Strategy Meets Culture (for Breakfast): Understanding the Relationship and Highlighting its Potential

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I.   Introduction

There are of course huge literatures on culture and on strategy, but the intersection between these literatures is much smaller. While global strategy has given culture a central role in the analysis of multinational firms and comparative business systems, the rest of the strategy literature has afforded culture a much smaller role. Our view is that culture and strategy have natural connections, that their interactions are important, and that a better understanding of culture at multiple levels would be fruitful for strategy research.

Before considering strategy, we sketch what we mean by "culture." We do not hope to provide a definition encompassing all extant usages, but instead highlight two elements that are critical for strategy. First, culture is *shared* among a group of individuals; an individual alone cannot have culture. As we discuss below, both the level at which culture is shared and what exactly is shared represent important distinctions in culture research. Second, culture typically involves *values* and/or *expectations*. These could include a tendency to prioritize individualism over collectivism (Hofstede, 1984), the shared understanding underlying a common language (Cremer, 1993: Ginsburgh and Weber, 2020) or a shared approach to interpreting information (Morris and Peng, 1994; Weber and Camerer, 2003).

Most definitions of culture contain these two elements. For example, Hofstede's (1984: 21) definition of culture as "the collective programming of the mind which distinguishes the members of one human group from another" highlights the "collective" and "distinguishing" aspects unique to a group, while subsequently also noting that culture is a "system of values." Through the phrase "collective programming," Hofstede evokes the idea of a society that, through schools, and through parental and community interactions, inculcates certain values in its young people from an early age. As another example, Schein (1996: 236) defines culture as "the set of shared, taken-for-

granted implicit assumptions that a group holds and that determines how it perceives, thinks about, and reacts to its various environments."

As we discuss below, different approaches to studying culture may place greater emphasis on values or on expectations, or may adopt different perspectives on how culture develops, changes or is shared within members of a group. Indeed, while within most research communities there is typically strong agreement on what culture is and how it should be studied, we find it striking that across disciplines and approaches there is substantially less agreement. For example, while cross-cultural psychology and social psychology have been highly precise in defining and measuring culture, in other social sciences culture is sometimes utilized as an intangible "hidden force" that is less directly measurable or quantifiable than other important social and organizational characteristics—e.g., educational attainment, natural resources or technology. Thus, variation in the behaviors and outcomes obtained by societies and other social groups, which are otherwise hard to explain based on standard and more tangible characteristics, often find an explanation by appealing to culture as the previously unexplained driving factor.[1] Importantly, these exercises are often motivated by an attempt to provide a basis for why some societies making markedly different value prioritizations among the possibility set are able to attain the equivalent of different peaks on a multi-peak landscape.

Of course, one might be concerned that if the diverse universe of researchers studying culture—historians, sociologists, cross-cultural psychologists, social psychologists, economic theorists, and more—can't agree on what, precisely, culture is and how it operates, then how can it be useful for the specific questions investigated in strategy research? We believe that there are natural connections that make culture a highly valuable concept for the study and development of strategy.

A major agenda within strategy research asks what makes some firms succeed and others fail. This question is particularly interesting to strategy scholars when there is no immediate reason based on standard economic factors, such as a product monopoly. Moreover, the question strategy researchers ask is typically not why firms are successful in a particular instance, but instead why some firms seem to have a persistent advantage over others, and one that is hard to reproduce. That

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[1] For example, some researchers rely on historically distant cultural influences as a way of organizing modern distinctions between societies (Greif, 1994; Alesina, Giuliano & Nunn, 2013; Enke, 2019).

is, what previously unexplained intangible forces can account for why some firms persistently outperform others?

Viewed this way, the potential value of culture as an important factor in explaining why organizations function differently and obtain different outcomes—even when they otherwise appear very similar with respect to more tangible factors—seems obvious. Of course, these kinds of connections have been made many times in previous research. As just one example, in attempting to understand why Southwest Airlines persistently outperformed competitors, researchers turned to notions of shared values and expectations that lie at the core of culture (Chatman and Cha, 2003; Gittell, 2005). Culture has also been offered as an explanation for the differential success of mergers (Weber, Shenkar and Raveh, 1996; Weber and Camerer, 2003) and for varying levels of cross-national foreign direct investment by multinational firms (Siegel, Licht and Schwartz, 2013). Two of the papers in this symposium are also very much of this variety—using distinct notions of culture, at very different levels, to explain variation in success (Gibbons, LiCalzi and Warglien, 2021; Wang, Zeng and Shenkar, 2021).

