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Industrialized Nations?  
Evidence from the Belief Systems of  
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# **What Prospects for Institutional Convergence across Advanced Industrialized Nations? Evidence from the Belief Systems of Senior Executives in Germany and Japan**

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## **Abstract**

Drawing on a growing body of literature suggesting a linkage between belief systems (“rationale”) and the shape of national institutional structures, we explore the possibility of institutional convergence in two major economies, Germany and Japan. We use ethnographic data to reconstruct the belief systems of the constituency most likely to pressure for institutional convergence, namely, leaders of major MNEs from these countries. We find that their beliefs about the ideal shape of the economy continue to differ.

## **1. Introduction**

Institutional differences across countries have long held a prominent position in international business (IB) research. In much of the existing IB literature, these variations are often cited as an explicans of IB phenomena. For example, the literature on institutional distance (Kostova, 1999; Eden and Miller, 2004) presents evidence that institutional distance is a factor in the liability of foreignness and affects strategic parameters of the business of MNEs in host countries. Henisz (2002) argues that the institutional structure of policy-making provides a useful measure of the risk of policy change. Witt and Lewin (forthcoming) suggest a link between outward FDI and the institutional set-up of processes of institutional change in the industrialized economies.

Recent contributions to the IB literature have additionally begun to treat institutions, their variation across countries, and their evolution as an explicandum in itself. Witt and Lewin (forthcoming), for example, link the structure of institutional change processes to underlying organizational principles in the political economy and explore the implications for the rate of institutional change. Redding (2005) proposes a conceptual model for comparing entire business systems across national and sub-national boundaries and argues that the characteristics of these systems and their institutional complementarities may be a source of competitive advantage.

In this paper, we seek to contribute to this emergent interest in explaining the shape of institutional structures and their evolution. Specifically, we concern ourselves with the question of whether the institutional structures of the advanced industrialized nations are likely to converge over time. Drawing on a growing body of literature suggesting a linkage between belief systems, or rationale, and the shape of national institutional structures (e.g., North, 2005; Redding, 2005; Sorge, 2005), we explore the possibility of institutional convergence in two major economies, Germany and Japan. We reconstruct the belief systems of the constituency most likely to pressure

for institutional convergence, namely, leaders of internationally active firms in these countries. Based on ethnographic data from 34 senior executives (board level or above), we find no evidence that these constituencies see institutional convergence as desirable. Executives in both countries have different notions of what constitutes a well-ordered economy, and neither group exhibits a rationale that come close to resembling the institutional structure of the United States, which is often assumed to serve as a role model of modern capitalism. We conclude that major institutional convergence, whether between the two countries or with the United States, remains unlikely in these countries for the foreseeable future.

We proceed as follows. We first discuss the linkage of rationale to institutional change, the construct of convergence, and the importance of rationale in the business community in transmitting convergence pressures. After a discussion of our data and methods, we present the results of our interviews and discuss how historical influences are shaping the rationales evident in both countries. We briefly present data that suggest that many recent institutional changes in the German and Japanese economies are broadly consistent with the beliefs expressed by our interviewees, though not necessarily with public opinion. We conclude by discussing the limitations and implications of our study.

## **2. Literature Review and Theory**

### *2.1 Beliefs and Institutional Change*

Institutional change processes have attracted considerable scholarly attention in recent years. Broadly speaking, theories of institutional change can be divided in those construing of institutional change as a political process involving various forms of bargaining among two or more actors (e.g., Knight, 1992; Seo and Creed, 2002; Aoki, 2003; Thelen, 2004; Van de Ven and

Hargrave, 2004; Streeck and Thelen, 2005; Hargrave and Van de Ven, 2006), and those focusing on autonomous processes in which individual actors initiate change independently of other actors (e.g., Williamson, 1985; Witt and Lewin, forthcoming).

Some of these processes may occur without intention by the involved actors to reshape the institutional environment. Many autonomous processes, for instance, are likely to be undertaken more to avoid specific institutional constraints rather than to amend these constraints on a system-wide basis (Witt and Lewin, forthcoming). Similarly, because of institutional complementarities (cf. Hall and Soskice, 2001), institutional change can result as an unintended consequence of intentional institutional change in another area.

A considerable proportion of institutional change, however, involves intentionality on part of the actors involved in the underlying processes (North, 2005). This is especially likely in political processes. Actors involved in these processes tend to approach them with the objective of attaining outcomes in line with their own preferences (North, 1990; Knight, 1992). These preferences, in turn, grow out of more fundamental beliefs about desirable ends and acceptable means (North, 2005). Building on Weber, Redding (2005) refers to the totality of these fundamental beliefs as “rationale,” distinguishing between formal rationality of logics and mathematics on the one hand and substantive rationality on the other. Within substantive rationality, one can again differentiate between two components. These are value rationality, which encompasses the set of ends considered desirable, and instrumental rationality, which refers to the set of means viewed as appropriate tools for attaining the ends contained in value rationality. The contents of rationale are a function of lessons learned in the past, both by society at large, which are preserved over time as a component of culture (North, 2005; Redding, 2005), as well as by the individual. In any given society, one would thus expect a distribution of variation in

rationale, ranging from fairly narrow in societies with high levels of conformity to fairly wide in those with high levels of individuality.

