Exploring cultural heterogeneity: The effect of intra-cultural variation on executives' latitude of actions in 18 countries

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EXPLORING CULTURAL HETEROGENEITY: THE EFFECT OF INTRA-CULTURAL VARIATION ON EXECUTIVES' LATITUDE OF ACTIONS IN 18 COUNTRIES

Abstract

Research on the degree of managerial discretion, or latitude of action, accorded to executives at the national level has primarily focused on the effect of inter-cultural variation in values on managerial discretion by assuming spatial homogeneity within countries. However, evidence in cross-cultural research indicates that cultural heterogeneity within countries can be as salient as or sometimes even more than inter-country variation. Thus, this study examines the extent to which intra-cultural variation affects the degree of discretion accorded to executives. The study tests the proposed relationships using fixed-effect regression analysis by measuring managerial discretion through survey responses of senior management consultants. It operationalises intra-cultural variation by the standard deviation in societal members' behaviour in terms of individualism, uncertainty tolerance, and power distance. Results show that a strong relationship exists between intra-cultural variation and managerial discretion and that the direction of the relationship is negative. Executives operating in countries with high heterogeneity are subject to increased constraints from the national environment and, as such, are not able to take idiosyncratic or bold actions. Managerial discretion not only is a function of the central tendency of a society but depends on the homogeneity/heterogeneity in views innate therein. Using institutional, stakeholder, and upper echelons theories, the study shows that greater intra-cultural variation negatively affects the degree of executive discretion. Thus, it provides a more nuanced understanding of such relationship and introduces a new national construct that plays an important role in the strategic decision making of business executives.

Keywords intra-cultural variation, cultural heterogeneity, national culture, managerial discretion, latitude of actions.

Introduction

Although managerial discretion research has expanded beyond firms' task environment, this research has focused almost exclusively on one aspect of culture, the central tendency of societal members operationalised as the cultural mean, while neglecting other aspects of culture (e.g. Aktas *et al.*, 2016; Early and Mosakowski, 2002; Gelfand *et al.*, 2006). This orientation has led to a shortcoming in the understanding of the possible effect of other cultural aspects on managerial discretion, and these types of research questions have led to a call for an expansion of the "conceptual toolkit" to broaden the scope of cross-cultural and management research (Gelfand *et al.*, 2006).

Recent research in the discretion literature has unveiled important cultural influences on managerial discretion, notably individualism, uncertainty tolerance, and power distance. However, beyond the need to uncover the 'values' aspect of culture, research should put more emphasis on the implications of the varying degrees of behaviour within a given culture. Intra-cultural variation is an important but under-researched dimension of national culture that should attract research attention, especially in terms of its association with executives' latitude of actions. Although some initial attempts have highlighted the importance of within-cultural differences (intra-cultural variation) in affecting several micro- and macro-level variables (e.g. Beugelsdijk *et al.*, 2014), its association with managerial discretion has not been explored. Such shortcomings limit understanding of the national factors that could drive or hinder the freedom in decision making, particularly for executives residing in different countries.

Accordingly, this study aims to theoretically and empirically discuss the implication of intra-cultural variation on managerial discretion across 18 countries. This is achieved by integrating the advancement in cross-cultural research with the strategic management realm. Given the original conceptualisation of managerial discretion (Hambrick and Finkelstein, 1987), the effects of various stakeholder groups and their zones of acceptance on managerial discretion have not been the subject of previous scholarly attention. This work draws on stakeholder theory (Donaldson and Preston, 1995) to conceptually explain that the latitude of executive actions is not solely dependent on the aggregate acceptance of most stakeholders, operationalised as the central tendencies of a culture, but also subject to the acceptance of individual stakeholders. Therefore, this study highlights the importance of intra-cultural variation, provides a deeper understanding of this construct, and introduces new national-level antecedents of managerial discretion.

Review of Executives' Latitude of Actions

Managerial discretion is conceptualised as the latitude in executives' decision making (Hambrick and Finkelstein, 1987). It explicitly emerges as a conceptual link between theories that are predominantly deterministic (e.g. population ecology [Hannan and Freeman, 1977], neoinstitutionalism [DiMaggio and Powell, 1983]) and those that are mostly managerial (e.g. upper echelons [Hambrick and Mason, 1984]). Discretion exists to the extent that constraints to decision making are relatively absent and when multiple plausible alternatives are available to executives. As such, it is a function of the individual executive (e.g. locus of control), the organization (e.g. resource availability), and the task environment (e.g. industry regulations) characteristics or any combination of these. Together, these internal and external factors constitute a powerful range of possible limitations or catalysts for executive actions.

At the individual level, research shows that executives operating within the same domain can foresee a distinct set of actions depending on their individualities and psychological characteristics (Wangrow *et al.*, 2015). Some executives can foresee a wider range of alternatives and envision multiple courses of actions that would affect organization outcomes. These psychological micro-foundations are unique features that determine executives' discretion. For example, executives with greater locus of control (Carpenter and

Golden, 1997), ambiguity tolerance (Dollinger *et al.*, 1997), networking relationships (Geletkanycz and Hambrick, 1997), risk-taking behaviour (Roth, 1992), and lower commitment to the status quo (McClelland *et al.*, 2010) possess more discretion.

At the organizational level, firms with abundant and easily transferable resources allow executives to foresee change and choose from a wider variety of alternatives (Hambrick and Finkelstein, 1987). Similarly, the lack of ingrained culture and the existence of a passive board accord executives with more discretion (Boyd and Salamin, 2001). Relatedly, CEO duality increases the likelihood of strategic change, which in turn enhances managerial discretion (e.g. Kim, 2013; Quigley and Hambrick, 2012). By contrast, organizations with an entrenched, rigid culture resulting from standardised routines and control put strict constraints on executives' actions and make it difficult for them to initiate any strategic change (e.g. Key, 2002; Wangrow *et al.*, 2015).

The task environment in which firms operate can also drastically alter executive actions. Some industries offer a greater variety of choices/actions than others. Hambrick and Abrahamson (1995) argue that advertising and R&D intensity along with market growth have a positive impact on managerial discretion. However, industry regulations constrain executives' latitude of actions (Peteraf and Reed, 2007). Similarly, Finkelstein (2009) finds that demand variability along with industry concentration negatively affects CEO discretion.

