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Advancing Indigenous Management Theory: Executive Rationale as an Institutional Logic

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ABSTRACT With this perspective paper, we seek to help open up an additional and, we believe, especially promising avenue for indigenous management research. We explore the potential for progress through the investigation of executive rationale, an institutional logic guiding managerial action and enabling strategies, structures, and formal integration mechanisms. Drawing on interviews with an elite group of executives including some of the world's most powerful managers, we illustrate variance in executive rationale across five major economies – Germany, Hong Kong, Japan, South Korea, and the United States – and suggest that action and structures in these economies are broadly aligned with the respective expressions of executive rationale. We consequently hold that indigenous management research may benefit from a focus on executive rationale in particular, and we propose a concrete research agenda.

KEYWORDS China, indigenous management theory, institutional logic, national business systems, rationale

INTRODUCTION

The discovery and elaboration of indigenous management theory has proved challenging. This is not for lack of interest, as journals focused on Asia, and especially *Management and Organization Review* (MOR), have actively encouraged exploration of this topic at least since the early 2000s (Leung, 2012; Lewin, 2014; Tsui, 2004). A number of promising avenues have been opened and debated, such as the role in Chinese management of yin and yang (Fang, 2012; Jing & Van de Ven, 2014; Li, 2012b; Li, 2014), paternalistic leadership (Farh & Cheng, 2000), and *guanxi* (Chen, Chen, & Huang, 2013; Luo, Huang, & Wang, 2012). Research in this vein has also suggested the presence of gaps in existing Western theories, such as that on creativity (Leung, 2012). Yet as the numerous calls for further indigenous research suggest, much of the potential for generating insights into, and from, indigenous management theory remains yet to be captured (e.g., Fang, 2010; Lewin, 2014; Li, Leung, Chen, & Luo, 2012; Meyer, 2006).

The objective of this perspective paper is to help open up an additional and, we believe, especially promising avenue for indigenous management research. It broadly responds to the call by Lewin (2014) to explore the impact of different forms of (bounded) rationality on the ways in which individuals and dominant coalitions 'architect, devise, implement, and restructure actual organizations' (Lewin, 2014: 3). Specifically, we propose that an important aspect of developing indigenous management theories further may lie in understanding the embedding of what we see as 'meaning systems' in their societal context. Such phenomena may be seen as unobservable but significant influences on action, based on the shaping of consensus among key actors about intentions and behavior. These then in turn serve to influence their surrounding institutions, both proximate and background. They do this by guiding managerial action, and by influencing the strategic relationship with the surroundings of the organization. This relates to the work of Thornton and Ocasio (2008) on institutional logics, and accepts their definition of what we call *rationale* as 'the socially constructed, historical patterns of material practices, assumptions, values, beliefs, and rules by which individuals produce and reproduce their material subsistence, organize time and space, and provide meaning to their social reality' (101). The collective meaning system shared by a group, such as an influential set of senior executives directing a firm, provides a link between (a) individual agency and cognition, and (b) socially constructed institutional practices and rule structures. Within the notional 'boardroom', the structural, normative, and symbolic flow together and are 'processed' towards a common perception. This shared perception is located within a social and institutional context, and this context does two things: it regularizes conduct and it provides opportunity for agency and change.

The features we analyze are *configurations* of elements capable of conditioning action, and linked by reciprocal bonds between components, stable as a total for a period of time. An example might be old boy networks in the city of London, attached to certain education channels, a certain social class, employment in certain organizations, in certain roles, and tied together by certain social behavior patterns and connections. The action in business that is influenced is a network of information flow and shared dealings at low transaction cost due to the established trust embedded in the configuration. The predictability of the influence process rests largely on the strength of agreement about ideals among the actors, as their shared mental universe is a determinant of their behavior. Such a configuration has built into it a self-perpetuating force that fosters the mechanism's adaptation and survival, for as long as the wider environment remains accepting of it. Much of the shaping of action takes place invisibly but nevertheless predictably and persistently.

In this paper we argue for such a mental universe being seen as a form *of rationale* in the perceptions of the actors. In other words, it contains within it not just a set of guides to action, but a set of reasons justifying those guides. We moreover see it possible to discern certain key dispositions that are shared by senior executives across a national economy. This rests on their sharing of the same wider context of business conduct in the same political space, under the same laws and in the same social conditions. Companies and management, if they are to thrive, become productive interpretations of national institutional logics, and what we are pointing to here is a largely unreported reflection and determinant of that interchange. We do not suggest primacy for this determinant, as we fully acknowledge the salience of 'material' as well as 'ideational' factors in shaping economic action. But we do suggest its inclusion in a literature that tends by habit to focus heavily on the material.

Rationale represents 'reasons for' action, combining views of appropriate and legitimate ends and means (Witt & Redding, 2009) – in essence, it provides a mental blueprint for action. While there are different kinds of rationales for different areas of economic activity – as we will elaborate later – we focus here on the arguably most central kind for understanding economic action: views of why the firm exists. Such rationale is present and likely to guide action at many different levels of the organization, but we concentrate on that espoused by top-level executives as the group most in a position to shape organizational structure, processes, and strategies (Hambrick & Mason, 1984; Witt & Redding, 2009).

The sense making occurring in executive rationale is culturally embedded and therefore varying across societal contexts. The most basic and compelling argument for this is that culture is the social construction of reality (Berger & Luckmann, 1966), with the extension of that argument to allow for its existence in discrete provinces of meaning (Redding, 2008; Sorge, 2005). This variance, as we will elaborate later, provides the backdrop for differences in managerial action and structures and thus may lead to a deeper understanding of indigenous patterns of organizational response.

In the pages that follow, we seek to underline this potential and provide concrete research guidance to help capture it. We commence by providing an empirical overview of variance in executive rationale regarding the reasons for the existence of the firm across five major economies, including two emerging and three advanced industrialized markets. We then illustrate the face validity of the suggested link between rationale on the one hand and action and structure on the other hand. We lay out a range of implications of these empirical patterns for theory and conclude with a discussion of a possible research agenda from here.

