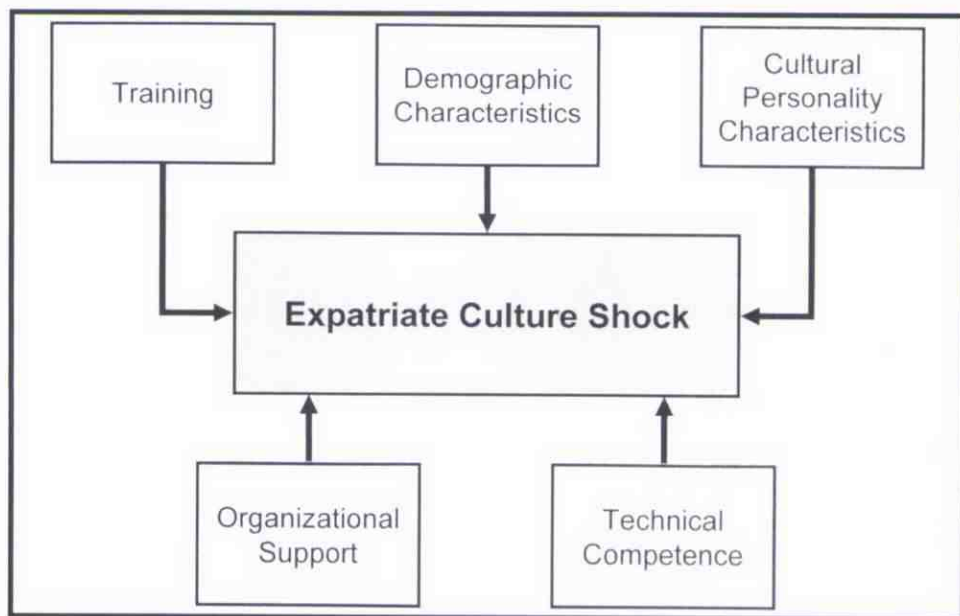


Figure 1. Factors impacting expatriate culture shock.

## CRITICAL FACTORS INFLUENCING EXPATRIATE CULTURE SHOCK

### The Impact of Training

Typically, every expatriate passes through a period of adjustment as they become familiar with the nuances of their new culture. Most individuals experience what can be called a "honeymoon period" (Solomon, 1994). During this time the expatriate may experience the excitement brought on by being in a new and different country. Following this honeymoon period is often when reality sets in—hence, the emergence of culture shock. During this time period, any training provided by a company may make a significant contribution in helping expatriates overcome culture shock (Harrison, 1994). It is important to note, however, that the content of training or orientation provided to expatriates and their families can vary considerably between organizations.

One common type of orientation activity is the pre-departure visit to the host country. Many firms offer prospective expatriates and their spouses a pre-assignment familiarization trip (Solomon, 1994), allowing potential expatriates to visit the host country. The intent of this "training" is to provide them with first-hand information about the host country and culture. In some respects, this visit could be viewed as a unique version of a realistic job preview.

Importantly, the information obtained during this visit can potentially reduce uncertainties associated with the overseas assignment, thereby reducing culture shock (Black & Gregersen, 1991). However, for such visits to be effective, expatriates must be provided with a realistic preview of what life in the host country will be like. All too often, however, pre-move visits become little more than tourist visits. The expatriates may leave the host country with an unrealistic perspective of what life is really like. These misperceptions tend to intensify culture shock once the expatriates have accepted the assignment, as they quickly discover that their preliminary visit bore little in common with the reality of their daily lives in the host country (Harrison, 1994).

Pre-departure cross-cultural training (CCT) is another type of training designed to reduce the uncertainty associated with a new environment. The intent is to provide information about the general culture as well as information on how to interact with people of that culture (Black & Medenhall, 1990). Depending on the country of assignment, the employee and the family may be confronted with a culture much different from their own. These differences may extend beyond any language barriers, encompassing a variety of aspects of life. These differences in norms may include social differences, differences in the political climate, and religious differences. Without pre-departure cross-cultural training, expatriates and their families may be "in the dark" regarding expected behavior and, consequently, they may react negatively to these differences (Katz & Seifer, 1996).

Yet another form of training, post-arrival orientation, is intended to reduce culture shock and the difficulty of the cross-cultural adjustment process. Encompassed within this approach is the provision of host country social support. This approach to training involves assisting the expatriate with basic necessities. For example, expatriates may be provided with assistance in finding appropriate housing, finding schools for children, dealing with tax issues, setting up a local bank account, and general counseling (particularly from other expatriates with longer tenure in the host country) about the way things work in the host country (Mendenhall & Wiley, 1994; Taboada, 1998).