In the rest of this essay, we attempt to articulate what we believe are important dimensions in the varied approaches to studying culture, emphasizing how such research could inform strategy. We conclude by discussing examples we see as valuable opportunities for further contributions.

II.   Some Dimensions of Culture

In an influential survey on the economic implications of "Culture and Institutions," Alesina and Giuliano (2015) adopt Guiso *et al.*'s (2006: 23) definition of culture as "customary beliefs and values that ethnic, religious, and social groups transmit fairly unchanged from generation to generation." Given this definition (of what one might call *societal* culture), it may not be surprising that neither Alesina and Giuliano nor Guiso *et al.* say much about organizations, not to mention strategy. Nonetheless, from the perspective of strategy, we imagine such societal culture entering an organization via the backgrounds of the organization's members—backgrounds that are shaped before the individuals join the organization.

From a very different perspective, explicitly focusing on *organizational* culture (and holding constant societal culture), Schein (1985: 9) defined organizational culture as "a pattern of basic assumptions—invented, discovered, or *developed by a given group as it learns to cope* with its problems of external adaptation and internal integration" (emphasis added). In contrast to

societal culture, Schein's notion of organizational culture is "developed by a given group," whose members have whatever societal backgrounds they have; furthermore, this development occurs "as [the group] learns to cope," whereas societal backgrounds are instilled before individuals join an organization.

These contrasting definitions of culture suggest several dimensions on which the setting, source, content and the process of change of cultures may differ. For example, the setting may differ in the size of the group: a nation, community, firm or work group. Turning to sources, cultures may be shaped by events in the distant past, by ambient conditions at an organization's founding or by intentional interventions during the life of the organization—to name just a few possibilities. Regarding content, many approaches have emphasized the values that a culture instills in individuals; alternatively, holding values constant, other approaches have emphasized expectations about how others will interpret situations that may arise, and how these others then will act. And finally, considering culture change, there may be differences in the speed of change (persistence across centuries versus destruction within months) and in the intentionality of change.

To facilitate the discussion that follows, we first distinguish the polar cases of these four dimensions—setting, source, content, and change. Using these binary versions of the four dimensions, we then construct a 2x2x2x2 categorization. Finally, given this categorization, we label two of its opposing cells. Before doing any of this, however, we immediately acknowledge three crucial points: (i) on any one dimension, there are important examples between the polar cases we distinguish; (ii) there are important cells in the 2x2x2x2 categorization beyond the two we label; and (iii) there are important dimensions beyond the four we discuss.

1. For a culture's setting, we distinguish between (a) *large* groups (such as a country) versus (b) *small* ones (such as a firm). Of course, today some firms are bigger than some countries.
2. For a culture's source, we distinguish between (a) events in the distant *past* (say, beyond living memory) versus (b) *contemporaneous* interactions among organization members. Of course, organizational cultures can be shaped by founders long deceased, and societal cultures by current events.
3. For a culture's content, we distinguish between (a) *values* that are instilled in individuals (modeled, in economics and strategy, via utility functions) versus (b) expectations about

how others will interpret situations (modeled as one person's beliefs about another's beliefs, holding utility functions constant).

4. And for cultural change (often related to a culture's source), we distinguish between (a) culture that is changed only by *exogenous events* versus (b) culture that is changed only by *intentional actions*. Of course, the two may not only co-exist but interact—for example, an exogenous event might facilitate or amplify an intentional action to change culture.

These binary versions of the four dimensions imply a 2x2x2x2 categorization. For example, a culture's setting might be a large group, its source contemporaneous interactions, its content values instilled in individuals, and its change via intentional actions.

To organize the discussion below, we now label two of the categorization's opposing cells. We use *Big-C culture* to label the culture of (1a) a large group, that (2a) is shaped by the distant past, (3a) concerns the values of populations of individuals, and (4a) is changed only by exogenous events, and we use *little-c culture* to label the culture of (1b) a small group, that (2b) is shaped solely by contemporaneous interactions among group members, (3b) concerns expectations of how others will interpret and respond to situations, and (4b) is changed only by intentional interventions.