EXECUTIVE RATIONALE IN FIVE MAJOR ECONOMIES

We explored the shape of executive rationale about the reasons for the existence of the firm in five major economies: Germany, Hong Kong, Japan, South Korea, and the United States. As Appendix A shows, our sample represents an elite group of executives that includes some of the world's most influential senior managers at the time of our interviews. With the exception of Hong Kong, for which Redding (1990) has provided a prior data point, this represents the first empirical study of executive rationale for these economies.[1] For details on data collection and data analysis as well as a more comprehensive write-up of our analysis, we refer the reader to Appendix B, which is available as a supplement to this article.

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Table 1 presents a high-level summary of our results. We find that executives in the five societies espoused fundamentally different notions of why firms exist. There was also visible variance in terms of the stakeholders and other factors considered relevant, both in terms of salience – viewed here as the proportions of executives referring to a given category – and affect (cf. figures in Appendix B). German executives essentially saw the firm as a production function, and while they agreed that shareholders mattered, they also liked them least of all elements in their expression of rationale. Hong Kong executives described the firm as a mechanism for families to get rich and gain status. Employees were the least liked category and generally seen as dispensable. Japanese executives described themselves as executing a societal mandate by taking care of their employees. Shareholders were recognized as important but, as in Germany, not much liked. Korean executives were highly positive about profits, a lesson they drew from the 1997/8 Asian Financial Crisis. These profits were regarded as enabling controlling shareholders both to become rich and buy off employee and societal discontent. And US executives saw firms as a tool for generating shareholder value, with all other stakeholders described as subordinate to shareholder interests. The least liked category here was customers, closely followed by employees.

These diverse rationales are expressions of espoused values. As we will lay out below through brief discussions organized around the key themes identified in Table 1, they are generally consistent with managerial and business practices observed in the five economies. We recognize that our observations are indicative only of face validity of a connection between rationale and practice, though the presence of such a link is supported by theory, as we will lay out later.

Germany

Productionism. The interviewees suggested that the primary objective of the firm was the production of needed goods and services for social benefit. While it is difficult to obtain measures directly related to this aspect of rationale, the orientation toward making things is reflected in the structure of Germany's gross domestic product (GDP). While manufacturing on average makes up about 16 percent of GDP in the OECD, it accounts for about 22 percent of GDP in Germany – the highest for any nation of its economic level and essentially unchanged from a decade previously (OECD, 2013). Consistent with this production orientation is that of the 24 non-financial firms on the main board of Germany's stock exchange, 46 percent have CEOs who are by training engineers or natural scientists in fields related to what their companies do.

Balancing stakeholders. Like their peers elsewhere, firms in Germany have come under pressure to focus their efforts on shareholder value. While there have been a number of institutional reforms consistent with a stronger focus on shareholders,

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Table 1. Summary of results

	Germany	*Hong Kong*	*Japan*	*Korea*	*USA*
Objective of the firm	the firm exists to produce needed goods and services for society, with profits used to take care of the various stakeholders, esp. employees and shareholders	the firm exists to make the owning family rich and buy them status	the firm fulfills a societal mandate by taking care of its employees	the firm exists to produce profits, which are used to make the controlling families rich while buying the acquiescence of society and employees	the firm exists to produce shareholder value, other stakeholders are secondary constraints
Salient elements in rationale (descending order of salience)	shareholders	charity, family wealth, shareholders	society	employees, profits	shareholders
	employees, production	employees, society, status	employees	charity, shareholders	employees
	society		shareholders	society	customers, society/community
	profits		customers, profits	development	production
			production, stakeholders in general		employment
Key themes	productionism	business by the family for the family	repudiating shareholder value	serving shareholders	shareholder value
	balancing stakeholders	low interdependence with employees	serving employees	appeasing society	

a deliberate mechanism of stakeholder balancing has remained firmly entrenched in German corporate governance (Jackson & Sorge, 2012). In particular, recent reforms have not touched the basic, legally-mandated principle of co-determination in the firm through works councils and the right to elect half of the firm's highest decision-making body, the supervisory board (Jackson & Sorge, 2012). Since major managerial decisions, such as factory closures or large investments, require supervisory board approval, executives cannot afford a single-minded focus on shareholder interests as in the United States. It is noteworthy that business seems to have acquiesced to co-determination; there is no public contestation of the principle or its present legal form.

Hong Kong

Business by the family for the family. The interviews suggested that the key objective of business in Hong Kong was the generation of family wealth and attendant status, with control of the business as a connected theme. As we shall note later, this fits with traditional ethics that stress the honor of the 'family name' as the source of societal respect, and with a societal design having family as its central agent for both welfare and responsibly compliant action. Consistent with this notion, Hong Kong firms, even listed and large ones, tend to be family businesses. In 2008, 60.6 percent of the largest listed firms were under family control (Carney & Child, 2012). Earlier research had indicated that the top 15 families in 1996 accounted for 84.2 percent of GDP and held 34.4 percent of the territory's total listed corporate assets, compared with 2.9 percent of GDP for America's 15 richest families in 1998 (Claessens, Djankov, & Lang, 2000).

Despite good corporate governance legislation, family shareholders may use their dominant positions to accrue disproportionate benefits. The World Bank (2012) assesses Hong Kong corporate governance favorably, with a 2011 investor protection score of 9 out of 10. However, some 21.1 percent of Hong Kong's major listed firms have pyramid shareholdings (structures usually employed to retain control in the absence of a majority shareholding); 74.1 percent have a single controlling owner (family or otherwise); and in 82.4 percent of cases, the CEO, board chairperson, or board vice-chairperson comes from the controlling shareholder (family or otherwise) (Carney & Child, 2012). For the majority of Hong Kong firms, owner-families are thus fully in control, and evidence suggests that this position may be used to expropriate minority shareholders (Cheung, Rau, & Stouraitis, 2006; Cheung, Stouraitis, & Wong, 2005).

Low interdependence with employees. Interviewees indicated a low level of interdependence with employees, consistent with the finding that psychological contracts in Hong Kong were more one-sided than in the West, with employees owing the employer more than vice versa (Westwood, Sparrow, & Leung, 2001). It is also consistent with relatively low organizational commitment, as evident in turnover statistics. For large firms, annual voluntary turnover, excluding redundancy, dismissal and retirement, was 14.5 percent in 2011 (Hong Kong Institute of Human Resource Management, 2012).

Japan

The key themes for Japan are particularly instructive in that conventional wisdom at the time of interview expected major changes, while executives expressed values more in line with traditional and existing practices. The evidence for this is summarized in Witt (2014a), unless referenced otherwise.

