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Assessing the Generalizability of Managerial Discretion: An Empirical Investigation in the Arab World

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Abstract

The purpose of this paper is to examine the generalizability of national-level managerial discretion and to assess whether the national context play a role in changing mainstream research findings. Based on a sample of three Arabian countries and using a panel of prominent cross-cultural scholars who provided 138 discretion scores for the sampled countries, we replicate the national framework of Crossland and Hambrick (2011) in a new cultural context. The cultural dimensions were measured via survey responses of 375 middle-managers based on House et al. (2004) cultural practices scale. Consistent with Crossland and Hambrick (2011), we demonstrate that individualism and uncertainty tolerance have the same positive effect on CEOs discretion even in a different cultural setting. In contrast, we show that power distance has a positive and significant effect on managerial discretion. Our results indicate that executives can take idiosyncratic and bold actions to the extent to which the cultural environment allows them to do so. Accordingly, we contribute by showing the importance of the national setting in affecting the generalizability of discretion findings.

Keywords: managerial discretion, national culture, cultural practices, CEOs, Arab countries

1. Introduction

Managerial discretion, which stands for the latitude of strategic actions, is a bridge between two polar views (Hambrick and Finkelstein, 1987). On the one hand, population ecology (Hannan and Freeman, 1977), contingency theory (Lawrence and Lorsch, 1967), and neo-institutionalism (DiMaggio and Powell, 1983) postulate evidence asserting that executives are constrained in the way they take strategic choices due to isomorphic, environmental, inertial and relentless forces. On the other hand, work on executive effects (e.g. Hambrick and Quigley, 2014), classic management (e.g. Andrews, 1971) and upper echelons (e.g. Hambrick and Mason, 1984) provide contrasting outputs emphasizing the fundamental importance of top managers in shaping and influencing organizations' outcomes.

Discretion antecedents vary from micro to macro dimensions. Majority of earlier studies (e.g. Keegan and Kabanoff, 2008; Finkelstein, 2009; Hambrick and Quigley, 2014) have focused on the three initial (individual, organization and industry) antecedents introduced by Hambrick and Finkelstein (1987). Though, very little work has considered the impact of national institutions on managerial discretion. Only recently, managerial discretion has been examined on a national-level (Crossland and Hambrick, 2011) by emphasizing the impact of cultural values including: individualism, uncertainty tolerance, power distance and cultural looseness on CEOs discretion of public firms headquartered in several OECD countries. This national-level paradigm represents an important contribution to the discretion field, which has broadened its scope. However, the current research reflects the traditional emphasis on 'general theory' approach to the managerial discretion concept. Despite the importance of generalization, such concept may show differing manifestations in a different context, particularly due to the context dependency of the discretion construct (Hambrick and Finkelstein, 1987). Wangrow and colleagues (2015) in their review of empirical studies on managerial discretion called for a better conceptualization of the theory and particularly urged researchers to directly assess and test the validity of the discretion constructs in new settings. Therefore, our aim is to incorporate such consideration by empirically integrating the effect of a new national context on CEOs discretion. Such effort helps to compensate the dearth of research on non-tradition context (e.g. Arabian countries), and question the generalizability of earlier studies.

Building on the institutional theory, we replicate Crossland and Hambrick (2011) study by assessing the impact of societal culture of three Arabian countries on CEOs discretion. We anticipate that our paper provides several contributions to this growing and important field of research. Unlike prior research that merely investigated the national-context, our study emphasizes the specificity and importance of this macro environment as a crucial determinant of executives' discretion. Contrary to prior findings (Crossland and Hambrick, 2011), we emphasize the importance of societal hierarchy labeled as power distance to be a fundamental enabler of CEOs latitude of actions.

Our study reaches its desired conclusion by adopting the following structure. In the subsequent section, we deliver a critical review of the current discretion literature along with identifying the research gap. Next, using the institutional theory, we develop our theoretical reasoning and provide several research hypotheses. Later, we provide a description and justification on our sample, variables measurements and the empirical technique employed to test our propositions. Following that, we present and discuss our findings. Lastly, we highlight the contributions of our work and its implication for theory and practice.