The belief systems embedded in the rationale of a society and its various subgroups are important for understanding the direction of institutional change. In the words of North (2005: 49),

The institutional structure reflects the accumulated beliefs of the society over time, and change in the institutional framework is usually an incremental process reflecting the constraints that the past imposes on the present and the future.

Rationale is thus intricately linked to path dependence, which North (2005: 52) maintains

is not “inertia,” rather it is the constraints on the choice set in the present that are derived from historical experiences of the past.

Beliefs consequently shape institutional change processes by constraining views of the available and acceptable options in the creation of new institutions.

Further theoretical elaboration of the interrelation of beliefs and institutions is provided in recent writings by Sorge (2005), which in turn draws on the work of Maurice, Sellier, and Silvestre (1982). In this line of thought, rationale is linked to the existence and contents of “action spaces,” which are domains in which actions with shared meaning occur (Sorge, 2005: 47). Actions of an economic nature would thus be part of the economic action space, while actions related to research would be part of the academic action space. To impose structure on the actions occurring within the various action spaces of a society, humans devise institutions within these spaces (Sorge, 2005) that encourage some forms of action and discourage others (North, 1990). Metaphorically, one can thus construe of action spaces as empty houses and of institutions as the furnishings and fittings that make these houses inhabitable. The role of rationale in this context is two-fold: It defines the various action spaces in society, and it affects the choice of institutions within these

action spaces.

While rationale thus defines what actors in society consider possible and desirable, it is rarely sufficient for the choice of a concrete institutional change. In many cases, and certainly in most involving formal institutions such as laws, this choice is the role of politics. Given variation in beliefs, as well as in material self-interest, among different constituents in society, all but the most homogeneous and conforming societies are likely to experience competing preferences in a given process of institutional change. Those constituents that possess the greatest relative bargaining power are most likely to see their preferences reflected in a given institutional change (North, 2005). By implication, an exploration of the belief systems of politically powerful actors can consequently afford important insights into the likely institutional trajectories of societies.

## *2.2 Institutional Convergence, Institutional Change, and the Rationale of Senior Executives*

There is overwhelming evidence of the institutional diversity of different national economic and business systems (e.g., Berger and Dore, 1996; Orrù, Biggart, and Hamilton, 1997; Whitley, 1999; Dore, 2000; Hall and Soskice, 2001; Lewin and Kim, 2004). The argument is also growing louder that differences in the economic fitness of institutional structures are a key ingredient in the different levels of economic development we see in the world (North, 2005).

More controversial is the question of whether this diversity is likely to survive into the future. Limited institutional convergence to date, as exemplified in continued institutional variety, does not warrant the conclusion that convergence will fail to materialize in the future as well. A key mechanism of convergence identified in the literature relates to the notion that institutional structures may be more economically efficient than others. Under conditions of international competition, countries with less efficient institutional structures may find themselves at a



competitive disadvantage. This would give them an incentive to copy institutional best practices from one another (Berger and Dore, 1996). Since institutional change requires human action, this mechanism is likely to be initiated on the basis of perceptions rather than objective facts. In other words, if enough constituents in a given country believe that competitive pressures require convergence on institutional best practice, they may seek to copy what they perceive to be the requisite elements of such institutional best practice. Convergence may thus take on the character of a self-fulfilling prophecy.

To the extent this mechanism is at work, the business community is likely to occupy a central position in them, for a number of reasons. First, with globalization proceeding apace, the business community finds itself exposed to increasing international competition. Businesses are consequently likely to be sensitive to the efficiency of the institutional structures under which they operate. Should firms conclude that they are at a competitive disadvantage because institutions elsewhere are more efficient, they may seek abating institutional change in the home market (Witt and Lewin, forthcoming).

Second, with the exception of the state itself, the business community is probably the only constituency with an acute interest in the shape of entire institutional structure governing the economy and business. Other powerful constituencies, such as labor unions, tend to focus on more narrow domains, such as the institutions of human capital. By contrast, any institutional feature of the business and economic system has the potential to affect business. The business community consequently has an incentive to form opinions about desirable institutional structures and to become involved in institutional change processes affecting the business and economic system.