Repudiating shareholder value. It is clear that Japanese executives had not bought into shareholder-value thinking, regardless of what their corporate websites might have said. Their rejection of shareholder primacy, and indeed the right of shareholders to become involved in the running of the company, is evident in the development of corporate governance structures since the interviews.

Counter to expectations at the time, Japan's corporate governance did not converge on US-style practices. For instance, of about 4,000 firms listed in Japan, only 58 had installed a US-style committee system by July 2012. Outside directors, key to the modern approach to corporate governance in the United States, remain rare – the average number of outsiders on Japanese boards was 1.76 in 2009. Furthermore, those present are not necessarily true 'outsiders'; Japanese legal definition is so loose that representatives of parent companies qualify, and professed structural reforms are not necessarily accompanied by changed practices.

Serving employees. Connected with the rejection of shareholder value is a continued emphasis on employees' interests. The traditional Japanese-firm model was that of a 'community firm' that, among others, made an implicit promise to keep male regular[2] workers employed until retirement (Dore, 1973). While some changes have occurred in employment relations since the interviews, 'lifetime employment' has proved remarkably robust, despite expectations to the contrary. Indicative of this is that between 1998 and 2010, despite poor economic times and shareholder pressures, average employment tenures actually increased, regardless of education level.

Other elements of traditional Japanese employment relations have likewise seen relatively limited change in practice. For instance, even though almost half of Japanese firms in 2010 reported having introduced performance-based evaluations, for all industries and wage groups, pay remains driven by seniority.

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Korea

In both key themes for Korea, subsequent developments were aligned with expressed executive rationale, one running counter to contemporary expectations. The evidence for this is summarized in Witt (2014b), unless referenced otherwise.

Serving shareholders. The interviews suggested ambivalence about the importance of shareholders. This ambivalence is resolved when we separate owner-managers from professional managers: 89 percent of the former considered shareholders to be important, but only 50 percent of the latter. Given the historical record, it seems likely that the owner-managers were thinking mostly of their own benefits.

Subsequent developments in Korean corporate governance are consistent with this interpretation, but run counter to then expectations that Korea would move toward US-style practices. Control of Korea's largest companies by owner-managers and their families increased from 51.8 percent of voting rights to 54.5 percent from 1996 to 2008. In 2008, the last year for which the government published such data, owner-managers of the 28 leading *chaebol* (conglomerates) held on average 14.2 percent of cash-flow rights, but controlled 49.3 percent of voting rights. Decision-making continues to be centralized on the owner family, top-down, and paternalistic. Accordingly, the Asian Corporate Governance Association in 2010 ranked Korean corporate governance 9th among 11 in Asia, ahead only of Indonesia and the Philippines.

Appeasing society. The flipside of serving the interests of a small group of shareholders is that the general Korean public views conglomerates with suspicion. For example, a 2012 poll found that 74 percent of Koreans considered *chaebol* to be 'immoral'. Until the Asian Financial Crisis, the *chaebol* could argue to be serving the public good by pointing to their role in Korean developmental policies. This justification was still visible in our interviews as a residual concern with helping Korea's development.

The Crisis officially ended this role, as working for the public good became associated with cronyism. The *chaebol* needed a new way to appease society and found it in CSR programs, which were hurriedly introduced and expanded. The emphasis of these programs has been on short-term action in the form of charity, which can be quickly curtailed if circumstances change. Executive rationale as evident in our interviews is consistent with these developments.

United States

The rise of the key theme in the United States, shareholder-value rationale, and its role in shaping business and management practices has been well documented (e.g., Fligstein, 2001). Its impact is clearly visible in corporate-governance structures that focus on aligning the interests of managers with those of shareholders, with attendant monitoring structures, an elaborate industry of financial analysts, and a highly fluid financial market that exposes underperforming firms to the risk of hostile takeovers (Aguilera & Jackson, 2003; Hall & Soskice, 2001; Whitley, 1999a). It is likewise evident in a deregulated employment-relations system with low-cost hiring and firing, flexibility in reward-setting, and the absence of co-determination rights – which all enable firms to deploy and release human resources quickly and relatively cheaply (Aguilera & Jackson, 2003; Hall & Soskice, 2001; Whitley, 1999a). Since US firms do not perform many of the social services that would be commonplace and often required in other advanced industrialized countries, such as the provision of stable employment or extensive skills training (Matten & Moon, 2008), CSR programs have evolved as a means of acquiring social respectability and building a reputational buffer against adverse events (Godfrey, Merrill, & Hansen, 2009; Matten & Moon, 2008).

IMPLICATIONS

Rationale Shapes Action and Structures

The data presented suggest certain face validity for the notion that executive rationale acts as a contributing logic in the shaping of economic behavior. Executive rationale is that aspect of culture that deals with the understanding of business action by key actors. Although it is interactive with other features of the societal culture and heritage seen broadly, it is more specifically bounded by the concerns that stem from the economic exchange and decision-making for which these actors are largely responsible. Such collective understanding tends to be shared in social spaces entailing a form of membership (Redding, 2008; Sorge, 2005). This may be formal as with a board of directors, or it may be informal, as with the fellowship within a trade or industry or profession. The understandings that come to be shared in these spaces, and that serve to shape action, are not always focused on a single easily specified topic; instead they may be diffuse but still important to the actors, examples being the managing of relationships within a business network, or the managing of flows of capital.

A conceptual framework within which to place these mental processes needs to acknowledge a flow of reciprocal influences between agents and institutions. It is also necessary to acknowledge the element of societal system evolution and change. For these reasons we adopt from Archer (1996) a means of working with the definition of our object of interest derived from Thornton and Ocasio (2008). Archer proposes a realist ontology of dualism that rests on the principle (unlike that of structuration) that structure precedes agency in social structure reproduction. In that case the structuring and the agency need separate analysis before being re-united in the sharing of determinacy. There is then a sequence operating in four phases:

1. Within a society there is a given context. Certain structural conditions exist, such as the institutions of law, the present state of technology,

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and the accumulated social axioms of the culture. These all evolve.

