# Interpretation in Organizations: Sensemaking and Strategy

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The interaction of an organization with its environment constitutes its strategy. The process by which an organization gathers and interprets information regarding its environment determines, in part, the strategic response. This process, far from being objective and rational, is subject to interpretation. This article discusses how the process and content of interpretation, or organizational sensemaking, may influence organizational-level behaviour, i.e. strategy.

Processes of perception and cognition have long been studied by psychologists interested in explaining individual behaviour. More recently, management scholars have become interested in studying perception and cognition to explain the behaviour of people in organizations. While it may be worth noting that people in organizations perceive and think, even managers and members of top management teams, what is more controversial is to suggest that organizations may also perceive and think (Schneider & Angelmar, 1993).

This suggestion immediately sounds the alert, with cries of anthropomorphism and reification. Nevertheless, if we consider perception and cognition to be necessary functions of systems and consider organizations as systems (Miller, 1978), then the question no longer is *whether* organizations perceive and think, but *how* they do so. Thus, we need to study how organizations gather and interpret information about their environments in order to understand why they behave the way they do. We need to explore how organizations make sense, and, sometimes, make nonsense.

The way an organization responds to the environment is considered to be *strategic* behaviour. Strategic behaviour is considered to be organizational-level behaviour because it is the result of interaction among multiple levels of analysis: the leader; the top management team; and the organizational structure, routines, and heritage. Given that the environment is not an objective

reality but subjectively construed by both individuals and groups, that strategic issues are ill-defined problems replete with ambiguity and uncertainty (Mintzberg, Raisinghani, & Theoret, 1976), and that strategic decisions processes in organizations are subject to socio-political pressures (Lyles & Mitroff, 1985), the process of strategic decision making is far from being one of objective rationality. Thus the role of interpretation in strategy needs to be explored.

## INTERPRETING STRATEGIC ISSUES

Many psychologists and management scholars agree that the environment is not an objective reality (Smircich & Stubbart, 1985). Environments and organizations as well are, like beauty, in the eyes of the beholder and socially constructed. Thus reality is perceived and interpreted as a function of needs, wishes, past experiences, and expectations (Bruner, 1957). Problems in organizations are often identified or defined differently, depending upon the functional background or hierarchical level. Thus interpretation depends upon where you sit (Dutton & Ashford, 1990). For example, when presented with a problem scenario, managers often identify the problem in line with their functional (e.g. marketing vs. finance) backgrounds (Dearborn & Simon, 1958). Issues such as the need for cost cutting may be perceived differently at the top of the organization than at the shop-floor level. These different meanings may or may not converge over time (Fiol, 1994).

These strategic issues are events, environmental or organizational, that can have a significant impact on organizational performance (Ansoff, 1978). How these issues are managed depends upon the how they are "framed". Events such as mergers and acquisitions, increased competition (particularly from foreign competitors), internationalization, and restructuring or "downsizing" can be seen as threats or opportunities, can evoke intense emotional reactions ("hot" issues), and can redefine organizational identity.

For example, Dutton and Dukerich (1991) studied the response to the problem of "the homeless" (SDF) in bus, train, and airline terminals managed by the Port Authority of New York. This issue was considered to be "hot" as it evoked a fair amount of emotionality within the organization, as well as within the local community. The way the issue was managed and its resolution had far-reaching implications for employee motivation and commitment as well as for the organizational image and identity.

## RESPONDING TO STRATEGIC ISSUES

How these strategic issues are interpreted affects how they are responded to. This includes both the process of gathering and interpreting information regarding these events, or issues, as well as the decisions made and the actions taken. For example, interpreting an issue as a threat or as an opportunity may

influence the degree of risk-taking behaviour, the willingness to make investments of time and money, the flow of information, and who is involved in the decision-making process (Dutton, Stumpf, & Wagner, 1988; Staw, Sandelands, & Dutton, 1981; Tversky & Kahnemann, 1974).

However, it is important to note that the information gathered and interpreted may be "loosely coupled" from the decision made, i.e. that we cannot assume that decisions made are actually derived from the information gathered and interpreted. For example, major and acquisitions are often made with fragmented and incomplete information (Haspeslagh & Jemison, 1991).