Although Hambrick and Finkelstein (1987: 379) argue that discretion is closely related to "the degree to which the environment allows variety and change," most studies conceptualise the task environment in terms of industry characteristics. Scant work has considered the impact of the macro-environment, more precisely the national setting, on executive discretion. Recent endeavours have broadened the milieu in which discretion emanates. Crossland and Hambrick (2011) were first to empirically demonstrate that culture measured through a set of values—namely, individualism, uncertainty avoidance, and power distance—play a crucial role in defining the degree of discretion CEOs have in various countries. They find that informal (cultural values) and formal (ownership structure, legal origin and employer flexibility) institutions are associated with the degree of managerial discretion. However, the examination was limited to the aggregate conceptualisation of culture (cross-country differences) and assumed greater homogeneity within countries. They only focused on the central tendency of country's cultural behaviour. In the same vein, other authors ignored the importance of intra-cultural variation. Haj Youssef and Christodoulou (2017) extended the national level dimension of managerial discretion by discovering new antecedents, but they also assumed greater homogeneity within the Arab countries. Although, they open a new horizon in the discretion research and show the importance of context – namely cultural practices – while studying managerial discretion, they ignored the heterogeneity in behaviour within countries and only looked at the central tendency of the society. Therefore, this paper takes a different stance by appreciating that societal members are not homogenous in their behaviour and that intra-cultural variation plays an important role in defining the latitude of executives' action.

The Concept of Intra-Cultural Variation

To many scholars, the variations between members of a society/country commonly refer to cultural differences (Hofstede, 1991). However, members of a culture often differ from one another, as most cultural environments possess a degree of both homogeneity and heterogeneity (variation) in behaviour innate to that society (Carpenter, 2000; Uz, 2015). Most research focuses on the "central tendency" of societal members, which denotes the typical members of a country. Quantitatively, the central tendency of societal members on a specific characteristic is mainly represented by the cultural means of such attributes (Au, 1999). The essence of cross-cultural research is to offer scientific interpretation of cultural differences rather than simply presenting the differences between countries (e.g. Mullen, 1995). Not considering within-country variance or diversity may well lead to a missed opportunity for a more nuanced, holistic, and comprehensive approach to studying national culture. As such, intra-cultural variation, which cross-cultural researchers have ignored, especially in the discretion realm, is an important construct to further understand cultural implications.

Au (1997, 1999, 2000; Au and Cheung, 2004) is among the main allies of the intra-cultural variation construct and perhaps the only scholar who makes the most explicit and strongest argument for the integration of the intra-cultural variation construct in cross-cultural studies. This construct is particularly important in the context of managerial discretion, as it helps define the boundaries of executive actions. In other words, it might be perceived that a CEO operating in a homogeneous culture (e.g. Japan) would be faced with established practices, limiting any attempt to deviate from the central tendency of the society. In such cases, the array of actions would be narrow. Conversely, a CEO in a heterogeneous society (e.g. USA) would have a wider array of actions to choose from, as the boundaries of the central tendencies are wider. However, this is not necessarily the case. In our discussion, we relax the homogeneity assumption of national culture, and as do other scholars (e.g. Venaik and Midgley, 2015), argue that there is significant heterogeneity within and across countries that plays a role in changing the degree of discretion an executive can have.

Culture is an important concept to many scholars in a wide range of disciplines. Influenced by the work of Hofstede (1980, 2001) and more recently House *et al.* (2004), the scholarly community, particularly the cross-cultural business group, has consistently measured culture on the basis of national scores. Notwithstanding the acceptance and importance of these national scores, studies have been criticised from various angles, such as construct validity (e.g. Brewer and Venaik, 2014), ideological basis (e.g. Ailon, 2008), and homogeneity assumption (e.g. Dheer *et al.*, 2015). Particularly relevant is the last assumption, which most earlier works have taken for granted. As some academics have argued, such a supposition may be acceptable if the cross-cultural variance is greater than the within-country variance (Hanges and Dickson, 2006; Ronen and Shenkar, 2013), which is not always the case in cross-cultural research (Venaik and Midgley, 2015).

Recent discussion in the cross-cultural and international management literature has underscored the importance and appropriateness of within-country variance (intra-cultural variation) to uncover various cultural implications (e.g. Au and Cheung, 2004; Peterson *et al.*, 2012; Tung and Verbeke, 2010). According to Klein and Kozlowski's (2000) typology, the conceptualisation of a group has three main properties: global, shared, and configurational. The global aspect involves the encompassing properties that are mostly dominant and recognisable, such as political system, economic growth, and so on. Although the shared and configurational properties both emerge from the characteristics of a group (in this case a country), the shared properties are common among all the group members who embrace such a particularity. By contrast, the configurational property is not shared and is unique to each group member (Ralston *et al.*, 2014). These differences are mainly due to either meso-level (e.g. religion, region) or individual-level (e.g. age, gender) attributes. While most of the works in the cross-cultural literature, especially in the field of managerial discretion, have relied on the first two properties of Klein and Kozlowski's (2000) typology, some have incorporated the within-country differences to provide a better understanding of the impact of culture. Recently, Venaik and Midgley (2015) incorporated the configurational perspective and reconciled it with the national averages theoretical construct to develop cultural archetypes. Similarly, Richter *et al.* (2016) argue that the configurational perspective allows for a more holistic understanding of cultural dimensions and their consequent effects.

Moreover, Tsui *et al.* (2007) argue that culture scholars rely heavily on the consideration of the global and shared properties of national culture and assume that shared property, using mean scores, is the main characteristic of a nation. Similarly, the observations of Au and Cheung (2004) explicitly indicate the lack of consideration of the dispersion of behaviour or practices within a country. In their review of cross-cultural studies, Kirkman *et al.* (2006) highlighted this gap and encouraged researchers to employ the intra-country variation construct. Such importance is also reflected in Kirkman *et al.*'s (2009) study of Chinese and US employee–manager relationships, in which they concluded that to understand culture, one needs to know the within-country variance and not only the shared attributes of a society. In the same vein, Steel and Taras (2011) described in their meta-analysis study that almost 90 percent of variance in cultural attributes can be found within countries. Therefore, the adoption of the configurational perspective, which has been recognised by some scholars (e.g. Fischer *et al.*, 2011; Gurven *et al.*, 2008; Lenartowicz and Roth, 2001), is crucial to provide new insights and develop the cross-cultural field.