We intend Big-C culture to capture aspects of societal culture. As suggested above, we imagine Big-C culture entering an organization via the backgrounds of the organization's members—backgrounds that are shaped before individuals join the organization. In this sense, Big-C culture is *absorbed by* an organization. In Section III we suggest how Big-C culture may affect organizational design, decision-making, and performance, and we situate this Symposium's paper by Wang, Zeng and Shenkar (2021) within this approach.

In contrast, we intend little-c culture to capture aspects of organizational culture. For ease of exposition, we use "little-c culture" to mean both the pure form of little-c culture that we define above *and* some of its neighboring cells in the 2x2x2x2 categorization—all of which have important differences from Big-C culture, such as the following.

Whereas Big-C culture is absorbed by an organization, little-c culture is *developed within* the organization. For example, if Big-C culture shapes individuals' values and beliefs before they join an organization, then little-c culture might result from re-shaping the values and beliefs of individuals after they join the organization. Changing an individual's values might be called

socialization; changing an individual's beliefs might be called teaching (or indoctrination). In addition, without changing any individual's values, an organization might change the distribution of values across its members by careful selection when individuals join the organization.

As Guiso *et al.* (2006: 25) put it, Big-C culture is the "inherited, slow-moving" aspect of culture, distinct from what they describe as the "fast-moving" aspect associated with "social interaction and peer groups" surveyed by Manski (2000). We indeed see little-c culture as faster-moving than its Big-C polar opposite, but our pure form of little-c culture also differs from Big-C in two additional ways: in its focus on expectations rather than values, and in its change via intentional interventions rather than exogenous events. In Section IV we situate this Symposium's papers by Li and Van den Steen (2021) and by Gibbons, LiCalzi, and Warglien (2021) within this little-c approach.

Of course, taken on their own, the pure forms of Big-C culture and little-c culture would be a monstrous over-simplification of the rich current and prospective literatures studying the relationships among culture, organizations, and strategy. As noted in (i) above, for each of the four dimensions (setting, source, content, and change), there are numerous studies that lie at diverse points between the poles of the dimension. Moreover, as noted in (ii), there are whole literatures studying cells of our 2x2x2x2 categorization beyond the two we have labelled. And finally, as noted in (iii), there are also numerous other dimensions that one can argue are equally important for distinguishing between approaches in the rich literature on culture. Nevertheless, we find the distinction between Big-C and little-c culture a useful starting point for organizing the next two Sections' discussions of how research on culture has and could inform research on strategy.

III.   Big-C Culture and Strategy

Within the global strategy literature, authors have used cultural theories about value prioritization informed by psychology and sociology (e.g., Hofstede 1980, 2001; Schwartz, 1994) to predict firm-level patterns in strategic behavior, particularly around strategic investment location choice (e.g., Siegel, Licht, and Schwartz, 2013) and choice of market entry mode (e.g., Kogut and Singh, 1988). In fact, ideas from the so-called "Big-C" culture literature have over the last 35 years become a core part of the global strategy literature. Within that literature, the ideas of Hofstede, Schwartz, the World Values Survey, the GLOBE Survey, and the Chinese Values Survey have become core elements collectively of literally thousands of published studies. In fact,

it can be argued that the so-called "Big-C" culture literature has had some of its biggest impact on the global strategy literature, that the global strategy literature has informed the "Big-C" culture literature about its relevance to organizations and strategy, and that the two literatures have over time become tightly interlinked.

So-called "Big-C" culture arises at the societal level. At that level, society inculcates certain value prioritizations in its members, starting from a young age. These societal value prioritizations guide and influence individuals to decide among competing alternatives in terms of what constitute desirable vs. undesirable paths when navigating social interactions and participating in societal-level policy choices. While individuals, of course, retain their own individual-level sources of independence and their own individual-level psychological needs, the imprinting of the societal value prioritization at a young age brings about a significant and meaningful effect on group/population-level behavior and collective choices.

For the sake of definitional precision, values are defined in the Big-C literature as "criteria or standards of preference" (Williams 1968, 1970). Importantly, values combine both concept and imperative (Williams 1979: 16) and serve as guiding criteria for deciding between competing choices. Also, whereas norms are specific rules and social expectations, values are the criteria for standards that lead to those norms. Coherent groupings of complementary values in turn form so-called informal institutions based on community-enforced norms to diffuse and apply those values, with egalitarianism, for example, being an informal institution (Siegel, Licht, and Schwartz, 2011).