Furthermore, the link between actions can be fairly tenuous—what gets decided and what happens may not be very closely connected. For this reason Mintzberg (1978) has described strategy in terms of what is *intended* vs. what is *realized* and to consider strategy as emergent—a stream of decisions (or even merely of issues) decoupled from action. Strategy may often, in fact; be interpreted post hoc, based on what *has* happened, i.e. retrospective sensemaking (Starbuck, 1983).

## THE PROCESS AND CONTENT OF INTERPRETATION

The question remains then, how do organizations make sense of (interpret) their environment, and how does this interpretation process influence behaviour? To address this issue we need to consider both *process* and *content*: how organizations gather and interpret information; the nature of knowledge structures; and the underlying worldview. The process perspective, or how organizations gather and interpret information, is referred to as the *organizational frame of reference* (Shrivastava & Schneider, 1984). The content perspective includes the knowledge structure (i.e. organizational schema, and causal and construct systems) and the organizational world view, or *basic assumptions* (Schneider & Shrivastava, 1987).

### Content

Organizations are primed to seek certain information or respond to certain patterns of events based on knowledge structures (and sets of beliefs) that have evolved with experience over time given the nature of the industry or business. For example, beliefs regarding what it takes to be successful (e.g. cost control, or developing new products and markets), and scripts (routines) for making that happen represent strategic profiles of "defenders" vs. "prospectors" (Miles & Snow, 1978). Also, knowledge structures representing, for example, constellations and configurations of competitors or markets may be more or less complex.

The world view consists of how the organization sees itself (identity), how it sees the world (e.g. as hostile or nurturing), and how it sees its members (significant others). These assumptions may help to explain strategic actions

which would otherwise seem difficult to understand. For example, an organization's sense of self that is invincible, of an environment that is munificent, and of members as active and capable may ignore signals of new technologies or new competitors and fail to respond appropriately. If the environment is seen as hostile and threatening, the organization as impotent, and its members as passive or inadequate, then the organization may seek a "white knight" to come to the rescue (e.g. a friendly takeover).

## Process

The ways that organizations gather and interpret information has been described in terms of information-processing models (see Cyert & March, 1963). These models derive from a variety of disciplines—cybernetics, systems theories, and psychology. Organizational frames of reference refer specifically to the preferred process by which strategic issues are noticed (scanning), the nature and sources of information sought, the models used to interpret that information, the reality tests used to confirm the presence or importance of this issue, and the criteria used for establishing its priority *vis-à-vis* other strategic issues. The basic model is presented in Fig. 1 (from Schneider, 1994; see also Dutton, Fahey, & Narayanan, 1983).

There is a scanning function which seeks information in ways that are narrowly focused or broad, in-depth (search), or superficial (surveillance). There is a preference for the source and type of information that is objective and impersonal, e.g. coming from experts or industry reports, or for information that comes from sources that are more subjective and personal, such as colleagues and relationship networks. Information preferences can be for "hard data", quantifiable numbers and graphs or more descriptive, qualitative data that comes from field visits, discussions, or descriptions of best practice.

This information is then interpreted using models that are more formal such as strategic forecasting, cost/benefit analysis, customer profitability, etc., or more informal, such as through home-grown models, discussion, and debate. The nature of the model, in turn, influences the type of information sought.

The strategic issue is then "validated": by personal edict (of the CEO for example, "We need to pay attention to this issue"); by past history ("We've seen this type of thing before"); by bureaucratic routines ("We have procedures for dealing with this type of issue"); by political debate ("I'll call yours an issue if you call mine one"); or by consensus ("We all agree that this is an issue").