2. These will shape to a degree the structure and behavior of managers and organizations, because they determine certain non-negotiable limits, preferences and expectations – so for example, a Japanese firm will have a Japanese form of employment. Such properties influence senior executives as conditions they have to work with, and for which their prior socialization will have prepared them.
3. Executives interact with the received system and with each other, and there evolves a necessary form of shared sense making that helps them (a) to control action, (b) to seek more effective action in whatever terms they define effectiveness, and (c) to take account of their context in doing so. So they make plans and act them out competitively. During the sense making and the planning they come to share certain norms, values, and priorities; in other words they come to share a framework of 'meaning' that assists in the making of choices. Some of this will be shaped by meanings shared within an industry. Some of it will be shaped by the wider societal context and heritage. Our first empirical interest is in describing these meaning structures.
4. These refined and evolved forms of 'sense' are then used to shape action, and in turn this action influences the societal context into which it is directed, including the further evolution of the surrounding institutional framework. This latter societal shaping is our second arena of empirical interest, because it is in terms of the reciprocal interactions in this arena that national differences are more fully understood.

In a recent review of sense-making research Brown, Colville, and Pye (2015) note growing research interest in the topic of how people appropriate and enact their 'realities'. They see research grounded in facts, such as how executives wrestle with surrounding complexity, to be part of a positive move in social science towards a 'practice turn', citing Whittington (2006). The importance of the concept is suggested in the position taken by Weick, Sutcliffe and Obstfeld (2005) that sense making and organization constitute one another. We argue further that as well as being formative influences in how organizations work, their influence extends into the wider socio-economy to assist in shaping institutions. In a more overall sense the review sees that 'the interaction of experience, meaning ascription, and action in processes designed to reduce equivocality and to attribute plausible sense in ways that make the world seem stable and enduring, is fundamental to human sociality' (273). These processes over time allow for the interplay of the material and ideational forces in society and because senior executives have control of resources and strategies, it becomes possible to see the shaping of a business system being at least in part a result of such dynamics.

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Looking at the same issue, in a more grounded way, Mantzavinos (2004: xiv) proposes that institutions are nothing more than shared problem solutions that individuals have acquired while interacting with their environment. People proceed in exchange acts in markets on the basis of their existing knowledge of how to solve problems of social conflict. Institutions come into existence by being already anchored in the minds of people as solutions before they start exchanging in markets. The channeling of market processes by institutions develops and is effective only insofar as it has its counterpart in the minds of interacting individuals. This causal relationship linking institutions and market outcomes is founded on cognitive path dependence. He notes further that attitudes to the established order and its possible change will depend on the learning histories of the key actors, a feedback mechanism that is 'extremely difficult to explain and sometimes even to describe ex post' (xv).

Such cognitive path dependence is a necessary way of countering the human tendency, now clear from cognition research, for *individual* differences in perception to be the rule. There needs to be (and therefore there evolves) a shared set of meanings that executives can learn, identify with, and enact, and these will then contribute to the shaping of both institutions and action. Mantzavinos (2004: 255) summarizes the outcome:

> Path dependence in economic outcomes is a cumulative phenomenon due to both institutional and technological dependence. These in turn are anchored in cognitive path dependence which determines the overall direction that the process of collective learning in the society takes.

The expositions of rationale in this paper, and the figures summarizing them in Appendix B, represent the results of this cognitive path dependence in the five economies explored. We have not conducted fieldwork on this matter in Mainland China – which suggests an obvious avenue for future research – but by way of conjecture, we provide in Fig.1 a tracing of such cognitive path dependence, and thus rationale, in the case of China's role as 'workshop of the world'.

In this are depicted eight key features of the context that make up the immediate environment in this societal 'workshop' and that are sufficiently stable to function as institutions, even though many of them are a mix of formal repetitive patterns of conduct and informal societal norms of conduct. The wider context of China is assumed here without being specified, except that we accept the evidence and the view of Lardy (2014: 2) that 'private firms have become the major source of economic growth, the sole source of job creation, and the major contributor to China's still growing role as a global trader'. In simple terms this is the real and immediate world surrounding the ideal type Chinese entrepreneur and his business partners, and they have coped with it. If you were introducing an executive outsider to this world, these issues are what you would point to as the matters that have to be given most attention. In response to them, the dominant coalition in an enterprise needs to agree on a set of principles that knit together into a set of guidelines for action. These will reflect the perceived surrounding reality, the social axioms of