Over the last five decades, authors within the Big-C literature actually reached a high degree of consensus about what is culture, with each author proposing a series of conceptual frameworks and measurement approaches. The consensus was that value dimensions are relatively small in number, that societal values typically take decades to change, and that individualism vs. collectivism is a common dimension that exists in some form across different approaches. Hofstede (1980, 2003) was a leading pioneer in the study of culture by developing his initial four dimensions of culture organically through studies of employee satisfaction at IBM subsidiaries worldwide. Rokeach (1973) and then later Schwartz (1992) developed approaches strongly grounded in theory from psychology with inspiration also from sociology and anthropology. Thus, besides Hofstede's approach, other approaches to studying culture have come through the Schwartz Values Survey, the GLOBE surveys, the World Values Survey and the Chinese Values Survey. Schwartz (1992) was a pioneer in arguing for the precision offered by focusing on

demographically similar groups across societies and then measuring their cultural differences. Because schoolteachers are often key transmitters of societal culture in most societies, Schwartz gained significant attention by focusing on that group while also demonstrating consistency using university students as well as, importantly, nationally representative samples.

A recent focus of the Big-C academic literature has been on stressing the importance of developing history-motivated theories for what caused specific cultural values and beliefs to become the norm at the societal level, and then in connecting historically-identified cultural dimensions to specific societal choices and strategic management outcomes later in time. If Big-C culture is largely fixed in advance for today's participants, then history is the right place to look for its sources; in contrast, Schein wrote that leaders are the sources of little-c culture. Siegel, Licht and Schwartz (2013) provide an example of this approach, where in order to explain the global strategy variable of cross-border foreign direct investment investment-location choices, they used historical wars of state formation from the 19th century as key exogenous shocks for identifying the part of egalitarianism that is not driven by economic wealth effects. The idea, as motivated by the political science literature, is that wars of state formation often bring together members of the same social group who happen to be on opposite sides of the same exogenously determined border. Bringing together these members of the same social group to fight in a war of state formation often led them to make guarantees of social welfare protection to all members. And once the war was fought and over, these guarantees of social welfare protection often endured for the long run.

Within a society, the literature has held that sometimes there are notable subcultures based on preexisting and ongoing fractionalization, and that these subcultures can in the cases of some countries hold notably heterogeneous value prioritizations. A notable analogue to this work exists in the economic literature on social fractionalization, which theorizes that social divides lead to rival subcultures and that result in a lack of investment in collective public goods (Alesina et al., 2003). Another analogue to this work exists in the literature on the politics of economic development, where Locke (1995) showed evidence consistent with the idea that different social network structures between northern and southern Italy contributed to remarkable variation in economic outcomes based on the capacity for cross-societal interaction, cooperation, and trust. In the Big-C literature, in turn, Schwartz pointed out that while most countries had a dominant and pervasive societal culture, there were at least a few cases of countries where the within-country

regional differences could be vast. The work by Wang, Zeng and Shenkar (2021: 2-3) fits within this part of the literature, as they argue that Chinese regional populations with a historical legacy of a rice-producing culture are still differentiated in recent decades in their cultural belief systems, with what they propose based on evidence from the field of social psychology to be a significantly higher emphasis on collectivism and holistic-thinking (with the latter defined to be "a cultural cognitive process focusing on salient foreground objects or contexts").

Within the strategy literature, there has been a focus on using measures of cultural difference/distance to highlight frictions and obstacles to successful market entry, market exchange and firm-level performance. Kogut and Singh (1988) were the pioneers in this field, through their use of a difference index on the aggregated four dimensions of Hostede's data (1980) to predict the choice between greenfield vs. joint venture vs. acquisition as modes of market entry across countries. They also included a theory-driven analysis of societal differences in the Hofstede dimension of uncertainty avoidance to explain conditions under which greenfield entry was chosen over acquisitions. That seminal article has over 2,100 citations in the global strategy literature. The work in this issue by Wang, Zeng and Shenkar (2021) fits within this approach as well, by connecting subcultural heterogeneity within China to merger and acquisition outcomes. Instead of looking at distance, they use a novel approach by examining the asymmetric effect of similarity on positive merger and acquisition outcomes. They motivate their approach theoretically by appealing to the sub-regional cultural differences between wheat cultures and rice cultures within China. In many ways, their theoretical approach is a compelling analogue to work in economic history showing the effect of historical reliance on cash crops on subsequent formal and informal institutions (Engerman and Sokoloff, 2011).