The jury is still out, for some, as to the effectiveness of cross-cultural training in reducing culture shock. Many top-level managers believe such training is expensive, time consuming, and ineffective. It can cost up to \$80,000 to provide rigorous, in-depth CCT to an expatriate (Harrison, 1994) and while the up-front costs are easily quantifiable, the "return on investment" is less quantifiable. Therefore, some organizational officials perceive a rigorous CCT program as a waste of time and money (Black et al., 1999). In some cases, managers may feel that there is insufficient time to provide the necessary cross-cultural training and simply decide to forego such training. However, in a meta-analytic review of some 50 empirical studies, Black and Mendenhall (1990) found that pre-departure cross-cultural training had a positive impact on cross-cultural adjustment.



Other studies have supported this view (Black et al., 1991; Harrison, 1994; Katz & Seifer, 1996). For example, there are studies suggesting that various forms of pre-departure and post-arrival orientation programs provided by the organization can reduce the impact of culture shock and improve the cross-cultural adjustment process for the expatriate (Harrison, 1994; Katz & Seifer, 1996). Black et al. (1999) indicated that an in-depth CCT program was essential for avoiding potentially debilitating expatriate culture shock. Similarly, a literature review (Black & Mendenhall, 1990) and a meta-analysis (Deshpande & Viswesvaran, 1992) of over 20 empirical studies in the area of organizational training and orientation programs revealed that these programs have a strong positive impact on overcoming culture shock, cross-cultural skills development, and cross-cultural adjustability.

***Hypothesis 1:** Rigorous, intensive, pre-departure cross-cultural training will enhance preparation of prospective expatriates for their new environment, resulting in less uncertainty, less culturally-related stress, and therefore, less culture shock.*

### **Demographic Factors**

Research has demonstrated that various demographic characteristics of the expatriate are also related to the degree of culture shock experienced by these individuals. For example, a review of the literature reveals that the expatriate's family status, amount of previous international experience, age, and gender are demographic factors that can affect expatriate culture shock (Black & Gregersen, 1991; Black et al., 1999; Black et al., 1991; Mendenhall & Oddou, 1985). Each of these demographic factors will be briefly examined in the following subsections.

***Family Status.*** There is widespread acceptance among researchers that family status is arguably the most important demographic variable with regard to expatriate culture shock (Black, 1988; Black & Stephens, 1989; Black & Gregersen, 1991; Harvey, 1985; Shaffer & Harrison, 2001; Takeuchi, Tesluk, & Yun, 2002; Tung, 1981, 1982). It cannot be over-emphasized that the quality of the expatriate's experience functions in tandem with the experience of the expatriate's family. This notion is supported by some of the most recent research regarding the impact of the family on the expatriate (and vice-versa) once on expatriate assignment.

For example, Shaffer and Harrison (2001) found that having younger pre-school aged children appeared to facilitate adjustment while having older children inhibited adjustment, thus increasing the likelihood of culture shock. Takeuchi et al. (2002) found that expatriate adjustment was greatly affected by the family's adjustment (and vice-versa). Takeuchi et al. referred to these effects as "spillover." It does not require much of an inferential leap to suggest that such spillover effects would also apply to the culture shock experience—i.e., that expatriate culture shock would increase the family's culture shock and vice-versa. Naumann (1992) contended that family situation is apparently a critically important moderating variable in the expatriate turnover process. Harvey (1985) further contended that the family might be the most important contributor to expatriate turnover. This contention is supported by Tung's (1982) research indicating that two of the three most frequently cited causes for expatriate failure were family related. Specifically, the inability of the expatriate's family (in



particular, the spouse) to adjust to a different physical or cultural environment and other related family problems received strong support in Tung's study.

Indeed, there is no shortage of research supporting the importance of family when it comes to the success of expatriates. For example, a 1992 survey of 50 *Fortune* 500 companies by International Orientation Resources (IOR), suggested that the majority of expatriate failures, 60 percent in fact, occurred because of family difficulties (Solomon, 1994). Findings of other studies have been equally alarming. A 1994 Foreign Trade Council report found that 80 percent of employees who refused international positions did so for family reasons. Moreover, Weeks (1993) reported that 15 percent of U.S. expatriate candidates rejected foreign assignments because of their spouses' careers. A spouse's career is also recognized as a growing reason for rejection because of women's increased workforce participation (Punnett, 1997). This is important to consider given that 90 percent of all expatriates are male and 78 percent are married (Black et al., 1999). Additionally, 48 percent of female spouses leave a career in the U.S. to accompany the male spouse for an overseas assignment.