Third, the business community in many countries can muster considerable political power to increase the probability of institutional change in its favor. The sources of this power are

numerous, and we shall indicate only some of the most salient ones. First, the business community has access to considerable resources that can influence institutional change processes. For instance, lobbying Congress in the United States requires large sums of money that are beyond the reach of many ordinary citizens, but relatively easy to arrange for large corporations. Second, by the logic of collective action (Olson, 1965), the business community tends to find it easier to arrange for the pooling of resources among a number of firms. Third, especially in nations with high levels of societal coordination (Hall and Soskice, 2001; Witt and Lewin, forthcoming) such as continental Europe and Japan, the involvement in institutional change processes by business leaders and organizations representing the business community is itself institutionalized. Fourth, the business community can exert additional pressure for institutional change by shifting part or all of its production to countries with more efficient institutions, or by threatening to do so (Witt and Lewin, forthcoming).

This does not imply that business will always get the institutional change it wants. For one, the business community is not always monolithically in favor of a given institutional change. For instance, sectors sheltered from international competition may oppose changes proposed by exposed sectors. In addition, many institutional changes business may propose also affect other constituencies, which may have divergent preferences. In this latter case, the most likely outcomes are deadlock without solution or a compromise reflecting the relative bargaining powers of business and the other involved constituents (cf. North, 2005). While institutional changes in the economy are thus likely to reflect business interests, a precise prediction of the likely evolution of the institutional environment of a given nation requires knowledge of the beliefs and relative bargaining powers of all constituencies that may be involved in the attendant political processes.

Despite this limitation, a closer understanding of the rationale of the business community

can still be helpful for judging the prospects of institutional convergence resulting from competitive pressures. More specifically, should convergence pressures be at work, one would expect to see them reflected in the belief system of businesses that experience international competition (Keohane and Milner, 1996). This impact on rationale, so it exists, is likely to be most pronounced at the level of senior management, for at least two reasons. For one, the effects of international competition and their linkage with competitiveness of the home country tends to be most clearly visible from the top. In addition, senior managers have a greater need than lower-level employees to form clear beliefs about the desirable shape of the institutional environment, be it in the context of international investment decisions or of devising political strategies for influencing institutional change. This latter point of political strategizing is particularly relevant in countries with high levels of societal coordination (cf. Hall and Soskice, 2001; Witt and Lewin, forthcoming), as senior managers of major firm are often formally incorporated in the official policy-making structure.

### **3. Data and Method**

#### *3.1 Country Selection*

In this study, we explore the rationale of senior executives of internationally exposed firms in two countries, Germany and Japan. To the extent convergence pressures do affect the rationale of senior executives, this effect is especially likely to show in these two countries. For one, both countries have as a starting point institutional structures that deviate considerably from that of what is commonly seen the model of modern capitalism, the United States (Whitley, 1999; Hall and Soskice, 2001; Yamamura and Streeck, 2003). At the same time, both economies exhibited poor economic performance during the 1990s, especially when compared with the United States

and other Anglo-Saxon economies of a similar institutional mold. In both countries, this has raised the question of whether an “Americanization” of their institutional variants of capitalism was required to revive the economy (cf. Dore, 2000).

### *3.2 Data Collection*

Data collection followed an ethnographic approach involving a series of interviews with senior executives of major firms. These interviews took place between June 2002 and April 2003. Overall, we interviewed 34 senior executives, 17 in each country. A list of our interviewees is included in the appendix.

Our definition of “senior executive” varied slightly to allow for the difference in governance structure between Germany and Japan. In Germany, we defined senior executives to include active or recently retired management and supervisory board members. In Japan, we defined senior executives as active or recently retired management board members. Key rationale for including recently retired executives in the sample is that in both countries, these individuals tend to continue to play influential roles in shaping economic and political life. In Germany, retired board members are often active on the supervisory boards of their own or of other corporations. They are thus in a formal position to advise and to influence corporate strategy. In Japan, retired board members often stay on in the company as advisors. While this gives them no formal role in influencing corporate decision-making, the persistence of respect for seniority (Witt, 2006) means the present senior management team will take their input into account. Furthermore, retired senior executives in both countries often occupy positions in bodies relevant to institutional change processes, such as employers’ associations and government committees.

All interviewees were senior executives of major firms in the respective country. In

Germany, we defined as “major firms” those of a size large enough to qualify in principle for a listing in the MDAX index of the Frankfurt stock exchange, which consists of the 100 largest listed corporations. This was regardless of whether the firm was actually listed or privately held. In Japan, “major firm” referred to firms belonging to one of the six major business groups (Westney, 2001) and firms of similarly large size.

We obtained access to our interviewees through existing personal contacts and referrals. As is typical for this type of qualitative research (e.g., Redding, 1990; Uzzi, 1997), the resultant sample is neither random nor complete. This implies a risk of sampling bias. While we cannot rule out this possibility, we sought to minimize it by obtaining our referrals through multiple, mutually independent points. We further note that the company backgrounds of our interviewees are well-distributed among major industries in countries, thus reducing the risk that our findings may be specific to certain industries or sectors. In addition, as will become clear later, our analytical methodology provides a certain level of robustness against outlier opinions by using the mode rather than median or mean to identify key categories in the executive mindscape.