IV.   little-c Culture and Strategy

As we have described, Big-C culture can have deep roots and broad influence. We turn next to little-c culture. Recall from Section II that Big-C culture is absorbed by an organization—it is the inherited, slow-moving aspect of (societal) culture. In contrast, little-c culture is not only developed within the organization and faster-moving; in its pure form, little-c culture also focuses on expectations rather than on values, and is changed by intentional interventions rather than by exogenous events.

Another difference between Big-C and little-c culture is that the former may inhere *within* individuals, whereas some versions of little-c culture inhere *between* individuals. That is, a Big-C conception of *organizational* culture might be the distribution of some individual attribute (such as values) across the organization.[2] In contrast, our pure form of little-c culture might be intersubjective—i.e., "existing between conscious minds." As Geertz (1973: 12) put a related idea, "Culture is public because meaning is." Geertz's pithy statement implies three things: first (following Wittgenstein), meaning is public (*i.e.*, intersubjective); second, culture is public (*i.e.*, culture is also intersubjective—as opposed to the distribution of individuals' attributes); and third, culture concerns meaning.

Game theory offers an example of this intersubjective aspect of little-c culture: Nash equilibrium is a situation in which players have a shared understanding of each others' strategies (and each player's strategy is a best response to the other players' strategies). Might socialization or indoctrination or selection affect the way that individuals play a given game? Of course. But many games of interest have multiple Nash equilibria. That is, given the Big-C backgrounds of individuals, and after socialization and indoctrination and selection have occurred, typically there are different potential shared understandings that could arise.

Kreps (1990) pioneered this game-theoretic approach to corporate culture, interpreting a repeated-game equilibrium as a shared understanding of "how we do things around here." Because repeated games have many equilibria, a given set of participants might find themselves with any one of many different little-c cultures. In this sense, there might be not only regional variation in Big-C culture within a nation, but also local variation—say, within a city or an industry—in little-c culture across otherwise identical organizations (or even within the same organization over time, without any change in personnel).

The theory of repeated games is largely silent about how a given group might build or change an equilibrium. In contrast to this omission from the theory, there are many empirical accounts of (a) participants seeming to have reached good or bad equilibria and (b) "leaders" (who may or may not be hierarchical superiors) struggling to build a good equilibrium or change a bad one.[3] In summary, while the multiplicity of equilibria in a repeated game is consistent with

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[2] The distributional approach exists both in anthropology (e.g., Cavalli-Sforza and Feldman, 1981; Boyd and Richerson, 1985) and in economics (e.g., Bisin and Verdier, 2001; Besley and Persson, 2018).

[3] On (a), see Knez and Simester (2001) for a case study and Gibbons and Henderson (2013) for other examples; on (b), see Brandts and Cooper (2006), Brandts, Cooper and Weber (2015) and Cooper, Hamman and Weber (2020).

differences in culture across neighboring firms, there is a discomforting aspect of Kreps's seminal approach: low-performing parties know there exists a better equilibrium, but the model gives the parties no way to try to reach it (and, as a result, the model does not suggest why reaching it might be hard).

To explore the difficulty of reaching a good equilibrium, we draw on DiMaggio's (1994: 27-8) discussion of two aspects of culture. By the "regulative" aspects of culture, DiMaggio means norms, values, and conventions that may reshape an individual's pursuit of self-interest, whereas by the "constitutive" aspects DiMaggio means taken-for-granted cognitive categories and schema necessary for parties to think and interact. In this symposium, the papers by Li and Van den Steen (LVdS) and by Gibbons, LiCalzi, and Warglien (GLW) illustrate DiMaggio's regulative and constitutive aspects, respectively.