Despite the apparent importance of the family, less than half of MNCs interviewed the spouse in the expatriate selection process (Black et al., 1999; Black & Stephens, 1989; Tung, 1981). To the detriment of these expatriates, cross-cultural training for the entire family is also very rare (Black et al., 1999; Black & Stephens, 1989). A survey by the IOR confirmed the lack of attention to spouses, reporting that only 21 percent of companies included spouses in pre-selection interviews (Solomon, 1994), while Black and Gregersen (1991) found that only 10 percent of spouses received pre-departure training from the firm.

In addition to career related issues, the spouse may also experience high levels of stress due to a disruption of childrens' education and a loss of self-worth or identity (particularly if they were previously employed). Additional difficulties in adjusting to the host culture may center on the lack of contact with friends and relatives, as well as social or cultural ostracism in the foreign country (Harvey, 1985). The greatest concern is that the spouse will suffer substantial, debilitating culture shock and will feel, literally, shut away from the world. When this occurs, the expatriate may decide it is better to return home prematurely rather than risk the spouse's emotional, physical, and psychological health, and even possibly their marriage (Punnett, 1997).

This lack of familial preparation has contributed to spouses and families of expatriate employees being unprepared for the impact of culture shock and a resulting lack of ability to make the cross-cultural adjustment. An anonymous American HRM executive summarized the problem this way:

For 24 years I have seen expatriate spouses come and go. Many would fail or be miserable because they didn't have the split-level home on a dead end street, the Jello, the prepared foods, etc.—or many would have the experience of their life. Whether the family's experience is miserable or exciting depends on the spouse. When the spouse adjusts, goes, and does it, everything else follows (Black & Gregersen, 1991, p. 461).

*Gender and Age.* In contrast to demographic variables such as family status and previous international experience, which have been empirically identified as key demographic factors affecting the culture shock of the expatriate employee, there is less empirical support in the literature concerning the affect of gender and age on expatriate culture shock. With respect to gender, one reason for this scarcity may be that the overwhelming majority of expatriate employees are male. In fact, estimates indicate that 90 percent to 97 percent of expatriate employees are male (Shaffer & Harrison, 2001; Takeuchi et al., 2002).

According to Katz and Seifer (1996), some countries try to maximize the division of the social gender role. Katz and Seifer referred to these countries as "masculine" societies. It is conceivable that female expatriates may experience higher levels of culture shock when sent to such countries. This is supported in previous research by Thai and Cateora (1979) who intimated that female expatriates may have greater adjustment difficulties due to a cultural bias against females in certain countries (i.e., in the Middle East, Latin America, and Japan).

Conversely, research findings by Adler (1984, 1986) as well as Adler and Izraeli (1988) indicated that cultural bias against females was often restricted primarily to women of that country and that female expatriates were predominantly viewed as foreigners, who happened to be women. Adler and Izraeli (1988) noted that the overwhelming conclusion about female expatriates was their scarcity.

Age is another demographic variable that may or may not have an affect on expatriate culture shock. Unfortunately, there appear to be very few studies that have empirically examined the affect of age on expatriate culture shock. In fact, in the international adjustment literature in general, there is little empirical research on the impact of age (Birdseye & Hill, 1995). Birdseye and Hill (1995) attempted to redress these oversights and omissions (at least in part) with an empirical study they hoped would fill some of the gaps in the literature with respect to age and its affect on expatriate adjustment.

Results of Birdseye and Hill's study provided some valuable insight regarding the affect of age on expatriate adjustment. They found that expatriates over the age of 45 were significantly less likely to leave their international assignments earlier than their younger counterparts. Intuitively, one could speculate that Birdseye and Hill's results indicate that older expatriates are more likely to successfully resolve their culture shock and make the cross-cultural adjustment. However, this may be an errant speculation in that the aforementioned findings could be a result of any number of factors. For example, it is possible that Birdseye and Hill's results could be due to the impact of longer tenure with the organization. That is, that expatriates who had been with an organization for a longer period of time may simply be more willing to "stick it out" than younger expatriates with less tenure with the organization — regardless of the severity of their culture shock experience.

*Previous International Experience.* An additional demographic variable linked to uncertainty reduction is an individual's previous experience living in a foreign country (Dawis & Lofquist, 1984; Nicholson, 1984; Torbiorn, 1982). According to Black et al. (1999), previous international experience can help expatriate candidates know, generally, what to expect when relocating and adjusting to a new country and culture. As expatriate candidates utilize practices and processes from past international adjustment experiences, they can rely on this information



to reduce uncertainty in the upcoming transition (Louis, 1980). The result may be a more accurate anticipatory adjustment, which may culminate in less uncertainty and, therefore, the culture shock for the expatriate would be expected to be lower and the cross-cultural adjustment process would be expected to be quicker (Black & Gregersen, 1991; Black et al., 1991). Church (1982, p. 549), in his review of the empirical literature, asserted that "empirical findings support the importance of accurate prior cultural experience or prior exposure for sojourner adjustment." Overall, previous international experience does appear to result in less culture shock and may facilitate adjustment for expatriates (Black et al., 1991).