The issue is then awarded more or less top priority based on criteria such as its importance (How crucial is it to survival?), its certainty (Do we need more information?), and its urgency (How fast do we need to respond?). While the above process is described as linear, it is in effect more iterative.
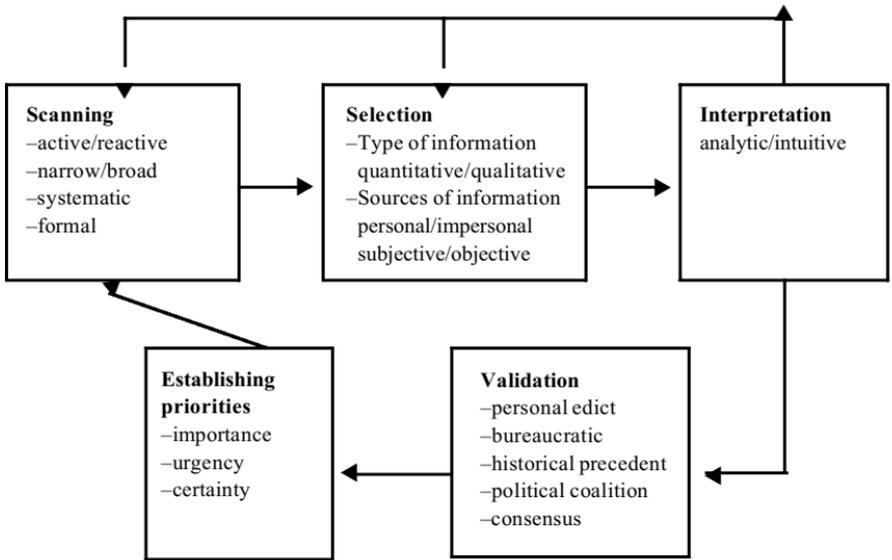
FIG. 1.    The process of identifying and prioritizing strategic issues (from Schneider, 1994).

## The Tale of Two Banks

In 1989, a study was conducted with two European banks, one in Spain and one in Denmark, faced with the strategic issue of "1992" (Schneider, 1994). Interviews with top executives in the two banks revealed a very different approach to making sense of that issue. The Danish Bank did not invest any extra resources for gathering information (scanning). Information was obtained from sources outside the bank, primarily from personal connections with those in government or close to Brussels (the seat of the EC). Industry reports and experts were not paid any particular attention. Information was interpreted using the budget and cost analysis. Some use of discussion and vision was anticipated. The decision regarding "1992" was expected to be taken in a formal, centralized manner, with information channelled through the strategic planning department to the board. There was little sense of urgency, nor of importance ("business as usual") or capability ("We're pretty sure we can handle it").

This approach, formal and top-down, or *controlling*, was attributed to perceptions of environmental certainty and organizational control despite an environment which could have been considered to be "threatening" (low economic growth, industry consolidation). This approach also corresponded with the bank's "defender" strategic profile, seen in its focus on cost and efficiency.

The Spanish Bank had a different approach. Information was broadly scanned from seminars, field visits to observe companies identified as having "best practices", and experts used as facilitators. This information, primarily subjective and personal, was interpreted through "home-grown" models and intense discussion. A task force entitled "Project Europe: 1992" was formed from managers throughout the bank who then interviewed over 100 other managers regarding their views on the strategic direction the bank should take. In this way consensus was sought to validate the issue. The CEO had also made it the number one issue on his agenda. In terms of establishing its priority, concern was expressed regarding the organization's capability to manage the issue, and there was a sense of urgency and a realization that decisions would have to be taken with less certainty than before.

This approach, called *adapting*, derives from perceptions of environmental uncertainty and low organizational control. This approach is also in line with a prospector strategic profile wherein product/market opportunities are sought. The "opportunity" frame derived from economic growth rates (over 5%) and from the excitement of joining "Europe" (which no longer ended in the Pyrenees). These different approaches, *controlling vs. adapting*, are shown in Table 1 (adapted from Schneider, 1989).

This discussion demonstrates that given the same environmental event, such as "1992", different interpretations and different responses are possible, by managers as well as by organizations. National culture may play a role in this interpretation process as it influences the perceptions of environmental uncertainty and organizational control and capability. Another study found that Latin compared with Northern European managers were more likely to interpret the same strategic issue (fictitious scenario) as a threat and to invest more resources in addressing it (Schneider & De Meyer, 1991).