Li and Van den Steen sketch an economic model of norms (defined as informal rules of behavior enforced through social sanctions) and relate it not only to culture (defined as shared beliefs and preferences) but also to strategy. One important point from LVdS is that the threat of social sanctions may induce behaviors that are consistent with—but far from proof of—shared preferences. That is, in equilibrium, individuals may act as though they share the preferences perceived to be widespread within a group (including sanctioning others for behaviors inconsistent with those preferences), even if they in fact have different preferences. In this sense, culture (shared beliefs and preferences) may be shaped and sustained by norms (rules of behavior).

In addition, LVdS make a second important point, connecting culture to strategy: if strategy's core function is to guide behavior (Van den Steen, 2017) then culture and norms may compete with strategy by providing incentives for different behaviors. Their model thus sheds light on why "culture eats strategy for breakfast" (a remark sometimes attributed to Drucker but seemingly apocryphally so), in contrast to Barney's (1986) view of culture as a potential source of competitive advantage and, hence, an input to strategy.

Complementing Li and Van den Steen's work, the paper by Gibbons, LiCalzi, and Warglien illustrates DiMaggio's constitutive aspect and Barney's view of culture as a source of competitive advantage. In particular, GLW analyze a model where the environment is too complex for participants to perceive in full detail, so participants necessarily and unknowingly parse their world into a finite number of categories.

GLW revisit Kreps's (1990) analysis, but with an important difference: whereas Kreps defines culture as equilibrium, GLW define culture as shaping participants' cognitive categorization, which then determines the best repeated-game equilibrium they can see. Small differences in categorization can produce big differences in equilibria, again consistent with persistent performance differences. Reaching (or even just perceiving) a better equilibrium would require changing the parties' categorization, so GLW explore the roles of exemplars, stories, and the like in inducing such changes, finding that change can be slow, risky, and path-dependent—consistent with Barney's (1986) observation that, if organizational culture is to provide competitive advantage, it must be difficult to imitate.

IV.   Future Directions

We conclude by highlighting what we believe to be some potential opportunities for future work that integrates dimensions of culture into strategy research. At a general level, it is important to note that, in order for culture to have a convincing and long-lasting influence on strategy research, it is crucial that researchers continue to employ rigor in defining and measuring their notion of culture, continue to build new theories both about identifying the exogenous causes of culture (e.g., Siegel, Licht, and Schwartz, 2011, 2013) and about its precise channels of influence, and empirically testing these relationships.

In this regard, we believe that it is particularly appropriate to highlight at this point some other groundbreaking work on little-c culture (used, as above, to mean both the pure form and its neighboring cells in the 2x2x2x2 categorization). For example, Marchetti (2020) and Marchetti and Puranam (2020) have pioneered greater use of computational methods to take employee posts on Glassdoor, identify organizational cultures, and then, in the case of Marchetti (2020) to predict strategy outcomes based on culture compatibility in technology mergers and acquisitions. Bhatt (2019) has also done pioneering work using cutting-edge tools of computational linguistics to assess post-merger cultural adaptation after the joining together of two U.S. regional banks. Clearly, the renaissance of work on culture and strategy will greatly benefit from the above combination of new theories of where culture comes from and new methods of identifying cultural differences and cultural adaptation at the little-c level.

More generally, regarding our 2x2x2x2 categorization in Section II, we believe that there are valuable opportunities to explore (i) conceptions of each dimension between the poles we

identified, (ii) cells in the categorization beyond the two we labeled, and (iii) dimensions beyond the four we considered. Such work could explore alternative ways in which variation in culture's setting, sourse, content and change can help understand its impact on organizations. For example, much work on Big-C culture has focused on values, whereas a larger share (but far from all) work on little-c culture as focused on expectations. A society's shared values naturally influence the behavior of its members and therefore what they do in organizations, while once within the context of a firm, expectations may be easier to modify than fundamental beliefs. However, we also believe there are valuable opportunities for "flipping the script." In the case of Big-C, cultures also differ in basic assumptions about how the world works, such as what factors determine economic success or failure (Alessina and Angeletos, 2005) and such shared expectations within a society are also likely be reflected in organizations composed of individuals thereof. Turning to little-c, while organizations may more easily shape their member's expectations, there is also evidence that leadership (d'Adda et al.., 2017) and experience in repeated games may also shape values themselves (Engl, Riedl and Weber, in press). Such channels, relatively underemphasized thus far, may provide a better understanding of how culture influences strategy.

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