***Hypothesis 2:** Demographic characteristics of the expatriate such as family status, age, gender, and previous international experience will affect the degree to which expatriates experience culture shock.*

### **Personality Characteristics of the Expatriate**

Although research has demonstrated that a high percentage of expatriate failure is due to certain demographic factors—like family status—few organizations recognize the role of core personality traits and the impact of key competencies on expatriate culture shock (Ioannou, 1995). In a study conducted by the National Foreign Trade Council of New York, a non-profit organization formed to promote export expansion and Selection Research International (SRI), a St. Louis-based consulting firm that assists organizations in the selection and training of expatriates, of 52 *Fortune* 500 companies surveyed, only eight had any mechanism in place that in any way considered the core personality traits and competencies that made for successful expatriates. The same survey also revealed that "almost all companies fail to carry out any psychological testing of managers destined for foreign locals" (Ioannou, 1995, p. 55).

Research has demonstrated that certain core personality traits and competencies possessed by individuals can result in an increased or decreased likelihood that individuals will be negatively affected by culture shock (Black, 1990; Black et al., 1999; Harrison, 1994; Mendenhall & Oddou, 1985). Key traits identified in the literature included: cultural flexibility, ethnocentricity, stress reactions, interpersonal and relational skills, and a willingness to communicate. Each of these traits will be briefly examined in the following subsections.

***Cultural Flexibility.*** Cultural flexibility encompasses both openness to new or different behaviors and the flexibility to replace activities enjoyed in one's home country with available, and usually different, activities in the host country (Black, 1990). Cultural flexibility is considered to be critical to expatriate success and overcoming culture shock because it involves an individual's cognitive flexibility. Since the activities once enjoyed in the home culture may not be available in the host culture, it is important that an expatriate possess a willingness to seek out, try, and experiment with new activities. Otherwise, the expatriate may experience feelings of isolation, loneliness, and frustration, which work in tandem to increase culture shock and inhibit adjustment (Black, 1990; Church, 1982). A person who is open to new and different behaviors and is flexible enough to actually attempt new activities can substitute those activities for those enjoyed in the home culture. This is a critical part of overcoming culture shock (Black, 1990; Harrison, 1994; Mendenhall & Oddou, 1985).



*Ethnocentricity.* Another personality trait that has been identified in the literature as being instrumental in its affect on expatriate culture shock and cross-cultural adjustment is the degree to which an expatriate candidate is ethnocentric. Ethnocentricity embodies the notion that the values and beliefs held in one's own culture are superior to those held by peoples in other cultures (Wortzel & Wortzel, 1985). Research has demonstrated that ethnocentric expatriate candidates are more likely to face severe and debilitating culture shock and are more likely to fail in an expatriate assignment than individuals who exhibit a more tolerant orientation (Caligiuri & Di Santo, 2001; Church, 1982; Furnham & Bochner, 1986; Stening, 1979).

Ethnocentric individuals tend to make little effort to understand or consider the perspectives, ideas, and behaviors of others (Black, 1990). According to Black, since individuals with high levels of ethnocentricity view their own societal behaviors, norms, and values as correct and those of other societies and cultures as incorrect or wrong, they make little effort to understand host country nationals (HCNs) or their culture. Further, ethnocentric individuals make little or no effort to modify their own behavior in order to make it more congruent with the host culture norms.

According to Black, even if ethnocentric individuals view their behavior as correct, if it is perceived as inappropriate or unacceptable in the host culture, these individuals will receive negative feedback and possible negative consequences associated with their culturally inappropriate behavior. This could result in frustration and anxiety which would tend to increase culture shock and therefore inhibit adjustment (Black, 1990).

*Stress Reactions.* Research has shown that the way an expatriate reacts to stress can be a crucial factor in determining if this individual can successfully resolve their culture shock and make the cross-cultural adjustment. Recall that culture shock is primarily a manifestation of the stress that results from uncertainty, role ambiguity, frustration, and even anger. Therefore, the way in which an individual responds to stress in general, will have a tremendous impact on the expatriate's culture shock experience. Cross-cultural theorists have long believed that entrance into an unfamiliar culture produces stress within the expatriate (Black, 1988, 1990; Byrnes, 1966; Church, 1982; Mendenhall & Oddou, 1985; Oberg, 1960; Tung, 1981, 1982).