2. Managerial Discretion Review

In their initial conceptualization, Hambrick and Finkelstein (1987) argued that in order for discretion to exist, executives should be aware of a range of alternative actions and these actions should fall within the 'zone of acceptance' of powerful stakeholders. Discretion was depicted to originate from three main distinct sources that are: executives' individualities, organization and task environment characteristics. As such and in order to make discretion more perceptible, it is crucial to illustrate and discuss these various antecedents.

Executives operating within the same domain can envisage distinct set of actions depending on their own psychological characteristics (Child, 1997). Some top managers have the ability to envision a wider range of alternatives and create multiple courses of actions that would affect organization performance. These psychological micro-foundations are unique features that determine executives' discretion. Taking for example executive locus of control (Rotter, 1966). Internal executive, who believes that events and consequences happening around him/her are under his/her control, is accorded higher levels of discretion. In contrast, external executive, who deems that outer events are beyond his/her own control, suffer from a narrowed array of alternative actions and thus is not able to foresee idiosyncratic actions. Building on the upper echelons theory, this research stream used discretion as an essential moderator in order to assess the impact on firm performance. In this vein, locus of control (e.g. Carpenter and Golden, 1997), ambiguity tolerance (Dollinger et al., 1997), commitment to the status quo (McClelland et al., 2010), risk taking behavior (Roth, 1992) and cognitive base (Hambrick, 2007) showed to play an important role in shaping managerial discretion.

Inertial forces (e.g. age, size, capital intensity), resource scarcity/availability, powerful inside stakeholders and other internal organizational factors are considered the second loci of managerial discretion (Wangrow et al., 2015). These organizational features define the extent to which the firm is amenable to a variety of possible choices and consequently will feed the CEO with greater latitude of actions which will in-turn affect firm outcomes (Hambrick and Finkelstein, 1987). Firms with abandon slack resources allow executives to easily foresee change and choose from a wider variety of alternatives (Wasserman et al., 2010), thus greater discretion. Similarly, the lack of ingrained organizational culture along with a passive board composition would award higher discretion (Boyd and Salamin, 2001). Relatedly, predecessor retention and CEO duality increases the likelihood of strategic changes which in turn enhances managerial discretion (e.g. Quigley and Hambrick, 2012; Kim, 2013).

The organization's domain or task environment in which a firm operates could drastically alter executive actions. Some industries can afford greater variety of choices/actions as opposed to others. This dimension comprises the majority of discretion studies. Initially proposed as major industry characteristics; product differentiability, market growth, industry structure, demand instability, quasi-legal constraints and powerful outside forces represent the core forces shaping executives' discretion (Hambrick and Finkelstein, 1987). For instance, Finkelstein (2009) found that demand instability along with industry concentration (representing structure) to be negatively related to CEO discretion. On the other hand, industry regulations were found to constrain executives' latitude of actions (e.g. Peteraf and Reed, 2007; Goll et al., 2008).

A fourth set of external influencers originates from the national institutional environment. Crossland and Hambrick (2007) were the first scholars who examined the cross-national differences in relation to CEO effect on firm performance using a set of national institutions. Despite their assertions that managerial discretion is the primary instrument through which countries institutions sway CEO effect on firm performance, they did not provide any empirical measures of discretion. By departing from this standpoint, Crossland and Hambrick (2011) argued that cultural values in terms of individualism, uncertainty tolerance and power distance shape the degree of discretion

provided to CEOs headquartered in a particular country. More precisely, they empirically tested the association between countries cultural dimensions and managerial discretion, and found that individualism and uncertainty avoidance are positively related to CEO discretion. However, Crossland and Hambrick (2011) failed to provide support for their assertion that power distance would be positively related to managerial discretion. In contrast, they found a strong negative relationship.

At present, the examination of discretion at the national level has added an important line of enquiry, however considerable opportunities still exist to investigate the effect of countries' institutional characteristics on executive discretion. This dearth of research significantly diminishes our understanding of under-researched contexts and their influence on general theory, in this case managerial discretion. Thus, we are attempting to fill in the holes by discovering the manifestations of managerial discretion in a new cultural context.