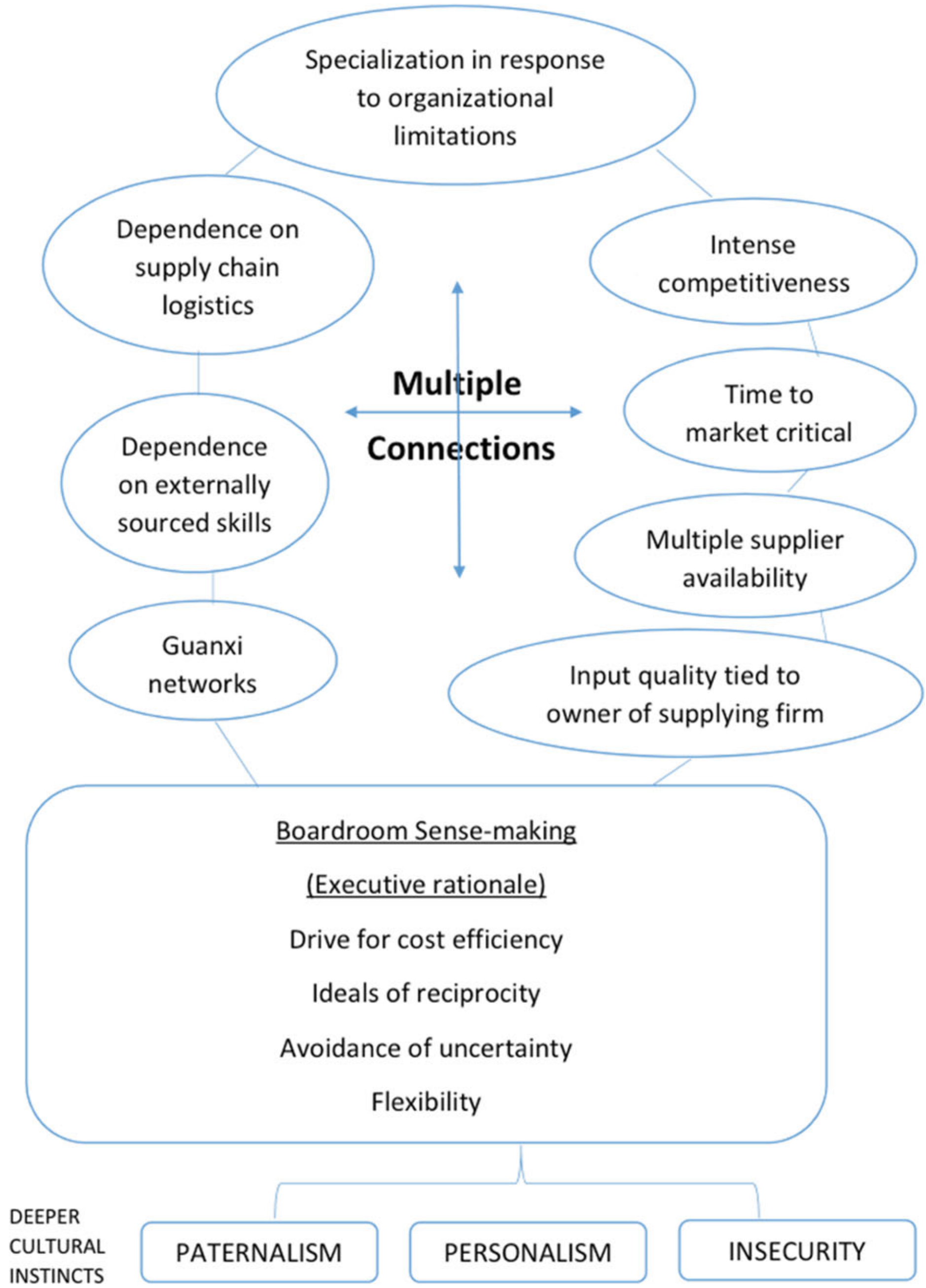

Figure 1. A configuration of features with the 'Workshop of the World' System, linking executive rationale with its context and cultural origins

Chinese culture (Bond et al., 2004), the individual experiences of actors, and the norms within the subculture of the 'workshop'.

They are summarized here as four principles: pay strict attention to cost control; honor the traditions of reciprocity within the culture, and in doing so build a

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reputation for reliability and trustworthiness that has high utility for both practice and social prestige (this may well entail co-opting support from government officials); avoid risk and uncertainty by the hedging of options and by the avoidance of high dependency; and be flexible, open and opportunistic.

This integrated set of meanings underpins action and reinforces surrounding institutions by constant re-affirmation of the set during their enactment. They also exist as interpretations of much deeper civilizational ideals and codes of conduct. These latter, derived empirically in an earlier study, are summarized by Redding (1990) as three principles: (1) *paternalism* as an organizing principle stabilizes the hierarchical structures that typify Chinese social order, and it does this by legitimizing in moral terms the implicit contract of exchange between a leader who seeks domination and expects conformity, but then reciprocally guarantees subordinate welfare (the same *principle* applying for subject-state relations, although not always the same practice); (2) *personalism* is the core Chinese principle of horizontal order, and comes into play in conditions of weak trust of strangers, thus turning social capital into a feature that is enacted primarily through *guanxi*, and that equally has a powerful moral base in Chinese ethics; (3) *insecurity* is the endemic condition of stress imposed by the society on its members as an outcome of its turbulent evolution, and by the high dependence on hierarchy (Lu, Cooper, Kao, & Zhou, 2003), and it requires actors to prioritize having responses in place to avoid its worst impacts. In the fuller statement of the societal model (Redding, 2005; Redding & Witt, 2007), the issue of meaning is expanded beyond rationale *per se* to include these principles of vertical and horizontal order.

China and Hong Kong share a cultural heritage, but differ in the nature of the surrounding institutional fabric. In Hong Kong this has evolved into a highly sophisticated modern system, where rights, rich information, stable professions, long practiced and respected law with an independent judiciary, and widespread education at global standards, have all supported the logics of market driven capitalism and taken the society to very high levels of per capita wealth. Economic actors in this context have had high levels of autonomy and a freedom and incentive to act rationally. With largely the same human inputs but a different institutional context, entrepreneurs in China have had to work out responses to the much higher uncertainty found in China. They have done so by paying attention of necessity to one special aspect of boundary-spanning (Santos & Eisenhardt, 2005), namely that concerned with boundaries of power.

The business context of China is now clarifying as a set of regional political hubs with greatly devolved power over economic action, and with that a series of vertical clientelist structures connecting the political actors to the Party center in Beijing (Krug & Libman, forthcoming; Wedeman, 2004; Xu, 2011). As the state sector declines in comparative significance, the Party has taken to coopting private sector firms into its orbit of influence. In this process, the actors on the state side have much influence they can use: access to finance, licenses, government contracts; and on the darker side they can offer an entrepreneur freedom from

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sudden inspections, or tax audits, or property expropriation. In reply to these pressures, the entrepreneur uses the instincts evolved over much experience of hierarchy and habituated subordination.

These evolved instincts are identified as the combination of paternalism and dealing with insecurity with which the actor grows up. These are brought into the firm in the minds of the key people. In turn they then help to formulate the meaning system that stresses, in this context, ideals of reciprocity (especially in its vertical mode dealing with government) and of avoiding uncertainty (by reliance on the horizontal supports of reciprocity). Family firms or close partnerships then reflect the acquired instincts for surviving the uncertainty. The acting out of paternalism in a context of insecurity, results in the shaping of a rational response of the family as 'welfare state', with the family head as the source of authority, and holding the role of ultimate care-giver. This traditional structure is then surrounded by a cluster of supporting institutions: societal respect accorded to the paternal role when exercised within the traditional rules; striving by those responsible to enhance the 'family name' and so claim societal respect; obedience upwards in exchange for protection downwards, for insiders; degrees of perceived identity and belonging, with family at the core; powerful ideals of specific reciprocity between interacting societal units. The 'workshop of the world' rests largely on such institutions and norms. Familism and its consequences remains a defining feature of economic and social life in China and in all other ethnic Chinese societies.