A study by Ratiu (1983) reported that expatriates who dealt with their culture shock effectively used what he called "stability zones" to which they would retreat when conditions in the host country became overly stressful to them. Rather than allowing themselves to become isolated, lonely, and fall into depression (key indicators of debilitating culture shock), these expatriates temporarily engaged in meditation, writing, hobbies, religious worship, and other stress-reducing activities. They were then able to "re-emerge" having successfully and productively dealt with their stress. Expatriates who established a pattern of utilizing "stability zones" were more likely to pass through the culture shock experience and eventually make a successful cross-cultural adjustment.

*Interpersonal Skills.* A further review of the literature (e.g., Hammer, Gudykunst, & Wiseman, 1978; Hammer, 1987; Mendenhall & Oddou, 1985) unveiled that a frequent source of culture shock in expatriate assignments relates to interpersonal conflicts with host country nationals. A 1983 study by Abe & Wiseman analyzed a sample of Japanese students adjusting to life in

the United States. Similarly, a study by Hawes and Kealey (1981) examined a sample of Canadian technical advisors in Africa. Both of these studies revealed that the ability to deal with interpersonal conflicts in a "collaborative manner", with a focus on mutual understanding, was related to decreased culture shock and quicker adjustment and, therefore, contributed to expatriate success.

Intuitively, if a frequent cause of expatriate culture shock is interpersonal conflict with host country nationals, then strong relational skills would be an asset to an expatriate (Mendenhall & Oddou, 1985), resulting in reductions in culture shock. In fact, in their 1985 study, Mendenhall and Oddou intimated that individuals who had strong interpersonal skills in their home culture tended to experience less culture shock and adjusted better as expatriates than their counterparts who had lower levels of interpersonal skills. In particular, they found that the ability to develop long lasting friendships with host country nationals was an important factor in overcoming culture shock and in making a successful overseas adjustment (Mendenhall & Oddou, 1985). Expatriates who developed friendships with nationals were able to overcome many of the cultural barriers as well as avoid cultural mistakes with the assistance of their HCN friends. Avoiding these mistakes, reducing the uncertainty, and having host country nationals as friends to assist in making behavior modifications were key factors in reducing culture shock (Mendenhall & Oddou, 1985).

*Willingness to Communicate.* Language abilities or even a willingness to attempt communication in the native language of the host country has been identified as a personal characteristic that can affect expatriates' success or failure by way of helping them overcome culture shock—effectively making a successful cross-cultural adjustment (Black, 1990; Katz & Seifer, 1996). Research has demonstrated that proficiency in the language of the host country can reduce culture shock and facilitate adjustment, because inability to effectively communicate with host country nationals would tend to increase culture shock and, therefore, inhibit adjustment (Black, 1990; Church, 1982).

Mendenhall and Oddou (1985) found an individual's willingness to try—to make an effort to use the language—had a greater influence on the expatriate overcoming culture shock than the actual level of fluency in the foreign language. The expatriate's willingness and desire to communicate, in contrast to their ability to communicate, was found to be the more influential factor in overcoming culture shock and making a successful adjustment.

***Hypothesis 3:** Expatriates who demonstrate less cultural flexibility, greater ethnocentrism, have stronger stress reactions, fewer interpersonal skills, and are less willing to attempt to communicate with host nationals are more likely to experience higher levels of culture shock.*

### **Organizational Support Activities**

There is a growing body of literature suggesting that expatriate culture shock is influenced by the degree to which the expatriate perceives and experiences organizational support once in their host country (Eisenberger, Fasolo, & Davis-LaMastro, 1990; Punnett, 1997). Perceived organizational support (POS) embodies employees' beliefs involving the extent to which their organizations care about their well-being. These beliefs are formulated on the basis of actions taken by the organization with regard to the upcoming international assignment.



The dynamics associated with an individual's perception of organizational support might include the subconscious evaluation of the following questions. For example, they might ask if the organization's selection processes and mechanisms for choosing expatriates were fair and equitable. More importantly, were the selection criteria for making the decision appropriate? Does the employee believe that he or she (and the appropriate family members) have received the necessary amount of cross-cultural training? Does the employee believe the organization's relocation compensation package is sufficient? Does the employee believe that the home organization will maintain sufficient contact during the expatriate assignment? Does the employee believe that there will be a suitable and desirable position available upon repatriation?

If the answer to the majority of these questions is yes, it is highly likely that the expatriate employee will perceive that the parent organization is providing a high level of support (Munton & Forster, 1990). According to Black and Gregersen (1992), higher levels of POS contribute to a greater level of affective commitment to making the international assignment successful. Intuitively, it could be argued that a higher affective commitment by the expatriate would increase the likelihood that the expatriate would make the required behavior modifications necessary for a reduced level of culture shock and for a successful cross-cultural adjustment.