We obtained data from our samples of executives through in-depth interviews. The interviews were semi-structured in format (cf. Redding, 1990), that is, they combined a fixed interview schedule with flexible order and leeway for interviewees to introduce, and ourselves to further pursue, aspects not included in the interview schedule. This format is particularly useful for the kinds of exploratory research undertaken here because it allows for the discovery and pursuit of issues and ways of thinking not anticipated by us. The interview schedule, which is reproduced in the appendix, addresses two large topic areas, namely, the purpose of the firm and the ideal shape of the economy. In this paper, we focus on executives’ opinions concerning the latter issue.

Wherever possible, we arranged for interviews to take place over lunch or dinner and to involve pairs of executives of similar status. The lunch or dinner setting was selected to allow interviewees to discuss in a relaxed atmosphere, with dinner offering the additional benefit of taking place without time pressure, as executives had no appointments following dinner. Pairing the interviewees served the purpose of deepening the discussing by allowing executives to play off each other's thoughts.

In Germany, interviews on average lasted about 1 hour in the case of interviews with one individual executive and about 1.5 hours in the case of pairs of executives. In Japan, the respective durations were 1 hour and 2 hours on average. These times are exclusive of the time spent at the beginning and end on matters such as greetings, introductions, and explanatory remarks about the research project.

All interviews were recorded with the consent of the interviewees with the understanding that interview contents are not for attribution. All interviews in Germany were conducted in German. In Japan, all interviews except one were conducted in Japanese. The one exception was conducted in English and involved an executive with extended education in the United States; the choice of English as the interview language was his.

### *3.3 Data Analysis*

Analysis of our data entails interpretative content analysis of the interview data to identify the key categories of the mental landscape of our interviewees. In order to avoid loss of meaning in translation, all analysis was performed on transcriptions in the original language in which the interviews were conducted. We extracted all propositions contained in these transcriptions. Given the exploratory nature of this study, we did not a priori impose categories, but allowed them to

emerge (cf. Redding, 1990). Overall, we identified about 300 categories for the German sample and about 470 categories for the Japanese sample. We used salience of these categories among the executives, as expressed in the number of executives referring to them, to determine the core elements in the mental landscapes of both groups of executives. Categories referred to by fewer than 40 percent of the interviewees were generally excluded, unless their inclusion was essential for interpretation of the results. In the figures representing the mental landscape of the interviewees, salience is expressed in terms of size of the circle for a given category, with larger size indicating higher salience, i.e., a greater number of senior executives having offered a proposition falling in the given category.

In addition, we assigned to each proposition extracted a value ranging from -3 to 3. A value of "0" denotes a neutral statement about the proposition in question, such as "I do not care whether there are unions or not." A value of "1" is assigned to values offering tentative support of a proposition, such as "I think there should be unions." A value of "2" denotes unequivocal support, such as "we need unions." A value of "3," finally, is assigned to propositions indicating that the speaker has undertaken an action concerning them, such as "I founded a union." Negative values are assigned for negating statements, following the same underlying logic. These values were averaged by category to obtain a sense of the degree to which a given category had positive or negative affect in the mind of the interviewees. In the figures representing the mental landscape of the interviewees, affect is expressed in terms of color of the circle for a given category, which brighter colors indicating more positive affect.

Coding reliability was verified by having research assistants with the requisite language skills, but no prior role in coding of the data, extract propositions and assign categories to them. Each research assistant received about one hour of explanations of the coding process and a list of

coding categories. Each research assistant then coded a random sample of the interview transcriptions amounting to 5% of the total length of all transcriptions of the data from the respective country. For the German data, the percentage of intercoder agreement was 91.5%. This compared to an expected agreement of 7.2% by chance alone. Cohen's kappa (Cohen, 1960) is 0.91, well above the commonly applied threshold of 0.70. For the Japanese data, the percentage of intercoder agreement was 86.4%, compared with an expected agreement of 8.0% by chance alone. Cohen's kappa is 0.85, again well above the 0.70 threshold.

## **4. Results**

### *4.1 Germany*

Key features in the thinking of German senior executives about the appropriate shape of the economy are a cluster of constructs related to freer markets, in interaction with democracy and the construct of the state as the appropriate origin of a general regulatory framework; a cluster of constructs around individual responsibility; education; and the wish for more initiative and courage in the population (Figure 1). Affect is positive for most constructs in the map, except for that of equality of outcomes and those related to unions.