The fundamental tenet of intra-cultural variation is to show the extent to which the shared practices within a society are widely and deeply shared among its members (Puia and Ofori-Dankwa, 2013). Drawing on the multi-layered construct of culture (Leung *et al.*, 2005), Tung (2008a) argued for the necessity to account for intra-national variation when conducting cross-cultural research. Context is a fundamental aspect that affects organisational behaviour, which is still not appreciated and properly recognised by researchers. In line with Cappelli and Sherer (1991), Johns (2006) argued that context does not only consist of constraints and opportunities for behaviour but also relates to similarity versus dissimilarity of actions among entities. Such approach to defining context has been largely overlooked by research in the cross-cultural management literature and particularly in the discretion field. Studies that investigated the impact of context on discretion – namely Crossland and Hambrick (2011) and Haj Youssef and Christodoulou (2017) – relied solely on the constraints and opportunities dimension of context without taking into consideration the configuration approach or in other words the similarity and dissimilarity of behaviours. The latter dimension is the missing factor which is the core focus of our paper. Studies have continued to adopt the global and shared perspective when conducting cross-cultural research (Ralston *et al.*, 2014), which has led to fallacious assumptions of cultural homogeneity within a country (Tung and Verbeke, 2010). The reason for this could be multi-faced, in part due to methodological issues (i.e. the unavailability of published large-scale data on within-country variation) (Fischer, 2006) and in part to a lack of appreciation of the contribution that such a construct could bring to the development of cross-cultural research (e.g. Buchholz *et al.*, 2009).

Theoretical Discussion and Research Hypotheses

In the discipline of international marketing, studies find that intra-cultural heterogeneity is an important construct for marketing managers because they need to understand the behaviour, attitudes, and values of a distinct set of customer segments, which is indeed important for positioning purposes (Broderick *et al.*, 2007). When managers are faced with such a diverse set of customer groups, decisions become tougher and little latitude exists in their decision making. The same argument is echoed in the management literature, particularly the upper echelons theory. Executives have restricted information-processing abilities and must be selective in where they focus their attention (Abrahamson and Hambrick, 1997). When faced with a diverse set of information, business leaders will be challenged to choose actions that are acceptable by all societal members. Because discretion confers options and the diversity associated with the selection of these options (Nelson, 1991), the greater the uncertainty in each environment (in this case society), the more executives will consider a wider variety of means to diverse ends. Countries that score high on uncertainty avoidance are characterised as being low on intra-cultural variation (Au, 1999). This means that the array of options available to executives in these environments is less diverse, implying low managerial discretion.

Existing work in the stakeholder literature argues the importance of treating various stakeholder groups well, to enhance organizational performance (e.g. Donaldson and Peterson, 1995; Harrison *et al.*, 2010), which is the focal objective of executives. Stakeholders fall into two main types: self-regarding, or those who care only about themselves (Fehr and Falk, 2002), and reciprocal, or those who care about others and try to punish unfair treatment even if that punishment is costly (Engelmann and Strobel, 2004). Philips *et al.* (2011) argue that executives, and by extension their firms, have the latitude to choose pre-defined actions in response to existing internal or external events. However, the discretion literature well documents that this latitude is limited and subject to various internal (e.g. firm characteristics, executive individualities [Wangrow *et al.*, 2015]) and external (e.g. industry and country characteristics [Crossland and Hambrick, 2007]) factors. Proponents of stakeholder research have emphasised the important role of external factors in influencing executives' behaviour. The argument rests on the premise that firms function within a collection of constituencies that have varying degrees of power, which ultimately impose restrictions on executives' actions. Thus, it would be almost impossible to explain the viability of stakeholder influence as an external factor affecting firms' outcomes without acknowledging the condition of this influence: the degree of managerial discretion. If executives are not accorded enough discretion, it is unreasonable to hold them accountable for mistreating stakeholders.

Research shows that the heterogeneity of stakeholders exists across cultures and even within an environment (country or industry) (e.g. Gardberg and Fombrun, 2006). These stakeholder groups impose strong normative and coercive pressures on organizations (Delmas and Toffel, 2004), which consequently lead to pressures on executives' actions. Top managers are exposed to and face a population of distinct stakeholder groups, each with different motives and heterogeneous behaviour (Bridoux and Stoelhorst, 2014). The heterogeneity of constraints or the dissimilarity of behaviours is overlooked so far in both studies (Crossland and Hambrick, 2011; Haj Youssef and Christodoulou, 2017) that investigated the effect of culture on managerial discretion. Furthermore, Hambrick and Finkelstein (1987: 374) state that “To us, constraint exists whenever an action lies outside the ‘zone of acceptance’ of powerful parties who hold a stake in the organization…. Extending the concept to other types of stakeholders, one can think of board members, bankers, regulators, employees, customers as well as other parties, as all having their own zones of acceptance.” Thus, actions that are acceptable by a given stakeholder group may well be objectionable to others. In such cases and by following the configurational approach, executives exposed to a diverse set of stakeholder groups are strongly challenged to take actions that are in line with the acceptance scale of these stakeholders. Bear in mind that discretion exists insofar as actions fall within the zone of acceptance of stakeholders (Crossland and Hambrick, 2011). In this case, more than one zone of acceptance will exist, with each related to a stakeholder group, because of the development of cultural archetypes due to greater heterogeneity (Venaik and Midgley, 2015). There exists less shared behaviour by societal members, which makes it difficult for business leaders to take actions that are acceptable by most stakeholder groups.

Stakeholder theory distinguishes between the various stakeholders a manager is exposed to and recognises that interests differ both between and across these stakeholder groups (Wolfe and Putler, 2002). Executives’ discretion in this case is a function of both the holder-specific discretion, particularly to each stakeholder group, and the aggregate discretion (the shared behaviour), which is common across all stakeholder groups. In the cultural realm, managerial discretion has been considered from the latter dimension only—

the aggregation of stakeholders' zones of acceptance using cultural values or practices (Crossland and Hambrick, 2011; Haj Youssef and Christodoulou, 2017). However, the particularity of each stakeholder group's zone of acceptance is of great importance. This is because increasing the heterogeneity within a given context would lead to the creation of several cultural archetypes, which in turn increase the institutional constraints imposed on executives operating in such a context. Actions that do not conform to the zone of acceptance of individual stakeholder groups would be perceived as objectionable even if it falls within the shared zone of acceptance. Because, this will lead to cultural misfit, illegitimacy, and inefficiency. Therefore, the latitude of available options or actions would be limited.