Organizational support activities also include the support the expatriate actually receives once in their country of assignment. There is empirical research linking high levels of in-country organizational support with a successful resolution of culture shock by expatriates. Punnett (1997) found that in-country social support was critical once expatriates began to experience culture shock. Specifically, Punnett found that organizational support in the form of assistance with making housing, schooling, and transportation arrangements were critical to overcoming culture shock. Research by Black et al. (1991) tends to support Punnett's contentions. They found that an organizational culture that encouraged strong social support from expatriate co-workers (assuming there are expatriate coworkers—which may not always be the case) in the overseas subsidiary would provide new expatriates with information about what was acceptable and unacceptable in the host culture. This would result in reduced uncertainty and, consequently, culture shock would decrease.

***Hypothesis 4:** Expatriates that receive higher levels of organizational support from their parent company—both prior to departure and post-arrival—are more likely to exhibit lower levels of culture shock.*

### **Technical Competence of the Expatriate Employee**

Although top managers often select expatriates based on job-related knowledge and technical or managerial expertise without considering other critically important factors, it would be a mistake to exclude job-related abilities from the list of factors that impact expatriate culture shock (Baker & Ivancevich, 1971; Black, 1990; Black et al., 1999; Mendenhall & Oddou, 1985; Miller, 1972, 1973; Tung, 1981; Vassel, 1983). Research supports the notion that job-related abilities are one of the key factors affecting the culture shock experienced by the expatriate and their likelihood of success (Black et al., 1999; Downes & Thomas, 1999). According to Mendenhall and Oddou (1985), all expatriates are assigned to their overseas posts to accomplish a task. Possessing the necessary expertise or skills to perform the requisite tasks



has been identified as an important factor in resolving culture shock, promoting successful adjustment, and, therefore, contributing to successful expatriate assignments (Black & Gregersen, 1999; Black et al., 1999).

Black's (1990) study of Japanese expatriate managers in the United States demonstrated that expatriate adjustment is not a unidimensional construct. Black's findings suggested that expatriates must adjust to three facets of the foreign assignment. One of these three facets was the job, including work responsibilities. Black posited that expatriates who possessed strong managerial or technical skills were less likely to suffer adjustment difficulties related to their work and, therefore, less culture shock than expatriates who either did not possess strong job-related skills or who questioned their efficacy with respect to their job-related capabilities. Black's (1990) research is supported in recent findings by Takeuchi et al. (2002). Specifically, Takeuchi et al. found that a lack of work adjustment by the expatriate spilled over and negatively impacted the expatriate's general adjustment which could have the effect of increasing culture shock.

Despite the importance of expatriate skills and abilities, there is ample evidence that choosing expatriates based primarily on their job-related abilities is a fundamental mistake and that technical competence alone is a poor predictor of whether or not an expatriate possesses the ability to overcome culture shock (Shilling, 1993). Since job-related abilities and technical or managerial ability is generally a known factor (having been assessed in performance evaluations and appraisals) it has been suggested that organizations avoid prematurely narrowing the field to "the best" or "the expert." Rather, a better approach might be to determine the minimal level of acceptable job-related abilities so as to cast a wide net. This would maximize the likelihood of finding the expatriate candidate who possesses both the required job-related abilities and the critically important core personality traits and competencies (Shilling, 1993). The combination of the two (job abilities and personality traits) in an expatriate candidate would reduce the likelihood that the expatriate would experience debilitating culture shock. Although finding expatriate candidates who possess both the job-related competencies and the personality-related competencies may be difficult and even expensive to accomplish, research has demonstrated that these are the expatriate candidates most likely to resolve culture shock and make the necessary adjustments to succeed in the foreign assignment (Black, 1990; Caligiuri, 2000; Mendenhall & Oddou, 1985; Shilling, 1993).

*Hypothesis 5: Expatriates who demonstrate higher levels of technical or managerial competence are likely to experience lower levels of culture shock.*

## CONCLUSION

Despite the stated purpose of this manuscript, it would be misleading to imply that all variables or factors conceivably impacting expatriate culture shock have been identified. This study has, however, identified the primary factors affecting expatriate culture shock. The bottom line is this: expatriates do not, cannot, and will not make successful cross-cultural adjustments unless they overcome the potentially debilitating affects of culture shock. Further exploration of the culture shock phenomenon is both warranted and needed.