\*\*\* Insert Figure 1 about here \*\*\*

Virtually all executives made explicit that they construed of the ideal economy as one that is market-based. Nine executives expressed this preference directly in statements such as the following:

- I would like to maintain the basic principles of the free market economy.
- I would be in favor of a strongly market-oriented economic order. I emphasize the word “strong.” Not that what we in Germany have liked to refer to in a somewhat



hazy term in Germany as “social market economy.” I want back to more market economy, if possible, without adjective. Market economy to me is the market, [with] competition as driving and shaping force.

The threat to this desirable state of free market order emanates, in the view of the interviewees, foremost from the “octopus state that crawls into everything.” Accordingly, fourteen executives indicated that relative to the German status quo, they would like to see a considerable degree of liberalization in the sense of a retreat of the state out of economic life:

- Less state and more free development is certainly a very essential criterion.
- And I wished ... that the state would concern itself much less with things that are better decided locally and instead concerns itself a bit more with things that only it can solve.

Liberalization in the executives’ minds implies a reduction of taxes and an attendant decrease in the size of the state, less bureaucracy, and especially deregulation:

- This includes the abolishment of hundreds, of thousands of laws that we here have introduced in the past five years. Simplification of laws, as I have said, reduction of the intervention by the state.
- The toughness of the rules is not the problem. The amount of rules that in part are mutually contradictory [is the problem], because the state is subject to the mistaken desire to be able to manage individual cases. The state fails as provider of order if it thinks it could manage individual cases.

The area in which executives identified the greatest need for liberalization and deregulation is the labor market:

- [For the employees] I would really also like a bit more market economy, which we

do not have. A higher flexibility here as well through very much deregulation, away from the encrustation. So we can have more hirings, separations must be easier.

- [What we need] is simply the liberation of the labor market from the all-stifling bureaucratization and tendency to make everyone the same [*Gleichmacherei*], of the exaggerated arsenal of protective instruments that only protect the employee but contravene the interests of those who have no employment.

Accordingly, the proper role of the state in the market economy is seen to be that of generating and implementing a general regulatory framework:

- [The state] should actually just create the framework conditions in order to ensure the personal freedom so everyone also has the chance to become involved in the economic process to the best of this abilities and in the best way.
- Capital markets should be free but controlled, that is, without limitations, but with rules of the game. Where there are rules of the game, one needs a referee, a controller who monitors compliance, that is the state.

Democracy is seen as the appropriate mode of state governance in general and in particular for arriving at a legitimate regulatory framework, even though there was discontent with specific elements of the German variant of democracy, such as the entrenched role of the parties and rule by consensus. No executive proposed an alternative form of government.

The affirmation of both free market economy and democratic principles are related to the principle of freedom in general:

- The state economic countries under communism did not break down only because the economy was unable to perform, but also because the economy did not attempt ... to make

a contribution to freedom.

- Each of us has a responsibility to contribute so we have democratic conditions in the country and so that freedom of speech ... [and] human rights remain a reality.

Often mentioned in conjunction with freedom was the construct of individual responsibility (*Eigenverantwortung*). This construct, which was referred to by twelve interviewees, refers to individuals' taking charge of their own life and taking responsibility of the outcomes of their actions.

- I would strengthen freedom. Freedom and individual responsibility.
- More individual responsibility, more freedom, more individual responsibility, absolutely clear.

Individual responsibility is closely associated with the "performance principle" (*Leistungsprinzip*), that is, the notion that any gain must be earned through one's actions. Seen in opposition to both is the provision of social security and social welfare by the state. While the need for the state to provide social security to the weakest members of society is generally affirmed, many executives believe the present system has become too generous and expansive. The responses by the interviewees suggest a search for a golden mean that reconciles both objectives:

- Of course there is a right to an existential minimum or to a certain minimum standard, as we are a social constitutional state. But in principle there also must be a certain individual responsibility, and it cannot go so far that I say I distribute the wealth in a way that everyone can take it easy, something will come to me as long as the others are diligent and industrious. Rather, we are here concerned with a performance principle.

- The pendulum [of social solidarity] has in our case in the last years, also the last decades, clearly gone in a direction that stifles freedom, that stifles individual responsibility, and that thus stifles the dynamics of the entire society.

Individual freedom and responsibility in conjunction with the performance principle is inimical to an equality of outcomes, which is clearly visible in the interview data. A recurrent word in this context is “*Gleichmacherei*,” which translates literally to “making equal” and refers to efforts or the tendency to seek to attain equal outcomes for everyone. At the same time, a number of executives pointed out, often in explicit contrast with the United States, that too much inequality of outcomes was equally undesirable. In the words of one executive, “we cannot turn back the wheel so far as in the USA, to a state of early/primitive capitalism.”

The rejection of equality of outcomes, and thus of a basic principle of socialist thought, in turn implies conflict with unions in general and especially with German unions as they exist today. Affect for unions as a form of interest representation for labor was overall neutral. Some executives considered unions necessary, others were indifferent, and others still argued that they had become superfluous in the present day. However, not a single statement about unions as they present themselves in Germany today was positive. For example:

- The mindset is still class struggle with these people. And thus a union like that has in my view no future at all.
- Well, one cannot shoot [the unions] to the moon, but in their present shape I consider them inappropriately strong.