By contrast, in societies with low intra-cultural variation, executives need to adapt to few stakeholder groups, which allows them to foresee a broader set of actions. It is easier for individuals to attend to a homogeneous than a heterogeneous culture because the contact with a divergent set of exemplars may become confusing and thus provide further constraints on the information-processing ability of executives (Abrahamson and Hambrick, 1997). Cognitive theorists argue that executives encounter more information than their cognitive capability can integrate (Surroca *et al.*, 2016); for that reason, they focus on domains that they perceive as critical. This attention pattern will therefore determine their strategic agenda (Nadkarni and Barr, 2008). In the absence of the pressure generated from a variety of stakeholder groups, executives would not be inclined to adhere to a diverse set of societal expectations. In this situation, it becomes easier for them to make greater strides to interpret and comprehend a smaller set of information, which will ultimately be reflected in more strategic change and the generation of new choices. In contrast, attending to a larger set of constraints, more information, generated from each stakeholder group will make it much more challenging for executives to understand and take actions that fall within their zones of acceptance. An executive focusing on one stakeholder group may well be in a position of high discretion vis-à-vis that individual group, but at the cost of added constraints from other stakeholder groups. In societies with a limited number of stakeholder groups (low intra-cultural variation), the opportunity cost to attend to the powerful stakeholder groups decreases, and executives can attend to the needs of a concentrated set of individual stakeholder groups, which ultimately generates higher discretion.

Accordingly, we propose a general hypothesis that greater intra-cultural variation reduces the degree of managerial discretion. In line with previous research, we further develop our research hypothesis by including tests on the cultural dimensions of individualism, uncertainty tolerance and power distance. These three cultural dimensions has been widely used in cross-cultural management literature and showed to have significant effect on organisational and leadership behaviours (Aktas *et al.,* 2016). Most importantly, being consistent with previous research is a fundamental criterion to extend and develop the concept of managerial discretion (Wangrow *et al.,* 2015), especially on a national level. Therefore, we limit our assessment to these three cultural dimensions.

Individualism, the cultural practice that relates to autonomous as opposed to consensus-based behaviours and actions is arguably the most prominent (Gelfand *et al.,* 2011). Societies with a general tendency to act in an individualistic manner, will provide larger zone of acceptance for executives' decision making (Crossland and Hambrick, 2007; Haj Youssef and Christodoulou, 2017). Bold, idiosyncratic and unilateral actions are acceptable. This assumption is solely based on the idea that all members of the society will appreciate individualistic behaviour and will accept such actions from business executives. However, by relaxing the homogeneity assumptions, executives operating in countries where there is increased number of diverse appreciation of individualism will increase constraints imposed on executives' actions. Such heterogeneity illustrates the shared individualistic behaviour and therefore the greater the heterogeneity the less the individualistic behaviour is shared and the more collectivistic the society would be. Executives operating in heterogeneous societies will need to attend to different stakeholder groups with less shared individualistic behaviour, meaning more groups appreciating the collectivistic behaviour. This will increase the constraints on executives' actions. Therefore, we argue that:

H1a: Greater intra-cultural variation on the cultural dimension of individualism negatively affect the degree of managerial discretion.

Another cultural dimension that, if shared among all societal members, has shown positive relationship with managerial discretion is uncertainty tolerance (Crossland and Hambrick, 2011; Haj Youssef and Christodoulou, 2017). This dimension refers to the tolerance for unpredictable, means-ends ambiguity and quantum actions. Societies characterised by greater uncertainty tolerance will offer broader range of actions for executives and would allow them to foresee radical changes. However, such findings only exist in a homogenous culture, where all societal members share such behaviour. In contrast, in societies with greater heterogeneity, members will have differing degrees of uncertainty tolerance, radical changes and actions that involve substantial alteration to the status quo will not be acceptable by all groups. Therefore, an executive operating in such environment will need to take actions that fall within the zone of acceptance of majority of societal members as opposed to only few, which will increase societal constraints and as such reduces managerial discretion. Hence:

H1b: Greater intra-cultural variation on the cultural dimension of uncertainty tolerance negatively affect the degree of managerial discretion.

Another core cultural dimension is power distance (House *et al.,* 2014). This dimension concerns the status of leaders in each society, whereby in some cultures individual leaders are highly privileged and accorded greater respect. Power distance has been linked with discretion with some contradicting findings. Crossland and Hambrick (2011) found a negative relationship with discretion, whereas Haj Youssef and Christodoulou (2017) the opposite. The difference might relate to the context in which discretion is studied. Despite this difference, the same logic applies when assessing a heterogeneous culture. Societies with greater intra-cultural variation will have less shared behaviour to power distance, by according business leaders different privileges. In these societies, some members will give greater respect and status while others don't, which challenges executives to take actions that are acceptable by all stakeholder groups, therefore less discretion.

H1c: Greater intra-cultural variation on the cultural dimension of power distance negatively affect the degree of managerial discretion.

Research Methodology

Sample

We select 18 countries in total to illustrate the sample. The countries selected are: Australia, Austria, Canada, Egypt, France, Germany, Italy, Japan, Kuwait, the Netherlands, Qatar, Singapore, South Korea, Spain, Sweden, Switzerland, the United Kingdom and the United States. These countries, except, Egypt, Kuwait and Qatar, have been heavily used in earlier cross-cultural studies (e.g. La Porta *et al.*, 1999; Crossland and Hambrick, 2011). Also, these countries account for most the publicly listed companies around the world and constitute the highest percentage of the global domestic product. Additionally, by using a similar sample of countries to examine managerial discretion, we would be able to validate previous studies (Wangrow *et al.*, 2015). We choose to include three more countries – Egypt, Kuwait and Qatar – to provide more richness to the data and help improve the generalisability of the findings. To examine the impact of intra-cultural variation on managerial discretion, it is important to have a sample of countries comprising culturally diverse countries with greater variation. As such, after the inclusion of these countries, six different regional clusters emerged: Anglo, Germanic Europe, Latin Europe, Confucian, Nordic Europe and the Middle East (House *et al.,* 2004).