Other special factors that set apart the Chinese context from that in other countries are (a) the weakness of countervailing power in dealing with government unless specific adaptations are made to co-opt support, (b) the weakness of information availability and reliability, (c) the weak independence of supportive institutions such as chambers of commerce or professions, (d) discrimination over financing, and (e) weak systems of legal protection. In these conditions the managing of firm boundaries comes to rely on mechanisms adapted to the situation. The Party may be cultivated by joining it, as have around a third of private entrepreneurs (Lardy, 2014: 120); quoting a study by McNally (2011) done in Sichuan, Lardy notes that a form of 'connections capitalism' has evolved whereby the Party is changing its base of legitimacy and conceding political leverage to private business. A high reliance is in any case normal on networks of obligation exchange and *guanxi*, and these include the handling of capital-raising and the exchange of strategic information (Lin, Chen, & Lin, 2014). Secrecy is a natural response in the conditions of relative autocracy. Customers and suppliers and partner firms become highly significant in the conditions of general uncertainty and change, and the managing of those relations may go well beyond the kind of rational arrangements found elsewhere. The spanning of boundaries of power in China's private sector requires its own frame of reference to be understood.

Overall the comparison of evolving Chinese capitalism on the mainland with other forms of business system requires acknowledgement of one fundamental feature in China. Economic actors do not have the *same kind* of agency found elsewhere in free markets. This is less of an issue at small scale and much goes on 'below the radar' in firms too small to be of direct interest to government. But the overall trend is that in the contestable sectors of the economy, state companies have now been largely replaced by private companies (Lardy, 2014). This suggests that the adaptation by key actors to the *realpolitik* of the Chinese economy has created a new form of capitalism. It is termed differently: 'connections capitalism' by McNally (2011), 'authoritarian capitalism' by Witt and Redding (2014b), 'capitalism without capitalists' by Bergere (2007), 'politicized capitalism' by Nee and Opper (2007). In all such labeling lies the implicit working through of contradictions, defined at their most basic by Aglietta and Bai (2013: 284) as 'the disadvantageous position of intangible capitals compared with tangible ones'. We do not know if that is a scenario for a creative breakthrough, or for an eventual loss of global competition in productivity. As elsewhere, it will depend largely on how human and social capitals come to be most efficiently used.

Other Factors Play a Part

We see societies as complex adaptive systems. So we would not propose rationale, or culture more generally, as a *sole* explanation of economic action and structure. We believe that it deserves a place in the account. We also believe that its place is often overlooked, and that it may be more significant than often acknowledged.

At the same time, there are important other factors in what is a complex equation. Rather than argue this point at the societal level, where the logic of it is attested to by several academic disciplines, we argue it at the level of the running of organizations and the thinking that lies behind such conduct.

As already argued, institutions are anchored in the minds of people. Social order evolves, usually over long time, to provide societies with the order they need to stay stable, and in some cases with the new order they need to pursue growth. We see such forms of order in the economic sphere as stabilizing the provision of certain key requirements: enough available financial capital to oil the wheels of investment and entrepreneurship; enough human capital to provide the skills and knowledge and the willingness to work so that wealth can be both built and shared; and enough social capital to reach a point where stable institutions, law, and reliable information can support the doing of business with strangers (cf. Redding, 2005). These needs foster the evolving of a particular society's framework of institutions, shaped as it is within a scaffolding of shared ideas and ideals. It is then the context against which much organizational behavior evolves. External influences also intrude to re-shape responses as most social systems are open and able to adjust. These may be material in nature, as with new technologies, or new external market options. They may also be ideational, as with the global impetus towards empowerment (Welzel, 2013), or pop culture, or the learnings from foreign travel. History and founding conditions also matter (Stinchcombe, 1965). In consequence the world of meanings and the world of institutions are in constant interplay with the world of organizing that

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sits, in a sense, between them. Executive rationale belongs within the society's set of ideas, interacts significantly with the society's institutions, and that interaction feeds into the world of resulting organizations. Influences flow reciprocally in all directions, back and forth, in a total living system.

Societal Variation in Configurations

Because the configurations are significantly influenced by the executive rationales, and because these latter are significantly influenced by the cultural heritage of a society, the collection of configurations will be distinct to a society. But it is not only the cultural influence that ensures this. Each society has its own endowment of such configurations, including political philosophy, responses to the challenge of empowerment, and traditions of ordering the behaviors of living. Such contrasts are visible clearly in law, taxation, education etc. A free market society will produce different configurations from those in a mercantile state.

Executive Rationale as a Formative Influence

The evidence about how executive structures of meaning can shape a society in powerful ways is provided convincingly in McCloskey's (2006, 2010) work on the role of 'bourgeois virtues' and 'bourgeois dignity' in shaping some of the world's currently most highly developed systems of capitalism. Here she argues that much of the structure of the institutions that fostered the Western industrial revolutions was shaped by initiatives starting in boardrooms. Parallel evidence is visible in the centrality of *Mittelstand* ideals in the German economy; as Quack and Djelic (2005) report by way of example the shift towards adoption of antitrust and competition law in Germany – and later throughout Europe – was a result of trickle-up pressure from the business community as much as trickle-down from the political sphere. Their metaphor is that the cave gets filled with stalactites from above and stalagmites from below.

McCloskey's position is that capitalism releases a more benevolent form of domination (see also Heilbroner, 1985) than formerly available, and that this rests on moral principles that come to be acted out in the economy and its institutions. She cites Weber's much earlier proposition that business executives require clarity of vision and the ability to act, but it is only by virtue of their developing ethical qualities that they can command the confidence and cooperation of both workers and customers, and that economic productivity can be fully released. Such ethical quality is expressed through senior executive beliefs and action, and cannot exist otherwise. Efficient markets and legitimacy by virtuous conduct are reciprocal. Half of this equation is not to be ignored.

We do not propose that these key actors are the most powerful figures in the society as a whole, because that structure is too complex for such simplicity. And societies vary greatly in their political economies. Some business systems may give

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prior influence to government, as historically did Japan, and currently China. Some might leave economic actors as key sources of influence as in the US case. Others might form coalitions of state and business interests as in South Korea or Germany. Major players in the spheres of politics, religion, law, security etc. need also to be accounted for. But we do contend that in shaping the economy itself, those actors, along with their rationales, responsible for the survival of its organizations – depending always on the degree of freedom accorded them – will be crucial as influences.