A major bone of contention in this context is the legal right of codetermination at the supervisory board level. According to the 1976 law of codetermination, employees, and with them the unions, have the right to fill half of the supervisory board of incorporated firms with more than 2,000

employees (Siebert, 2005). Most executives would like to see this law abolished. Noteworthy is that by contrast, the existence of workers' councils—another mandatory form of labor representation, with roots dating back to 1891 (Guillén, 1994)—was not a contentious issue.

Eleven executives made reference to education as a component part of their ideal economy. German students had received relatively poor scores in recent comparative studies of educational attainment, such as the PISA study undertaken by the OECD (2003). The results had received wide publicity in Germany, and a shocked public engaged in heated debates about what had gone wrong with a system that used to be among the world's best. Among the executives, there was wide agreement that the education system as it exists today in Germany is in need of reform:

- The education system is, in the medium term, the key to the success of the entire country. And there one can at the moment draw large question marks.
- [I would want] an education system that does not copy what the others did in recent years to overtake us, but that creates something new for the future.

The education system is also seen as key to promoting more individual responsibility as well as entrepreneurial activity:

- It is also a question of the parents and the schools and universities how we can develop and strengthen and keep alive this feeling for individual responsibility and how we can foremost make clear to the young people what it means, what a chance it is to live in freedom.
- I would wish for another education system, which can certainly also contribute to the topic of entrepreneurship in a decisive way.

Near consensus about the need for a competitive education system notwithstanding, very few concrete proposals for the specific shape of such a system emerged.

Seven interviewees referred to innovation as an important feature of an economic system. Within this group, however, there is considerable heterogeneity of views of how innovative capacity should be created or maintained. Factors mentioned include a large body of small and medium-sized enterprises; a strong education system; openness of the population to technological advances; and freedom of innovation from all too stringent state rules and regulations:

- I feel that a great strength of the German economy is the structure of large concerns and a broad *Mittelstand* and many smaller firms of one, two, three people. This staggered structure in an orderly fashion is, I believe, a favorable condition for continuous reinvestment and innovation.
- The key experts today all emigrate to Harvard, Stanford, or somewhere in Boston.
- And this includes an openness toward new ideas, an openness toward technology, and that we do not have in Germany.
- Look at licensing processes in the USA. In the USA you have so many binders, in German you probably need a room full of binders. Such disenfranchisement!

An additional factor identified as important in innovation is courage:

- And it would be of benefit in a certain sense to return to our origins and become so audacious as we have once been. With the goal to read, that our economy, as concerns for instance its innovative capacity, becomes somewhat more dynamic.

This links innovation to the remaining final major theme, namely courage and the taking of initiative. Eleven executives opined that there was a dearth of both in the present German economy, with the German population being generally perceived to be fearful of losing what it had attained and averse to taking risks:

- [The greatest weakness] is the encrustation and extreme insurance thinking of the

Germans, security all around. And this angst.

- If my own father<sup>1</sup> now says that he will not buy a new set of couches, he wants to save the money because he does not know what will come, then this is symptomatic. ... The courage for the future is missing.

Courage and initiative are in turn perceived to be linked to individual responsibility and, inversely, to state intervention, which brings our exploration of the German executive mindset full circle to the topic of freedom and individual responsibility:

- I wish the Germans had a bit more courage and a bit more individual responsibility, courage.
- That is the octopus state that crawls into everything. It ruins our economy because it does not let initiative develop anymore where the people are much closer to the problems and solve them better.

#### *4.2 Japan*

Key features in the thinking of senior Japanese executives about the appropriate shape of the economy are a cluster of constructs related to leadership and the role of the state; a cluster of around the nature of the regulatory framework in society; a cluster related to the role of labor and economic outcomes; education; manufacturing and technology; and unions as well as internationalization (Figure 2). Affect is positive for most constructs in the map, except for those of equality of outcomes, liberalization, and the present state of affairs of the state, bureaucracy, and government.

\*\*\* Include Figure 2 about here \*\*\*

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<sup>1</sup> Given the speaker's age of around 60 years, his father must have been at least in his eighties.

The state of the Japanese state is a key concern for most executives. As evident in the negative affect for state, bureaucracy, and government (-1.1), there is considerable discontent with present conditions:

- I think the problem that is holding down Japan is basically a political problem rather than an economic one.
- A place with “public” is dangerous. Such as “public servant,” “public investment,” or “public funds.”
- The government [is] too stymied by separate organizations, not being able to get together and change.
- I think that in the end, if we do not change the political structure, the Japanese economy will not change.