Dependent variable: managerial discretion

In empirical studies, so far, scholars have theorized organizational-level antecedents of discretion, including sales, firm size, slack, R&D intensity, company structure, advertising intensity, volatility, and strategic orientation (e.g. Boyd and Salamin, 2001; Finkelstein and Boyd, 1998; Kim, 2013; Quigley and Hambrick, 2012; Rajagopalan, 1997). Others have used industry variables, such as regulatory conditions, demand instability, market growth, product differentiability, attentional homogeneity, and industry capital intensity (e.g. Datta and Rajagopalan, 1998; Finkelstein, 2009; Haleblian and Finkelstein, 1993; Keegan and Kabanoff, 2008; Peteraf and Reed, 2007). Another cluster of researchers has employed individual executives' characteristics, measuring variables such as locus of control, perception, commitment to the status quo, tenure, age, education, and risk-taking behaviour (e.g. McClelland *et al.*, 2010; Miller *et al.*, 1982; Roth, 1992). All these measures represent an indirect approach for assessing the degree of managerial discretion. These studies have treated discretion as a "black box," associating it with various individual-, organization-, and/or industry-specific proxies. As Wangrow *et al.* (2015: 124) note, "future research could pilot additional studies with industry experts, academics and managers to assess the level of discretion in firms, industries and nations." Such call represents a need to assess discretion in a direct manner without relying on proxy measures.

Notwithstanding their probable perceptual bias, expert panel ratings allow for consistent and valid assessments and are an established method to investigate organizational phenomena, including business strategies (Crossland and Hambrick, 2011; Hambrick and Abrahamson, 1995). As such, we sought discretion scores from long-tenured, prominent, and highly experienced management consultants. These consultants possess extensive knowledge about various external (environmental, including market and country), internal (related to the firm), and even individual characteristics of CEOs headquartered in our sampled countries. We pre-screened these management consultants using their companies' web pages to ensure they had at least 10 years of experience in consultancy and were in a current senior position in one of the major multinational consultancy firms (i.e. Accenture, Aon Consulting, Bain & Company, BSG Consulting, Deloitte, Ernst & Young, Grant Thornton, KPMG, McKinsey & Company, Mercer LLC, PricewaterhouseCoopers, Roland Berger, and Strategy&). The resulting sampling frame included 193 management consultants (e.g. principal, partner, senior associate, director, managing director). We provided respondents with a brief description of managerial discretion based on Hambrick and Finkelstein's (1987) original definition. Each management consultant was asked to rate on a 7-point Likert-scale, varying from *'to a very small extent'* to *'to a very large extent'*, their perception of the degree of discretion provided to CEOs of publicly listed firms (only) in each country in the sample. The panellists were also asked to refrain from rating countries with which they were not familiar.

Of the 193 management consultants contacted, 57 (29.5%) granted participation and provided utilisable responses. Compared to the 25% (8 panellist) response rate achieved by Crossland and Hambrick (2011), 57 is satisfactory. The 57 panellists provided 792 ratings, with every country receiving between 30 and 56 ratings (overall mean of 44 scores per country).

As this study operationalises individual responses (ratings for managerial discretion) from different countries, several authors in the cross-cultural literature have flagged a response bias problem when surveying individuals from different cultures (e.g. Triandis, 1995). For instance, Hui and Triandis (1989) reported that people from Asian cultures generally tend to use the mid-point of the scale and avoid any extreme responses, whereas individuals from Mediterranean culture avoid mid-point responses and tend to use the extreme ends of the scale to show more commitment (Hui and Triandis, 1989). Therefore, using mean scores for raw data will lead to problematic interpretation. Triandis (1995) suggested a method to overcome such response bias; this is achieved by calculating the mean and standard deviation of each respondent then subtracting each individual mean from the original item score and then dividing it by each respondent's standard deviation. This procedure results in having 'corrected scores', which are then aggregated to the society level of analysis. However, House *et al*. (2004) argued that the classical response bias procedure has several drawbacks. Initially, the corrected scores become '*ipsative*' and not directly interpretable because they fall outside the original scale used (e.g. 7-point rating scale). Accordingly, House *et al*. (2004) extended the classical response bias procedure by using simple regression analysis to generate the new scores. By following this approach, we generated corrected scores by computing the mean and standard deviation for each respondent, subtracting the mean from the individual item responses and then dividing it by that individual standard deviation. Later, to generate the final response bias-free data, each respondent's corrected score was regressed against his/her original scores. The unstandardised regression predicted the values shown in the below equation, which were then correlated against the original scores. If the magnitude of the correlation between these two scores (corrected and uncorrected) is high, then the data are declared as being free from respondents' bias (House *et al*., 2004).

$$\text{Predicted value} = \beta_0 + \beta_1(\text{corrected values})$$

Subsequently, to assess the importance of cultural-response bias in the discretion scale, a bivariate correlation procedure was performed. Using Pearson correlation, we found a very high correlation between the corrected scores and the original raw scores ($r=0.80$, $p<0.01$). Furthermore, we used residual analysis to identify any data points that are considered as outliers in the regression model between the corrected and uncorrected scores.

We employed such diagnostic tests to identify if any of the scores provided to each of the sampled countries exhibit substantial response bias. Figure 1 below illustrates the studentised residuals for the 792 discretion scores. Such values compare the difference between the corrected (regression unpredicted values) and the uncorrected (raw scores) scores and assess whether the discrepancy between these two values is large enough for a panellist to say that this should be considered as an outlier. To be considered as an outlier, the studentised residual should report a value greater than 2 (positive or negative) (House *et al*., 2004). As can be seen from Figures 1 and 2, only very few discretion scores, about 3% from the overall rating, are listed as outliers, thus there exists very little evidence that response bias associated with panellists' background is present in the data.

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Additionally, we assess the possible non-response bias in two ways. First, we conduct tests comparing respondents to non-respondents (and respondents who failed to complete the survey) in terms of years of experience and nationality and finds no significant difference ($p>0.1$). Furthermore, we compare the final respondent pool with the total sampling frame (e.g. 193 compared to 57 final respondents). Again, the findings suggest that there are no significant differences ($p>0.1$). The relatively high response rate and the results of these tests suggest that non-response bias is not a concern.

These consultants compromise the entire sample so every country discretion score was rated by the same k panellists (Shrout and Fleiss, 1979). We used ICC (3, k) to assess the inter-rater reliability (Judge *et al.,* 2007). The ICC (3, k), by consistency instead of agreement, was computed as the survey question asked raters to make comparative rather than absolute judgments regarding CEOs' discretion level in several countries (McGraw and Wong, 1996). The ICC (3, k) coefficient was 0.96, indicating high inter-rater reliability (e.g.

Chen *et al.*, 1993; Taggar, 2002) and agreement of ratings among the panellists (senior management consultants) (James, 1982).