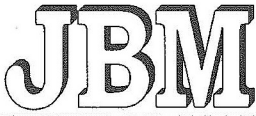
## REFERENCES

- Abe, H. & Wiseman R. L. (1983). A cross-cultural confirmation of intercultural effectiveness. *International Journal of Intercultural Relations*, 7, 53-68.
- Adler, N. J. (1984). Women in international management. *California Management Review*, 26, 78-99.
- Adler, N. J. (1986). *International dimensions of organizational behavior*. Boston: PWS-Kent Publishing Company.
- Adler, N. J., & Izraeli, D. N. (1988). *Women in management*. New York: M. E. Sharp Inc.
- Baker, J.C., & Ivancevich, J. M. (1971). The assignment of American executives abroad: Systematic, haphazard, or chaotic? *California Management Review*, 13, 39-44.
- Birdseye, M. G., & Hill, J. S. (1995). Individual, organizational/work and environmental influences on expatriate turnover tendencies: An empirical study. *Journal of International Business Studies*, Fourth Quarter, 787-813.
- Black, J. S. (1988). Work role transitions: A study of American expatriate managers in Japan. *Journal of International Business Studies*, 19, 277-294.
- Black, J. S. (1990). Personal dimensions and work role transitions. *Management International Review*, 30, 119-134.
- Black, J. S., & Gregersen, H. B. (1991). The other half of the picture: Antecedents of spouse cross-cultural adjustment. *Journal of International Business Studies*, 3, 461-478.
- Black, J.S., & Gregersen, H.B. (1992). Antecedents to commitment to a parent company and a foreign operation. *Academy of Management Journal*, 33, 61-72.
- Black, J. S., & Gregersen, H. B. (1999). The right way to manage expatriates. *Harvard Business Review*, 77, 52-63.
- Black, J. S., Gregersen H. B., Mendenhall M. E., & Stroh, L. K. (1999). *Globalizing People through International Assignments*. Reading: Addison-Wesley.
- Black, J. S., & Mendenhall, M. (1990). Cross-cultural training effectiveness: A review and theoretical framework for future research. *Academy of Management Review*, 15, 113-136.
- Black, J. S., Mendenhall, M., & Oddou, G. (1991). Toward a comprehensive model of international adjustment: An integration of multiple theoretical perspectives. *Academy of Management Review*, 16, 291-317.
- Black, J. S., & Stephens, J. K. (1989). The influence of the spouse on American expatriate adjustment in overseas assignments. *Journal of Management Science*, 15, 529-544.
- Byrnes, F. C. (1966). Role shock: An occupational hazard of American technical assistants abroad. *The Annals*, 368, 95-108.
- Caligiuri, P. M. (2000). The Big Five personality characteristics as predictors of expatriates' desire to terminate the assignment and supervisor-rated performance. *Personnel Psychology*, 53, 67-88.
- Caligiuri, P. M., & Di Santo, V. (2001). Global competence: What is it, and can it be developed through global assignments? *Human Resource Planning*, 24, 27-34.
- Church, A. T. (1982). Sojourner adjustment. *Psychological Bulletin*, 91, 540-572.
- Dawis, R. V. & Lofquist, L. H. (1984). *A psychological theory of work adjustment*. Minneapolis: University of Minnesota Press.
- Deshpande, S. P., & Viswesvaran, C. (1992). Is cross-cultural training of managers effective: A meta-analysis. *International Journal of Intercultural Relations*, 16, 295-310.

- Downes, M. & Thomas, A. S. (1999). Managing Overseas Assignments to Build Organizational Knowledge. *Human Resource Planning*, 22, 33-48.
- Eisenberger, R., Fasolo, P., & Davis-LaMastro, V. (1990). Perceived organizational support and employee diligence, commitment and innovation. *Journal of Applied Psychology*, 75, 51-59.
- Furnham, A., & Bochner, S. (1986). *Culture shock: Psychological reactions to unfamiliar environments*. London: Methuen.
- Hammer, M. R. (1987). Behavioral dimensions of intercultural effectiveness. *International Journal of Intercultural Relations*, 11, 65-88.
- Hammer, M. R., Gudykunst, W. B., & Wiseman, R. L. (1978). Dimensions of intercultural effectiveness: An exploratory study. *International Journal of Intercultural Relations*, 2, 382-393.
- Harrison, J. K. (1994). Developing successful expatriate managers. *Human Resource Planning*, 17, 17-33.
- Harvey, M. G. (1985). The executive family: An overlooked variable in international assignments. *Columbia Journal of World Business* (Spring), 84-92.
- Hawes, F., & Kealey, D. (1981). An empirical study of Canadian technical assistants. *International Journal of Intercultural Relations*, 5, 239-258.
- Hisam, T. G. (1997). Dissertation abstracts: The value of expatriate support programs in reducing susceptibility to culture shock for American expatriated employees working in Germany. *Journal of International Business Studies*, 4, 884-886.
- Ioannou, L. (1995). Unnatural selection. *International Business*, 54-57.
- Katz, J., & Seifer, D. M. (1996). It's a different world out there: Planning for expatriate success through selection, pre-departure training and on-site socialization. *Human Resource Planning*, 19, 32-49.
- Louis, M. R. (1980). Surprise and sensemaking: What newcomers experience in entering unfamiliar organizational settings. *Administrative Science Quarterly*, 25, 226-247.
- Mendenhall, M., & Wiley, C. (1994). Strangers in a strange land. *American Behavioral Scientist*, 5, 605-621.
- Mendenhall, M., & Oddou, G. (1985). The dimensions of expatriate acculturation: A review. *Academy of Management Review*, 10, 39-48.
- Miller, E. L. (1972). The overseas assignment: How managers determine who is to be selected. *Michigan Business Review*, 24(3), 12-19.
- Miller, E. L. (1973). The international selection decision: A study of some dimensions of managerial behavior in the selection process. *Academy of Management Journal*, 16, 239-252.
- Mumford, D. B. (1998). The measurement of culture shock. *Journal of Social Psychiatry & Psychiatric Epidemiology*, 33, 149-154.
- Munton, A. G., & Foster, N. (1990). Job relocation: Stress and the role of the family. *Work and Stress*, 4, 75-81.
- Naumann, E. (1992). A conceptual model of expatriate turnover. *Journal of International Business Studies*, 3, 499-532.
- Nicholson, N. (1984). A theory of work role transitions. *Administrative Science Quarterly*, 29, 172-191.
- Oberg, K. (1960). Culture shock: Adjustment to new cultural environments. *Practical Anthropologist*, 7, 177-182.