Accordingly, support for reforms of the political sector is high. In keeping with the prominent role of the bureaucracy in economic policy-making, bureaucratic reform is a prime concern. Executives consider especially the bureaucracy, but also politicians, to be out of touch with economic realities in Japanese firms. The consequence is policy output that misses the needs of firms:

- There is this civil servant ethics law.<sup>2</sup> Because one does not want to get arrested, one cannot even have a meal with the bureaucrats. It is wrong that the politicians work hard to policies without understanding from what the private sector is suffering or what it is doing.

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<sup>2</sup> Introduced following a series of corruption scandals in the late 1990s. Before passage of the law, it was common practice for firms to treat civil servants to dinner for kind of informal information exchange and coordination common in Japan (Witt, 2006).



- That government and those politicians know much too little about running an international company. Consequently, the deregulation that is desperately needed by us to increase international competitiveness does not occur.

In response, executives feel it would be appropriate to reduce the number of bureaucrats—“halving them would be fine,” as one interviewee put it. Others are for further structural reforms in the bureaucracy—“we need to rebuild the bureaucracy once again”—and perhaps a shift in policy-making weight away from the bureaucracy towards politicians:

- The economy is, in the end, not controlled by the politicians, but by the bureaucrats. Therefore, I think that in the end, if we do not change the political structure, the Japanese economy will not change.

Strong political leadership is seen as desirable, but lacking in the present Japanese political environment:

- The country foremost needs top-down leadership now.
- In the present political world, there is no leader. ... That is a terrible problem for Japan.
- We are not in reality that weak a country economically, but is it not the problem that the political leadership is incompetent?

As we will discuss later, an emphasis of equality of outcomes in Japanese society is seen as one reason of the relative lack of strong leadership.

The preference for continued state leadership is consistent with executives’ support of deregulation, but not of liberalization. Many executives perceive a need to deregulate:

- Japanese firms are engaged in international competition, and to be able to fight as

well as they can, deregulation is necessary.

- In the end, the various regulations, social regulations, they are all over-spec.
- Make government smaller, deregulate.

Importantly, this consensus in favor of deregulation is not to be confounded with a desire for liberalization. The Japanese term for “deregulation” (“*kisei kanwa*”) denotes, literally translated, a “softening of regulations” rather than their abolition. Liberalization, by contrast, suggests leaving matters to market forces and each firm and individual, which in the Japanese—and, more broadly, Asian—mind is tantamount to chaos and thus undesirable. The visible hand of the state imposing order is preferred to the invisible hand of the market. Thus we find executives remark that they support “not liberalization, but deregulation to some extent” and that “it is extremely dangerous if you fully liberalize.”

Accordingly, competition as a principle in structuring the economy receives only lukewarm support from eight executives and is seen as something in need of limits:

- I believe that it is necessary to understand that there are also limits to the market economy.

Placing appropriate constraints on competitive behavior in order to avoid what in Japanese is called “overcompetition” is an important role of the state.

Competition, not as a principle but as a fact in the international economy, is also seen as the basis of a need to make labor and wage systems more flexible, though this stance is expressed by only about one-third of the interviewees, and with relatively low positive affect. In this view, the difficulty of workforce reductions is a competitive disadvantage, and current wage levels are unsustainable in the face of international competitive pressures:

- The fact that one cannot ask one to quit the company does a terrible damage to the

competitiveness of Japanese firms.

- If we do not reduce wages of Japan in total by 25%, we cannot win internationally.

While wage reductions in difficult times are common in Japanese firms and thus uncontroversial, the notion of making redundancies easier is remarkable because it seems to suggest movement away from a key element of the postwar Japanese business system, the principle of lifetime employment. However, executives' comments concerning the purpose of the firm, which will be reported elsewhere, clearly identify the well-being of employees as a key reason for the existence of the firm. Keeping further in mind the high level of legal employment protection for regular employees in Japan (OECD, 2007), which makes involuntary separations very difficult, this suggests that executives are asking for an easing relative to the existing high barriers to redundancies, not the introduction of a hire-and-fire employment culture.

The desire for labor reform is linked conceptually to an affirmation of the performance principle as well as a relatively unfavorable view of equality of outcomes. In the view of ten executives, rewards should be linked to performance:

- The way I do this is the performance principle.
- It is said that unless we change our way of working, we cannot win in competition.

I think it is certain that we are in an era in which individual power is highly demanded.

- First, we need to fix that people who have no ability rise because they have seniority. That is the first step. We are implementing this.

The performance principle has thus begun to supersede—in the minds of executives—another principle of business in postwar Japan, namely the notion that promotions and rewards are a function of seniority (i.e., length of tenure with the firm).