Independent variable: intra-cultural variation

Prior research has focused on archival data to measure intra-cultural variation; works in political economy and international business have relied on ethno-linguistic diversity as a proxy to account for intra-cultural variation (e.g. Puia and Ofori-Dankwa, 2013). The use of ethno-linguistic diversity as an antecedent of intra-cultural variation has been well documented since Au's (1999) discussion of such construct. This proxy is useful because distinct ethnic societal groups or sub-groups, even if they have similar or different mother tongues, tend to behave differently and have different norms (Beugelsdijk and Maseland, 2011; Tung and Baumann, 2009). Along with the use of ethnic background and language as a representation of intra-cultural variation, some studies have incorporated religion as another indicator (e.g. Alesina and Zhuravskaya, 2011). Others have relied on the World Value Survey to measure within-country variation or heterogeneity (Au and Cheung, 2004; Venaik and Midgley, 2015). These measures represent an indirect attempt to measure intra-cultural variation.

Beugelsdijk *et al.* (2014) argue that intra-country variation is best measured through data on the behaviour of the societal members or a representative national sample. However, these data are mostly unavailable in archival formats, and collecting such large-scale data from a wide set of countries is cumbersome. In addition, the main cross-cultural models that introduce the various cultural dimensions, such as Hofstede and GLOBE, do not report the variation within each country and only publish the mean or variation across countries. Fortunately, this challenge has been overcome in this research. Through a series of discussions with one of the co-authors of the GLOBE model, we could outsource data on intra-cultural variation within each of the studied countries. As a matter of courtesy, we do not report the standard deviation scores of each country as these have not appeared in print and were provided as primary data. It is important to note that GLOBE study uses middle-managers as observers of behaviours within their society and not as self-raters. Self-rating does not reflect national culture characteristics (Fischer, 2006); such an approach is accompanied with several problems (e.g. Oyserman *et al.*, 2002) and yield ambiguous cross-cultural comparisons (Heine *et al*. 2001). The alternative adopted by GLOBE (the practice dimension: *As Is*) relates to asking individuals to rate behaviours within a certain culture (e.g. Peterson and Fischer, 2004). By doing that, individuals would be able to report on descriptive norms and practices (Cialdini and Trost, 1998) related to a society (Ehrhart and Naumann, 2004). These two methods differ significantly in their measurement of national culture. For instance, Terracciano *et al*. (2005) examined the difference between self- and national character by showing that both methods of ratings possess weak correlation (r=0.04). Similarly, GLOBE's (2004) overall scores of values and practices presented weak correlation (r=-0.26). Thus, at best there is a weak relationship between self-ratings and ratings based on asking individuals about the common behaviours/norms in their societies. The former measure eliminates the objectivity element associated with assessing cultures (Fischer, 2006). In that sense, people would subjectively rate cultural dimensions, taking their own individual preferences into consideration. On the other hand, if individuals rate how their collective behave, this yields objective scores excluding personal inclinations. Such an approach allows them to become observers of their society.

Therefore, we operationalise intra-cultural variation using the average of the standard deviation score reported by all respondents (societal members) per cultural practice dimension per country. Standard deviation is an appropriate and reliable estimate to measure the relative dispersion within a country (Au, 1999). The usefulness of standard deviation has been of interest to several scholars. Some (e.g. Smith, 2004; Van Hemert *et al.*, 2002; Uz,

2015) regard this measure as a useful construct to reflect the dispersion of behaviour/norms in a culture. Relevant to this study, the use of standard deviation captures the extent to which stakeholders' (in this case societal members) behaviour vary from the central tendency (mean) of the overall society. This enables a better conceptualisation of the zone of acceptance of stakeholders' condition that we have used to link the intra-cultural and managerial discretion arguments.

Finally, it is worth mentioning that all independent variables (in this case the intra-cultural variation) are lagged before managerial discretion (the dependent variable). House *et al.* (2004) collected societal practices scores from surveys between 1994 and 1996. The dependent variable was collected during the years 2014/15. We chose this lag structure to assert that the antecedent or exploratory variables temporally proceed the dependent variable to avoid any problem with a causality relationship (Hambrick, 2007) or potential endogeneity (Judge *et al.*, 2007).

Control variables

To escape the bias of omitted variables, we included several control variables that showed a direct effect on our dependent variable. We controlled for the national formal institutions measured by ownership dispersion, legal origin, and employer flexibility (Crossland and Hambrick, 2011). Ownership dispersion and legal origin have been operationalised using data from La Porta *et al.* (1999); data for employer flexibility have been taken from Botero *et al.*'s (2004) employment law index. Along with these variables, we also controlled for cultural values of individualism, uncertainty avoidance, power distance and cultural tightness and looseness. Cultural tightness/looseness was operationalised using the reverse of Gelfand *et al.*'s (2011) scores.

Analysis

We performed fixed-effect regression analysis in which country level discretion scores generated from the consultant panel were the dependent variables and the intra-cultural variation country scores were the independent variables. The use of such analysis technique is due to the variation that exists between individual ratings. Each consultant is distinct from his/her peers in terms of the number of countries he/she rates and the tendency of his/her ratings. Not all the panellists provided scores for all country discretion levels, and each one gave a distinct score (either low, moderate, or high). Therefore, the fixed-effect regression in this case considers the inter-rater differences and treats each consultant as a fixed-effect. In the contrary, ordinary least square analysis does not account for the heterogeneity between raters instead fixed-effect addresses such issue by controlling for the distinctiveness of panellists rating (Hsiao, 2003). This enables more accurate analysis that illustrates each consultant's exclusive intercept and control for unobserved heterogeneity between raters (Kennedy, 2008).

Furthermore, both the dependent and independent variables are scaled at the same level. It is important to state that despite intra-cultural variation being a variable measuring the differences in behaviours between societal members in each society, it is measured at the national-level. As discussed earlier, we based our independent variable measurement on GLOBE (House *et al.*, 2004) cultural dimension, whereby these authors did not rely on self-rating of participants instead they used a more objective measure. Participants in the GLOBE study were asked to rate the behaviours within their country, by doing so, respondents report on descriptive practices and norms (Javidan *et al.*, 2006) and become observers of their own society, thus increasing the objectivity element associated with assessing culture (Fischer, 2006).

Findings

Table 1 contains descriptive statistics and reports the bivariate correlations between the dependent, independent, and explanatory variables. As the table shows, there is a significant relationship between the dependent variables and the other control variables, re-emphasising the importance of controlling these.