RESEARCH AGENDA

The above discussion suggests that executive rationale may represent an important institutional logic in the development of societally indigenous modes of management. Indeed, in exploring societal progress and economic growth from the origins of the Industrial Revolution to the more recent success stories of Asia, McCloskey (2010) has argued these developments 'depended more on ideas than on economics' (2010: 25). Economic and societal growth has required a balanced coinciding of the ideal and the material. For that to work, the ideal[3] needed to be actively playing its part; not as a residual, but as part of the core explanation.

The ideal as we see it includes the framing and sharing of a set of reasons for doing things. In essence this means a set of accepted reasons why the firm exists, a set of beliefs about how a society ought to be ordered, and a set of reasons for treating employees, customers and trading partners in a certain way. Stated grandly but still realistically when you consider its effects: a shared philosophy of executive action and responsibility appropriate to a certain environment at a certain time.

This suggests that progress towards constructing indigenous theories of management would benefit from the following focuses:

1. Understanding more completely the various aspects of rationale. The origins of such beliefs are little understood except in broad and speculative terms. So too is there little knowledge of the sources of their legitimacy as drivers of behavior. There may well be other features of mindsets that are little acknowledged so far, for example secretiveness. And there may be an elasticity so far undisclosed implied in the adherence in some societies to religious ideals. What we need to find out to enhance our understanding of the varied societal systems is the way that indigenous executive rationale contributes to the wider causal configurations. An agenda of enquiries could be:
   (a) In what terms do executives think about the shaping of the organization towards its future existence? How do these features become prioritized?
   (b) In what terms do human resources come to be best employed for the health of the organization?
   (c) In what terms does finance come to be best employed in the organization?

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  (d) How best should relations needed within an industry be managed?
  (e) How best should relations needed with government be managed?
  (f) In what terms does the control of predictable organizational behavior come to be managed?
  (g) How is the organization's external environment seen and understood and related to? This would acknowledge the existence of constraints on executive discretion that come from the surrounding sources of influence.
  (h) How do senior executives themselves relate to the wider society?
  (i) Are there preferred principles applicable in the workings of the wider society that would benefit the organization? Perhaps ancient wisdom?
2. We have proposed configurations as a mode of making research sense of findings about shared idea-sets. Although we have not argued the detail in this paper it is necessary to add the feature of 'complementarities', discussed elsewhere (e.g., Redding, 2005; Redding & Witt, 2007) and well entrenched in other social science accounts. Complementarities occur when features either within or across configurations support and reinforce each other. As they make any feature stronger, they also make it possibly less able to adapt, given the reciprocal ties. An example would be fluidity in a labor market being complementary to fluidity in a capital market. Such complementarities might well stretch across multiple linkages as systems adjust towards stable order, seemingly often spontaneously.
3. There is a need to study how organizations adapt to the rationales of their leadership, and to test the assumptions of stimulus and response that are implicit.
4. There is a need to study performance outcomes to test the underlying assumption that an adapted organizational system has sought to enhance its survival capacity, in which case it should be more competitive if successfully adapted.
5. With these notions lies a further important idea: that of the legitimacy of the firm in its societal setting. As societies become more open and more intensively active, there is a strong tendency for the power of choice to accrete at lower levels and more widely. Customers accumulate discretion over whether to purchase. Staff accumulate discretion over whether to remain with the firm. We speak here of historical shifts. But their import is that the running of organizations depends more and more on managing the firm's reputation for morally decent behavior. If not attended to, the society's free members will retaliate by not buying their product or not wanting to work for them. This is the nature of the bourgeois revolution universally (McCloskey, 2010) and of the first Industrial Revolution specifically (Mokyr, 2009; Weber, 1930). This is why Heilbroner (1985) explained the success of capitalism historically as based on the invention of a more benevolent form of domination

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> than any that had preceded. We do not know how this will play out in countries like China, as we have few data on the key variables, but indications exist of severe challenges in the repairing of the moral order and in the distributing of power (Feldman, 2013; Lemos, 2012; McGregor, 2012). It would help to have a picture of how the key executive actors see this slow evolution.

Researching such phenomena requires attention to certain methodological challenges. First, it is useful to adopt a view of a society's business system as a complex adaptive system. This entails seeing it not as an outcome of any small group of main determinants, but as a functioning whole with many interacting parts. Following Ragin (1987), the aim of the exercise is the comparison of the wholes. It is therefore necessary and possible to analyze such wholes – even though complex – using a set of core components of universal applicability. This is no different from how the medical world understands the human body as a set of interacting subsystems – blood circulation, central nervous, digestion, reproduction, psychological etc. Examples of such analysis for the business systems of Asia and elsewhere are visible in Redding and Witt (2007) and Witt and Redding (2014a).

Second, research into the mental worlds of others needs to pay respect to the ethnographic principle so widely embraced in anthropology. This means allowing the categories of description to remain expressed in the terms and categories used by the subjects, not those of the researcher.

Third, the process of determinacy behind the particular research method used needs to acknowledge the complexity assumed at the start as an essential component of the object of study. This means that single or dominant causes are likely to be weak predictors. The naivety of assuming them reduces the ability to understand fully the totality (McCloskey, 2010; Ostrom, 1990; Whitley, 1999b). Instead the search is for the configurations of elements that are reciprocally connected, complex but still able to be described.

And fourth, it is entirely possible that a meta feature exists – as it were – above the systems being analyzed. There are alternative cognitions that shape understanding itself in ways that inhibit a unified picture (Li, 2012a; Nakamura, 1964; Nisbett, 2004), or at least that add a need for subtle interfacing between mental worlds.

CONCLUSION

In this paper, we have examined the potential for making progress in our understanding of indigenous management theories through the exploration of executive rationale. This in our view represents a higher-order enabling mechanism guiding managerial action and fostering strategies, structures, and formal integration mechanisms – in other words, it represents the shared mental blueprint of senior executives for running their firms.

We have illustrated variance in executive rationale across five major economies, and we have suggested, empirically and theoretically, that action and structures in these economies are broadly aligned with the respective expressions of executive rationale. We thus propose that if progress is to be made in the understanding of indigenous theories of management, the process needs to begin by accepting the presence of alternative structures of sense-making, both societal and organizational. The task of reaching such understanding is stimulated increasingly now by the clear societal contrasts visible in many modes of organizing, and by the capacity of alternative organizational forms to perform well in global markets (e.g., Hall & Soskice, 2001; Whitley, 1999a; Witt & Redding, 2014a). We still have little understanding of the fact we propose and defend here, namely that such forms reflect alternative reasonings behind economic behavior. The research focus for attaining such understanding needs to be more ethnographic and less reliant on what seems to many observers as a 'normal' science, but which has become somewhat too doctrinaire than it needs to be for this adventurous terrain. We do not present a candidate to replace the normal, but rather an accompanying reminder of certain epistemological verities that are ignored at the peril of both theorists and practitioners.