- Punnett, B. J. (1997). Towards an effective management of expatriate spouses. *Journal of World Business*, 3, 243-258.
- Ratiu, I. (1983). Thinking internationally: A comparison of how international executives learn. *International Studies of Management and Organization*, 13, 139-150.
- Shaffer, M. A., & Harrison, D. A. (2001). Forgotten partners of international assignments: Development and test of a model of spouse adjustment. *Journal of Applied Psychology*, 86, 238-254.
- Shannonhouse, R. (1996). Overseas-assignment failures. *USA Today/International*, 8A.
- Shilling, M. (1993). Avoid expatriate culture shock. *HRMagazine* (July), 58-63.
- Solomon, C. M. (1994). Success abroad depends on more than job skills. *Personnel Journal*, 4, 51-59.
- Stening, B. W. (1979). Problems of cross-cultural contact: A literature review. *International Journal of Intercultural Relations*, 3, 269-313.
- Taboada, M. B. (1998). Firms try to ease shock of stranger in strange land. *Business First — Columbus*, 33, 43.
- Takeuchi, R., Tesluk, P., & Yun, S. (2002). An examination of crossover and spillover effects of spousal and expatriate cross-cultural adjustment on expatriate outcomes. *Journal of Applied Psychology*, 87, 655-666.
- Thai, N. L., & Cateora, P. R. (1979). Opportunities for women in international business. *Business Horizons*, 22, 21-27.
- Torbiorn, I. (1982). *Living abroad: Personal adjustment and personnel policy in the overseas setting*. New York: Wiley.
- Tung R. L. (1981). Selecting and training personnel for overseas assignments. *Columbia Journal of World Business*, 19, 68-78.
- Tung R. L. (1982). Selection and training procedures of U.S., European, and Japanese multinationals. *California Management Review*, 25, 57-71.
- Vassel, B. (1983). *Ten ways to improve performance in your overseas operation*. Paper presented at the Annual OB Conference, Brigham Young University.
- Weeks, D. A. (1993). Reluctant Expatriates. *Across the Board*, 30, 14.
- Winkelman, M. (1994). Culture shock and adaptation. *Journal of Counseling and Development*, 73, 121-126.
- Wortzel, H., & Wortzel, L. (1985). Corporate culture and human resource management. In H. Wortzel & L. Wortzel (Eds.), *Strategic management of multinational corporations* (pp. 114-137). New York: John Wiley & Sons.



# JOURNAL OF BUSINESS AND MANAGEMENT

## INVITATION TO REVIEW MANUSCRIPTS

The review process is a critical step in publishing a quality journal. The staff and editor of the *Journal of Business and Management* invite you to participate in the ongoing activities necessary to make *JBM* a reputable scholarly outlet. If you would like us to send you manuscripts for review, please complete the form below or attach a business card and return the information to our offices.

NAME:

---

ADDRESS:

---

---

---

EMAIL:

---

Please list your major areas of interest:

Please indicate how many manuscripts you would be willing to review in an academic year:

1      2      3      4      5

Please complete this form and mail it to:

Raymond L. Hogler, Editor  
*JOURNAL OF BUSINESS AND MANAGEMENT*  
Management Department  
Colorado State University  
Fort Collins, CO 80523