Please insert table 1 about here

Table 2 reports results of the fixed-effect regression analysis for our main hypothesis. As the table shows, our main hypothesis argued that more intra-cultural variation would be negatively associated with the degree of managerial discretion. Models 1 ($p < 0.01$), 2 ($p < 0.05$), and 3 ($p < 0.05$) consecutively prove that the hypotheses are supported in relation to the cultural dimensions of individualism, uncertainty tolerance, and power distance. Greater heterogeneity of behaviour within a national culture significantly reduces the degree of managerial discretion available to CEOs headquartered in that country.

Please insert table 2 about here

Conclusion and Research Implications

Recent works (e.g. Crossland and Hambrick, 2011; Haj Youssef and Christodoulou, 2017) suggest that culture, as the central tendency, is directly related to managerial discretion. However, despite opening a new horizon in the discretion literature and adding an important antecedent, such research often uniformly ignores the heterogeneity/homogeneity that exists in each culture. As such, we contribute to the discretion literature by showing that intra-cultural variation is an important construct that helps deepen understanding of the national-level antecedent of managerial discretion. We also show that intra-cultural variation is an additional national-level antecedent of managerial discretion. Furthermore, from its inception and for several decades, stakeholder theory has mainly rested on the side of the voluntaristic perspective. Managerial decisions and behaviours are the key variables that shape the relationship between firms and stakeholders (Phillips *et al.*, 2011). Such a perspective implicitly assumes that managers have enough latitude of actions to attend to stakeholders' needs. However, this is not always the case, as the degree of managerial discretion is a function of the internal and external constraints managers face. We argued that while managerial discretion is a vital intervening variable it also has a powerful role in explaining stakeholder–firm relationships. Therefore, such findings fill in the gap currently present in stakeholder theory by including the concept of managerial discretion as an important construct to take into consideration in stakeholder management.

Moreover, our findings shed light on the stakeholder orientation of firms. Stakeholder orientation refers to managers' behaviour towards stakeholders (Berman *et al.*, 1999) and considers the totality of firms' approach to managing stakeholders. Phillips *et al.* (2010, 2011) conceptualised stakeholder management into two types: narrow and broad orientation. At one extreme, managers could hold a narrow orientation by constantly honouring and focusing on the interests of a given stakeholder group (i.e. a few shareholders) over the interests of other stakeholder groups. At the other extreme, managers could exhibit broad orientations in which they focus on a wide range of stakeholder groups. If, as found in this study, greater heterogeneity within a given culture (having a wider range of stakeholder groups) reduces executives' latitude of actions, executives would likely follow a broader stakeholder orientation. When a CEO is faced with greater constraints from several stakeholder groups, he/she will not be able to take actions that favour one group over the other and should focus on attending to the needs of all groups to limit or reduce those constraints. In this case, the CEO would likely put more effort into serving a wider set of stakeholders (e.g. community service, well-being of employees, community, customers) and not take any initiatives that do not benefit all stakeholders. By contrast, having a smaller number of stakeholder groups would accord the executive more discretion, and in turn he/she would be able to categorise those stakeholders and attend to the most important and influential group (i.e. shareholders) at the expense of others, thus having a narrow stakeholder orientation. In such situations, the CEO can maximise the benefits and well-being of an individual stakeholder group and take more action at the expense of other groups.

Proponent of stakeholder research have admitted that how managers perceive their environment can have an important impact on how they prioritise and address stakeholder needs (Mitchell *et al.*, 1997). In addition, scholars in the discretion literature are aware that how executives perceive their environment may well affect the level of discretion they believe they have and, in turn, their behaviour (Carpenter and Golden, 1997). Executives may over- or under-estimate the discretion accorded to them and, as such, may under-perform. In heterogeneous cultures, executives may find themselves constrained by the claims from an increased number of stakeholder groups and therefore, by controlling for their individualities (i.e. locus of control), would believe that they are more constrained by the external environment and perceive less discretion. By contrast, executives in homogeneous cultures may find themselves more capable of attending to the needs of a smaller number of stakeholder groups and thus perceive themselves to have greater discretion. The mechanism in which intra-cultural variation affects the degree of managerial discretion may well be related to the extent to which individual CEOs perceive themselves to have discretion.

Another implication is related to the attribution of the CEO effect on firm performance. In countries with more managerial discretion, CEOs have a greater effect on their firms' outcomes (Crossland and Hambrick, 2011). However, this direct relationship ignores the construct of intra-cultural variation and the possibility that in any given country, CEOs may experience different degrees of managerial discretion subject to the number of stakeholder groups to which they are exposed. CEOs exposed to fewer stakeholder groups are likely to have greater discretion, and thus their effect on firm outcomes should be higher than those who are exposed and attend to the needs of a wider set of stakeholder groups. Future research should consider the interplay among intra-cultural variation, managerial discretion, and CEO effect on firm performance.

Additional implications are echoed in the domain of leadership effectiveness. Recent additions to the leadership literature have made advancements in its theoretical conceptualisation by illuminating what can be considered as emic (culture specific) or etic (universal) in terms of leadership attributes and effectiveness (Aktas *et al.*, 2016; House *et al.*, 2014). This research has shown that leadership is culturally dependent and that the perception of effective leadership depends not only on the central tendencies of a given society but also on its tightness/looseness dimension (Aktas *et al.*, 2016). Similarly, one might expect intra-cultural variation along with managerial discretion to be associated with the perception of effective leadership. For example, in heterogeneous (high intra-cultural variation) societies, executives are faced with a greater number of stakeholder groups and are accorded lower discretion; as such, they might try to attend to the needs of all or most of these groups and are constrained in the number of actions they can take. In such situations, participative leaders would likely be perceived as having the most effective leadership style because such style reflects the degree to which executives take into consideration the needs of others and involve stakeholders in their decision-making processes (House *et al.*, 2004). By doing so, executives would be able to lower the extent of the constraints exerted on their actions. Conversely, in homogeneous cultures in which executives enjoy more managerial discretion, the autonomous leadership style would be more appropriate, because such leaders tend to work independently without collaboration or feedback from others and to be more assertive (House *et al.*, 2014). This style is likely acceptable in a society in which leaders are faced with fewer constraints arising from fewer stakeholder groups.