SUPPLEMENTARY MATERIAL

To view supplementary material for this article, please visit http://dx.doi.org/10.1017/mor.2015.23

NOTES

[1] By contrast, much has been said about the institutional structures of most of these economies (e.g., Hall & Soskice, 2001; Whitley, 1999a). To the extent rationale and institutions correspond, it is obviously possible to make conjectures about rationale on the basis of the institutions. This paper goes beyond conjecture.
[2] As opposed to temporary workers. On the complementary rather than substitutive role of this class of employees, see Witt (2014a).
[3] In this context the word 'ideal' refers not to some normative concept, but more broadly to the world of ideas, concepts, abstracts.

APPENDIX I

Interviewees

Germany

- Dr. Uwe-Ernst Bufe, former CEO, Degussa
- Leonhard H. Fischer, management board member, Allianz & Dresdner Bank
- Peter Fischl, CFO, Infineon
- Dr. Carl Hahn, former CEO, VW
- Dr. Wolf Klinz, former CEO, AGIV; President, Chamber of Commerce and Industry, Frankfurt (Main)
- Hilmar Kopper, former CEO, Deutsche Bank

- Dr. Dietmar Kuhnt, CEO, RWE
- Dr. Ulrich Middelmann, Vice-CEO, ThyssenKrupp
- Dr. Werner Schmidt, former CFO, VW
- Dr. Ronaldo Schmitz, former management board member, Deutsche Bank
- Dr. Harald Schröder, former Vice CEO, Merck
- Dr. Henning Schulte-Noelle, CEO, Allianz
- Dr. Heinrich v. Pierer, CEO, Siemens
- Kurt F. Viermetz, Chairman Supervisory Board, HypoVereinsbank
- Dr. Herbert Wörner, former management board member, Bosch; former CEO, Bosch Siemens Haushaltsgeraete
- Dr. Jürgen Zech, former CEO, Gerling
- Anonymous, CEO, one of Germany's 30 largest public firms

Hong Kong

- Ronnie Chan, President & CEO, Hang Lung
- Philip Chen, Director & COO, Cathay Pacific
- Paul Chow, CEO, Hong Kong Stock Exchange
- Roger King, Board Member, Orient Overseas (Int.)
- Peter T. C. Lee, Chairman, Hysan
- Michael K. H. Leung, Managing Director, Peoples Telephone
- Dr. Sir David Li, Chairman & CEO, Bank of East Asia
- Dr. Helmut Sohmen, Chairman & President, World-Wide Shipping Group
- Sir Gordon Wu, Chairman, Hopewell Holdings
- William Ho, Managing Director, Growth Investments

Japan

- Yoshikazu Hanawa, Chairman, Nissan
- Toru Hashimoto, former Chairman, Fuji Bank
- Terukazu Inoue, Special Auditor, Toyota
- Takeo Inokuchi, Chairman & President, Mitsui Sumitomo Insurance
- Masami Ito, President, Ito Ham
- Tetsuro Kawakami, former Chairman, Sumitomo Electric
- Yorihiko Kojima, Senior Executive Vice-President, Mitsubishi Corp.
- Akira Uehara, President, Taisho Seiyaku
- Kaneichi Maehara, former board member, Sumitomo Life Insurance, Chairman, Sumitomo Life Research Institute
- Minoru Makihara, Chairman, Mitsubishi Corp.
- Hiroshi Nagata, Executive Vice-President & board member, Mitsui & Co.
- Taizo Nishimuro, Chairman, Toshiba
- Akira Nishikawa, President & CEO, Mitsubishi Materials
- Koichi Ohmuro, Senior Managing Director & Senior Executive Officer, Mitsui Fudosan
- Masahiro Sakane, President, Komatsu Machinery
- Teruo Shimamura, President & COO, Nikon
- Yasuhiko Watanabe, former board member, Bank of Tokyo Mitsubishi, Senior Managing Director, Mitsubishi Estate

South Korea

- Moon-Seok Kang, President & CEO, Dong-A Pharmaceutical
- Dr. Shin Ho Kang, Chairman, Dong-A Pharmaceutical
- Dr. Dong-Jin Kim, President & CEO, Hyundai Motor
- Dong Yun Kim, Vice Chairman and CEO, Telson
- Dr. Joon Kim, Senior Managing Director, Kyungbang

- Milton S. Kim, Chairman, IT'S TV
- Syng J. Kim, Vice Chairman & CEO, SK Global
- Yongsung Kim, CEO, Neoplux Capital
- Dr. Chong S. Lee, Executive Vice President, LG Card
- Soo Young Lee, Chairman, DC Chemical
- Dr. Y. T. Lee, Chairman, TriGem Computer
- Yoon-Woo Lee, President & CEO, Samsung Electronics
- Chong Y. Pae, President & CEO, Samsung Corporation
- Yong Sung Park, Chairman, Doosan Heavy Industries & Construction
- Minsok Suh, Chairman & CEO, Dong-Il Corporation

United States

- Michael Alexander, former Managing Director, FASB, former Executive Partner, Touche Ross International
- Robert M. Baylis, former Vice-Chairman, CSFB
- Donald W. Blair, CFO & Vice President, Nike
- J. Frank Brown, former Global Advisory Services Leader, PricewaterhouseCoopers
- Doug Elix, Senior Vice-President & Group Executive Sales and Distribution, IBM
- Jon T. Elsasser, Director Corporate Relations, Timken
- Richard Goodman, CFO, PepsiCo
- Robert J. Herbold, former COO, Microsoft
- Arnold G. Langbo, former CEO & Chairman, Kellogg's
- James A. Lawrence, Vice Chairman & CFO, General Mills
- Victor J. Menezes, Senior Vice-Chairman, Citigroup
- Leo F. Mullin, former CEO, Delta Airlines
- Mike A. Neal, Vice-Chairman, GE, Chairman, GE Capital Services
- Joseph L. Rice, III, Senior Partner, Clayton Dubilier & Rice

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