3. Theoretical Background and Research Hypotheses

Our paper is based on the premise that national culture is likely to play a crucial role in shaping the degree of leeway executives have. Going back to the routes of managerial discretion, Hambrick and Finkelstein (1987) argued that executives possess discretion if their actions fall within stakeholder's zone of acceptance (in this case societal culture) and the relative power of the stakeholder to object deviant actions that the relative power of these stakeholders who perceive actions as objectionable. Building on the former condition, executives are faced with environmental constraints if their actions fall outside of society's zone of acceptance. If executives implement actions that infringe the acceptable practices within a particular society, these actions will be perceived as objectionable. The perception of unacceptability of a certain action is a function of the prevailing societal norms (national culture). As such, societies that differ in their cultural norms will respectively differ in perceiving actions as objectionable. In other words, actions that are deemed acceptable in some societies may well be observed as obnoxious in others. In this vein, Crossland and Hambrick (2011) assessed the impact of culture on CEO discretion in several OECD countries. They operationalized national culture using three societal norms: individualism, uncertainty tolerance and power distance. Building on the same logic, we re-examine the effect of these cultural dimensions on CEO discretion operating in new cross-cultural context. In doing so, we reinforce the context dependency of the discretion construct and more importantly provide a validity of the national construct of discretion.

3.1 Individualism

Individualism and collectivism construct has been strongly surveyed in the literature of national culture and cross-cultural studies (e.g. House et al., 2004). People in individualistic societies tend to favor: self-goals, autonomous actions, personal needs and rational behavior as opposed to their counterparts in collectivistic environments in which they tend to be more: integrated within certain groups, favor collective behavior to benefit the majority and follow a consensus-based decision-making (Smith et al., 1996; Hofstede, 2001). Such practice reflects into organizational behavior in terms of human resource practices, motivation, job satisfaction, accountability, job attitudes, etc. (House et al., 2004). But more importantly is its implication in relation to leadership. Ali and colleagues (1997) argued that Arab managers possess stronger attitude towards participative and consultative decision-making at work, this is due to their high emphasis on collectivism. In contrast, in the United States, a highly individualistic culture, leaders cognitive base reflects their cultural foundations in relation to being independent, forceful and strong willed (Dorfman, 1998). Thus, in individualistic cultures, leaders act in an autonomous way, follow task accomplishment without relying on group harmony and emphasize individual discretion (Triandis, 1993; Erez and Earley, 1993). Such societies provide a wider 'zone of acceptance' for executives to idiosyncratically take unilateral decisions, and have greater leeway in deciding the future of their organizations (Crossland and Hambrick, 2007). On the other hand, collective cultures do not tolerate individual initiatives. For that reason, executives are more accountable for firms' failure in such cultures (Krull et al., 1999). Executives experience high latitude of actions if their society encourage and accept unilateral, autonomous and idiosyncratic behavior. Following Crossland and Hambrick (2011) proposition, we posit that collectivist countries impose greater constraints on CEOs to take consensus-based decisions in which their own interpretation and choices would not deem important. Thus:

H1: *Individualism has a positive and significant effect on managerial discretion.*

3.2 Uncertainty Tolerance

Initially used as an organizational phenomenon, uncertainty avoidance relates to the extent to which ambiguity is tolerated within a society (House et al., 2004). In other words, some environments consider ambiguous events or unpredictable actions as a threat and thus prefer rules and orders to uncontrolled situations. By employing conventions, rituals, rules and orders people in high uncertainty avoidance societies will try to minimize

unpredictability (Hofstede, 2001). Societies low on uncertainty avoidance are more malleable to accept radical, uncertain, dramatic and means-end ambiguity actions (Crossland and Hambrick, 2011). In such countries, people are more tolerant to change and are characterized to be more risk takers. Oppositely, in high uncertainty avoidance cultures executives' actions are constrained and perceived as objectionable if they involve high degree of ambiguity. When faced with unpredictable situations, executives will have wider array of actions to choose from in order to face such ambiguity (Crossland and Hambrick, 2007). Crossland and Hambrick (2011) empirically found that CEOs of firms headquartered in countries low on uncertainty avoidance possess higher levels of discretion as opposed to their equivalents in high uncertainty avoidance environments. Moreover, House et al. (2004) posited that uncertainty is a notable element of feedback seeking behavior. Individuals in high uncertainty avoidance environments behave in a way that looks for feedback to gather information in order to build appropriate actions (Morrison, 2002). In such behavior, individuals decision-making base would be significantly related and influenced by others feedback. In other words, executive decisions will be a function of collective reasoning. That being said, CEOs in these cultures will be pushed to take collective rather than individualistic and idiosyncratic decisions. Accordingly:

H2: *Uncertainty tolerance has a positive and significant effect on managerial discretion.*

3.3 Power Distance

Some cultural dimensions indicate society's tolerance for inequality or power distribution (Carl et al., 2004). Out of these values are: hierarchy (Schwartz, 1994), achievement aspiration (Trompenaars and Hampden-Turner, 1998), moral discipline (Chinese Culture Connection, 1987) and power distance (Hofstede, 2001; House et al., 2004). In our study, we are keen to test the association between the latter norm and managerial discretion. Despite being more reflective of the acceptance of inequality in a certain society (Hofstede, 2001), power distance is also suggestive of the status and role of leaders (Crossland and Hambrick, 2011). Power distance is the norm that relates to the society dimension that ratifies and acknowledges power distinction, status honors and authority (House et al., 2004). In some societies, people romanticize leaders and in others they don't (Chen and Meindl, 1991). In the former category, leaders are privileged with high respect, power and status, which accord them with greater influence on followers (House et al., 2004). For instance, Adsit and colleagues (1997) founded that in high power distance countries, employees are reluctant to challenge their managers and are more likely to follow them even in the case of disagreement. On the other hand, in cultures low on power distance leaders are observed as figureheads or facilitators rather than empowered decision makers (Crossland and Hambrick, 2011). Despite previous controversial findings (e.g. Crossland and Hambrick, 2011), we argue that such finding may not be applicable in a different context, the Arab world. Crossland and Hambrick (2011) explained their positive result using institutional monarchs example. However, in our sample of countries, the royals' system is not only accorded great respect but in reality have afford greater latitude of actions. Therefore, we reinforce the positive association between power distance and discretion:

H3: *Power distance has a positive and significant relationship with managerial discretion.*

4. Methodology

4.1 Sample of Countries

We selected for this study three Arabian countries: Lebanon, Saudi Arabia and United Arab Emirates. These countries represent a cultural important yet diverse proportion of the Arab World. Also, they constitute an overwhelming majority of top 100 publicly listed firms in the Arab World (Forbes Middle East, 2014). These nation-states have been heavily ignored by previous research in the broader strategic management field. Besides, managerial discretion has not been studied in such business environments, which makes our attempt an interesting opportunity to discover new insights. Most importantly, by using a different sample of countries, we provide construct validity to managerial discretion (Wangrow et al., 2015) and shed the light on new verdicts.

4.2 Measures

4.2.1 Managerial Discretion

Because managerial discretion is an intangible concept and has a multidimensional foundation (Hambrick & Abrahamson, 1995), determining its level consists on the examination of various proxy measures. In empirical studies so far, scholars have looked at theorized antecedents of discretion (e.g. Boyd and Salamin, 2001; Kim, 2013; Quigley and Hambrick, 2012; Peteraf and Reed, 2007). All these measures represent an indirect approach for assessing the degree of managerial discretion within a certain environment.

Another group of scholars measured discretion directly in a more innovative manner. Through the use of expert panel rating, Hambrick and Abrahamson (1995) were the first to introduce this direct measurement. Likewise,

Crossland and Hambrick (2011) departed from the same position where they measured national discretion level using two expert panels: academics and fund managers. Therefore, expert panel, if appropriately chosen, provide consistent and valid assessments of organizational phenomena including business strategies (Snow and Hambrick, 1980), and strategic decision processes (Fredrickson, 1986). Accordingly, we sought discretion ratings from a panel of prominent cross-cultural scholars who published work on cross-cultural business phenomena in the Arab world.