Finally, research examining the association between national culture (including intra-cultural variation) and innovation has concluded that culture does indeed matter (Puia and

Ofori-Dankwa, 2013). Other works in the discretion literature (e.g. Rajagopalan and Finkelstein, 1992; Sahaym *et al.*, 2012) also suggest a strong link between the latitude of actions and innovation. Therefore, we expect a role, particularly a mediating role, of managerial discretion in driving national innovativeness. Future research is encouraged to empirically investigate such a proposition.

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Table 1. Descriptive statistics and bivariate correlations

	Mean	S.D.	MD	Ind	UnT	PD	OD	LO	EF	CL	Ind (mean)	UnT (mean)	PD (mean)
MD[1]	4.88	0.78	1										
Ind[2]	0.77	0.08	-0.66**	1									
UnT[2]	0.86	0.08	-0.38	0.61**	1								
PD[2]	0.80	0.11	-0.55*	0.74***	0.42	1							
OD[2]	0.29	0.21	0.55*	-0.35	-0.43	-0.18	1						
LO[2]	0.28	0.46	0.61**	-0.38	-0.04	-0.28	0.61**	1					
EF[2]	0.48	0.20	-0.17	0.15	0.12	-0.05	-0.65**	-0.64**	1				
CL[2]	-7.24	2.07	0.64**	-0.53*	-0.17	-0.28	0.29	0.25	0.13	1			
Ind (mean)[2]	4.62	0.47	-0.34	0.26	0.54*	0.06	-0.47*	-0.39	0.58*	0.23	1		
UnT (mean)[2]	4.19	0.56	-0.64**	0.57*	0.32	0.56*	-0.22	-0.22	-0.05	-0.41	0.31	1	
PD (mean)[2]	2.74	0.26	-0.41	0.57*	0.54*	0.64**	0.14	0.17	-0.35	-0.24	0.16	0.34	1

N[1] = 792; n[2] = 18; *p < 0.05, ** p < 0.01, *** p < 0.001.

Table 2. Fixed-effect regression: The effect of intra-cultural variation on managerial discretion

	Model (1)	Model (2)	Model (3)
Constant	6.60***	6.31***	6.80***
Individualism	-7.73**		
	(0.73)		
Uncertainty tolerance		-1.89*	
		(0.70)	
Power distance			-3.30*
			(1.77)
Control Variables			
Ownership dispersion	2.61***	1.20*	1.82**
	(0.24)	(0.47)	(0.62)
Legal origin	0.43***	0.80***	0.85***
	(0.12)	(0.12)	(0.17)
Employer flexibility	1.41**	1.03*	1.31*
	(0.38)	(0.45)	(0.67)
Individualism (mean)	0.33***		
	(0.05)		
Uncertainty tolerance (mean)		0.30*	
		(0.10)	
Power distance (mean)			-0.98*
			(0.57)
Cultural tightness	0.08***	0.09*	0.07*
	(0.01)	(0.03)	(0.03)
F	113.14***	31.81***	38.66***
R^2	0.50	0.48	0.48

N = 792; *p < 0.05, ** p < 0.01, *** p< 0.001.

Figure 1: Studentised Residuals for Managerial Discretion Scores

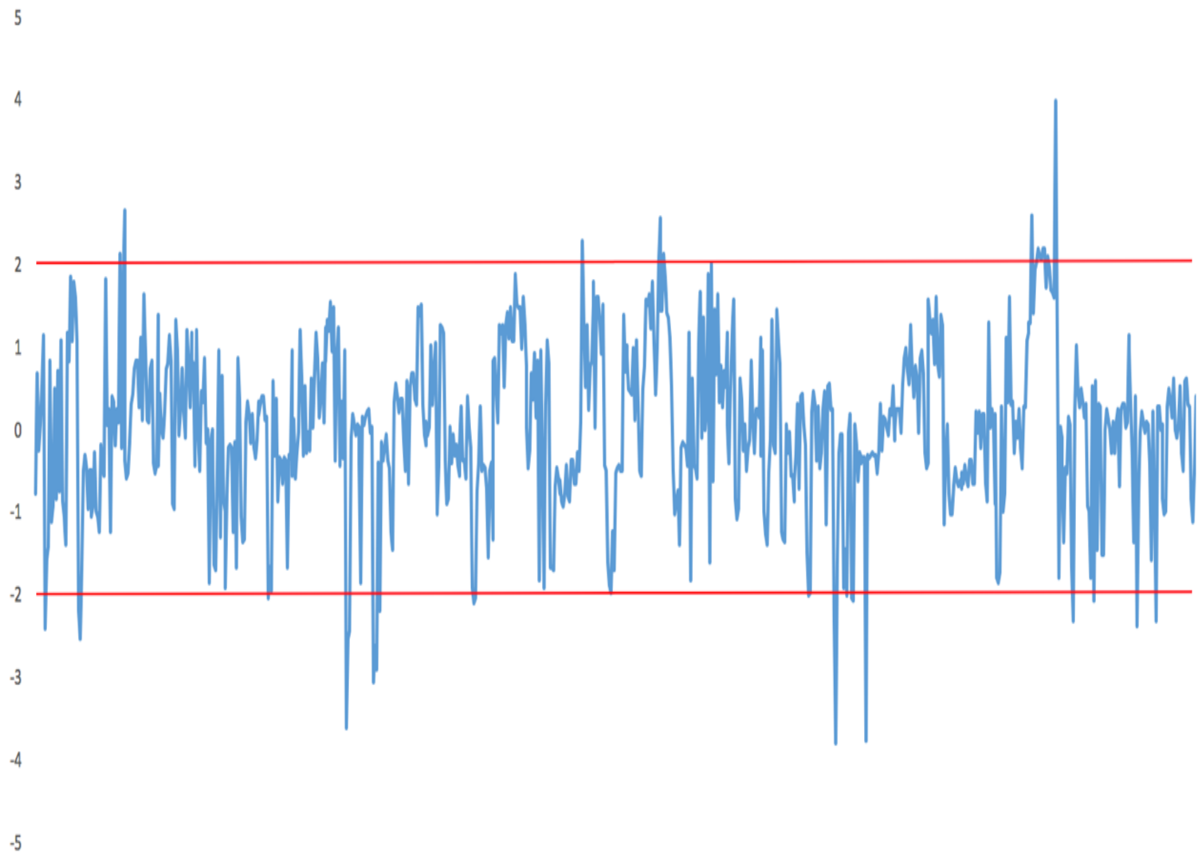

Figure 2: Studentised Residuals for Managerial Discretion Scores with Fitted Values