These differences involve not only how the information is gathered and interpreted (process), but also the content of these interpretations and of organizational schema. Interpreting such issues as "threat" vs. "opportunity" depends, in part, upon the world view regarding the environment as analysable, the organization as able to control, and the members as capable. Threat interpretations are likely when the issue is perceived as having a potentially negative impact, as urgent, and when the organization is perceived as having low control or capability to respond (Dutton & Jackson, 1987). This results in an internal vs. external focus to reassert control in a domain where it is considered feasible (Milliken & Dukerich, 1987). This may encourage a "defender vs. prospector" strategic profile which may be considered as knowledge structures that contain beliefs about what makes for success and for recipes or scripts for how to get success (e.g. cut costs vs. develop new products or markets).

In fact, the process and the content of interpretation are intricately linked. Past research has demonstrated that organizations that are prospectors vs.

TABLE 1
Two Models of Strategy Formulation (from Schneider, 1989)

| *Strategy formulation* | *Controlling* | *Adapting* |
|---|---|---|
| Scanning | search: active, focused, systematic | monitor: reactive, broad, non-systematic |
| Selection | | |
| Type of Information | quantitative | qualitative |
| Sources | objective, impersonal | subjective, personal |
| Interpretation | analytic | intuitive |
| Validation | personal edict bureaucratic rules | consensus political historical precedent |
| Priorities | urgency certain task concerns | less urgency less certainty social concerns |
| Overall | top down elite dominated "stratetic planning" intended | bottom up consensus based "evolutionary" adjusting, emergent |

defenders tend to gather information in ways that are less formalized, centralized, and political, and tend to interpret issues as "opportunities vs. threats" (Meyer, 1982; Thomas & MacDaniel, 1990). In turn, interpretations of threat are likely to result in defender strategies and in restricted flows of information and greater centralization of decision making, as mentioned previously, and as shown in Fig. 2 (Schneider & Barsoux, 1997).

## Summary

In this brief article we have discussed the role of interpretation in strategy. We have demonstrated how both the process and content of interpretation may influence response to strategic issues, defined as environmental events that can have an important impact on organizational performance. Strategic action, which represents *organizational-level* behaviour, is thus partly determined by the process (how information is gathered and interpreted), as well as by the content (the knowledge structures and world view) of interpretation. Thus different actors, be they managers or organizations, looking at the same environmental event, such as new markets or new technologies, will perceive, interpret, and respond to these events in possibly very different ways.

This has major implications for how strategic direction is established and communicated within companies, as well as across cultures, be they national,
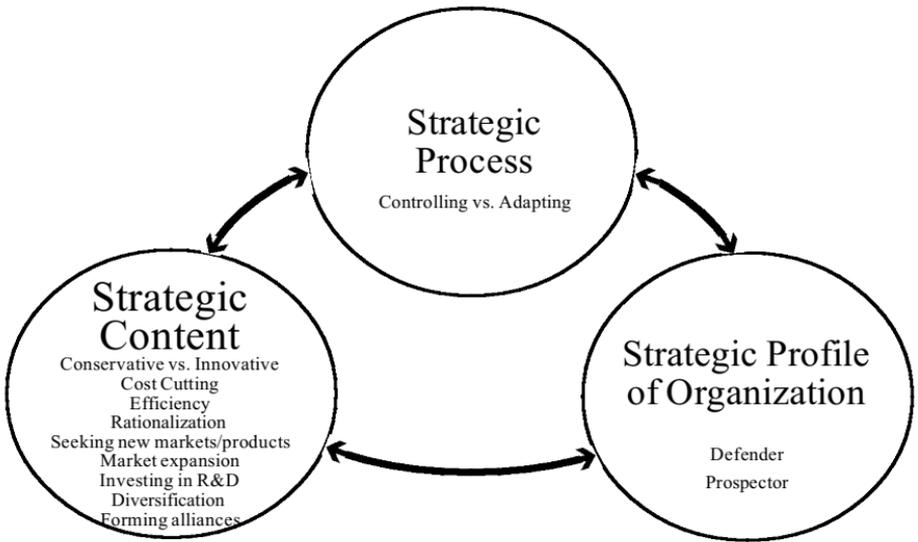
FIG. 2.   Interaction between strategic process, content, and profile (from Schneider & Barsoux, 1997).

industry, or corporate. By better understanding the process by which interpretation influences strategy, managers can better manage the challenges of implementing strategic change with organizations, of anticipating the actions of competitors, and of aligning the interests of partners in the increasingly unpredictable environment of international business.

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