We searched the social citation index for recent studies published in 3 and 4 stars' business and management journals from 2008 to 2015, with terms such as: "Cross-Cultural", "Arab", "Middle-East", "Arabian Countries", "the Arab World", "Arabic Culture" in titles, keywords and abstracts. The search resulted in 158 articles. Around hundred and three scholars have authored or co-authored at least two of these studies. We contacted these scholars and asked them to participate in our study. Following Crossland and Hambrick (2011), we asked them to rate on a 7 points 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 in the Kingdom of Saudi Arabia, Lebanon, and United Arab Emirates. Of the 103 scholars contacted, 54 (52%) granted participation and provided utilizable responses. This panel provided 138 ratings, with every country receiving between 39 and 50 ratings (overall mean of 46 scores per country).

As these raters compromise the entire sample and every country discretion score was rated by the same k panelists (Shrout & Fleiss, 1979), we computed ICC (3, k) to assess the inter-rater reliability. ICC coefficient was 0.83 indicating high inter-rater reliability (e.g. Taggar, 2002).

4.2.2 Cultural Practices

Following recent management research (Basuil and Datta, 2015), we derived cultural scores using the cultural practices scale of House et al. (2004). We employed GLOBE Beta questionnaire and followed similar approach used by House et al. (2004). We identified five distinct industries: Fast Moving Consumer Goods (FMCG), Medical Appliances & Equipment, Banking, Retail (Fashion & Accessories) and Real Estate & Construction. We approached middle managers of domestic firms (57 firms in total) operating in these industries. Participants had an average age between 30 to 34 years old, highly educated with majority (83.7%) having an undergraduate university degree or higher, have a position tenure (as a middle manager) more than 3 years and work for small to medium enterprises (38.1% of respondents work for companies having 50 to 249 employees, 8% in companies with 250 to 499 employees and 36.3% for companies having more than 500 employees). Out of the 600 surveys sent, we received 375 completed and usable responses.

To verify the aggregation of individual scores to the societal level, we computed rwg (j) according to James et al. (1984). The average rwg (j) for our respondents was .80 indicating strong inter-rater agreement and larger reduction of error variance. This is higher than the traditional cut point of .70 (Lance et al., 2006). Also, we computed intraclass correlation coefficient for all society cultural norms, which was .16. Such value indicates that only 16% of variance is attributable to between society differences. It is not surprising that with all the differences between the studied societies only 16% is related to variance between societies. Accordingly, these statistical measures strongly support and justify the aggregation of our respondents' ratings to represent the society level. Furthermore, average Cronbach's Alpha for 375 participants was .88 indicating high internal consistency and strong relationship among the items constituting the scales used in this study. Also, the average ICC two-way random effect measure (Shrout & Fleiss, 1979) was .96 suggesting a strong inter-rater reliability. Consequently, these results indicate that our study participants were highly reliable, consistent in their society ratings and provided valid responses to be used for the society level of analysis. Scores are illustrated in Table 1.

Table 1. Managerial discretion and cultural practices country mean scores

Country	Managerial Discretion	Cultural Practices		
		Individualism	Uncertainty Tolerance	Power Distance
Kingdom of Saudi Arabia	4.20	-4.68	-4.68	4.88
Lebanon	4.72	-4.14	-3.36	5.50
United Arab Emirates	5.06	-3.06	-3.00	5.46

5. Analysis

We performed fixed-effect regression analysis in which country level discretion scores generated from the expert panel were the dependent variables, and country cultural scores were the independent variables. We used such technique because each rater is distinct from the other in terms of the number of countries he/she rates and the tendency of his/her rating. Not all panelists provided scores for all countries and each gave distinct score (either low or high). Thus, fixed-effect regression in this context takes into account the inter-rater differences (Green, 1997) and treats each panelist as a fixed-effect. As opposed to ordinary least square (OLS) regression analysis, the fixed-effect addresses the heterogeneity between raters along with controlling for the distinctive panelists' rating pattern (Hsiao, 2003). This enables more accurate analysis that illustrates each scholar exclusive intercept and control for unobserved heterogeneity between raters (Kennedy, 2008).

6. Findings

Table 2, represents the descriptive statistics and bivariate correlations between variables. Fixed-effect regression results are presented in Table 3. We argued in Hypothesis 1 that the more that a society practices encourage individualistic behaviour the greater the discretion available to CEOs. Model (1) shows strong negative and significant relationship between institutional collectivism and managerial discretion ($p < 0.05$), thus supporting H1. Model (2) which illustrates the relationship between uncertainty avoidance and managerial discretion, indicate a significant negative relationship ($p < 0.05$) providing strong support for H2, which argued that the more a society promote uncertainty avoidance behaviour the less the discretion available to CEOs of firms headquartered in that society. H3 suggested that higher power distance practices have a positive relationship with CEOs discretion has been strongly supported as illustrated in Model (3) ($p < 0.05$). As opposed to Crossland & Hambrick (2011), power distance in the Arab world has yielded positive impact on managerial discretion.

Table 2. Descriptive statistics & bivariate correlation

	Mean	S.d	Model (1)	Model (2)	Model (3)
Managerial Discretion ¹	4.66	0.43	-		
Individualism ²	-3.96	0.82	0.935	-	
Uncertainty Avoidance ²	-3.68	0.88	0.980	0.873	-
Power Distance ²	5.28	0.34	0.896	0.717	0.966

N¹ = 138; n² = 3; *p < 0.05, ** p < 0.01, *** p < 0.001.

Table 3. Fixed-effect regression: The effect of cultural practices on managerial discretion.

	Model (1)	Model (2)	Model (3)
Constant	6.642***	6.372***	1.061
Individualism	0.503* (0.204)		
Uncertainty Avoidance		0.463* (0.191)	
Power Distance			1.086* (0.500)
F	6.09*	5.87*	4.72
R ²	0.46	0.46	0.45

N = 138; *p < 0.05, ** p < 0.01, *** p < 0.001

7. Discussion & Conclusion

In this study we drew on the institutional theory to depict that managerial discretion is not only a function of executive individualities, organizational and industry characteristics, but also dependent on the national culture. We assured that some countries enable executives to take idiosyncratic actions, whereas, others confer little latitude of actions. Most importantly, we demonstrated that the context in which discretion is studied is a crucial parameter to validate and define such construct. While managerial discretion has indicated high context dependency, we observed that few cultural dimensions exhibited similar effect. Individualism and uncertainty tolerance were in the same direction of the results presented in Crossland and Hambrick (2011). In this vein, we have been able to empirically validate the national-level construct of managerial discretion.

Although, Crossland and Hambrick (2011) found a negative relationship between power distance and managerial discretion, our findings demonstrated the contrary. Societies that appreciate and encourage inequality amongst its member, accord leaders and particularly executives more status and privilege. In such cultural environments, executives are not accorded with high status as a form of emotional compensation (Crossland and Hambrick, 2011), rather they exert the power assigned to them and enjoy wider array of actions to be implemented. Because, subordinates are not able to confer higher hierarchical decisions, CEOs are afforded with enough power to take bold and idiosyncratic actions. These societies tend to romanticize their leaders (Krull et al., 1999) and by doing that leaders would be able exert their power and take subjective decisions. Again this redirects to the context in which discretion is studied. In Arabian countries, leaders and executives in position of power exert and continuously seek to enlarge the gap with their subordinates. In contrast, European and Anglo American countries may not experience the same hierarchical power. These collectives accord executives status and respect but perceive them as figureheads rather than bold decisions-makers.

Similar to any other study, our paper has some limitations. First, we tested our hypothesis using a small/moderate size sample of countries. We restricted our sample to three countries from the Arab world; this has resulted in omitting other important countries (e.g. Egypt, Qatar) whose becoming an important financial/business power in that region. Similar to what we have done, future work, should consider broadening the geographical scope of managerial discretion. Second, we explored the nature and antecedents of managerial discretion at the national level but we did not examine its consequences. As discretion is the primary construct that drives CEO effect on firm performance in a US context (Quigley and Hambrick, 2015), future work should test this proposition in a new cultural context and see whether the generalizability of CEO effect holds.

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