At the same time, nine executives express discomfort with the present level of equality of outcomes in Japan, especially in respect to the distribution of wealth. An equal income distribution continues to be seen as highly desirable in Japanese society, but our interviewees tend to perceive the present state as too equal. This is not tantamount to an endorsement of inequality, as evident in negative comments about inequality in the United States. Rather, it reflects a sense that the pendulum has swung too far toward equality and away from rewarding for performance:

- We are too much of an equal society... We need a standard of a salary system that reflects personal ability and effort.

The present level of equality is consequently described as “bad equality” (“*aku byoudou*”):

- I feel very strongly that Japan has a bit of bad equality, that it is too equal.

The expression “bad equality” suggests the existence of “good quality,” which reinforces the interpretation that executives are reacting not to equality as such, but to levels they see as too high. Executives suggest that these levels are inimical to political leadership, which we have earlier in this paper identified as a concern:

- So we are fostering the middle class. That is why there is no leader coming out.

One explanation given for the present state of equality, expressed only by few executives but still noteworthy, suggests that following World War II, the Japanese people mistook democracy to imply equality of outcomes. Unions, which were fostered by the American occupation following the war as an important component of democracy, are likewise seen as linked to equality of outcomes:

- This equality is a strange equality. Though one’s work differs, [outcomes] are equal all the time. In this you can see the advance of the Japanese unions.

Apart from their link with “bad equality,” unions are generally seen as respectable and necessary

ingredients in the Japanese economy. Executives tend to conceive of them as partners in management rather than as rivals, pointing to high levels of management skills in the unions and a role for unions in corporate governance:

- Unfairness, or when the top engages in bribery or corruption, the unions speak out with courage, after all, the ones who do this daily supervision is the unions.
- Today's unions in Japan are one wing of management.
- Today, the unions in most cases if anything study more about management than we do and say we should do this, we should do that.

Consistent with the perceived role of unions as partners rather than as adversaries, no interviewee pointed to unions as an obstacle to the kinds of labor reforms discussed earlier, including easier redundancies and a shift from the seniority to the performance principle.

The desire to introduce more variation in outcomes is linked to the need for educational reform. Executives tend to consider education important and see the Japanese education system as performing well on average, though leaving little room for outstanding performance:

- In Japan, [education] levels are, after all, on average high.
- I think the quality of human capital is high. The educational level is high.
- Although even our education system, when it gets up to university level, can't compete with Harvard. But still, basically, our education system, particularly our primary education and this and that, is quite sound.

Executives identified various aspects of the present system as in need of improvement. These include: more emphasis on fostering creativity; reintroduction of ethics classes; and better English-language training.

The emphasis on language is related to a positive view of the desirability of

internationalization of Japanese firms' activities. Seven interviewees showed support either by describing internationalization as a key accomplishment at their own firms, or by praising the internationalization of other firms:

- My contribution really has been to make [my firm] as global as possible. Not just a Japan-centered organization.
- Chairman Kobayashi of Fuji-Xerox has a highly international outlook.
- Mr. Morita [late co-founder of Sony] was aiming at [becoming] a global enterprise.

The expressed pride in, and respect of, successful corporate internationalization indicates not only that internationalization is considered desirable. It also implies that our interviewees felt that few firms in Japan had successfully made this transition.

A final salient element in Japanese thinking about the ideal economy is the role of technology. The affect for technology is more positive than for any other element of the mental landscape concerning economic structure, finding its expression in strongly supportive statements such as the following:

- Technology is a terribly important thing for a good economy.
- Japan has really good advanced good [sic!] technology.
- Don't worry, a Japan that has technology that strong should in the end not lose.

A linkage with education, which one might have expected, is absent. This is consistent with the tendency of Japanese firms to develop technology in-house, as cooperation with universities on R&D activities virtually disappeared after World War II and has only recently reemerged. Accordingly, one executive pointed out that unlike in the United States, research and development in Japan occurred not in universities, but inside firms.

By contrast, there is an expectation of state leadership in R&D activities. This view is

consistent with the practice of close cooperation between state and private sector in developing new technology in the context of industrial policy (Johnson, 1982; Samuels, 1987), e.g., through state-sponsored R&D consortia (Sakakibara, 1997). Accordingly, some executives continue to expect support from the state for new R&D:

- When a firm develops new technology, it becomes for the benefit of the country. Therefore in reality, things like giving tax exemptions and, in the end, putting up a budget, doing those things is the job of the country.

## **5. Path Dependence: Key Themes**

Historical developments and experience influence the beliefs of individuals about how the institutional structure should look like (North, 2005). This expression of path dependence is clearly evident in the thinking of our interviewees.

### *5.1 Germany*

The preference of the interviewees for free markets embedded in a clear economic framework mirrors the founding premises of the German postwar economy. Postwar economic policy was strongly influenced by the “ordoliberal” school of economics associated with scholars such as Franz Böhm, Walter Eucken, Hans Großmann-Doerth, Wilhelm Röpke, and especially Ludwig Erhard, who as economics minister presided over the postwar German economic miracle. The ordoliberal school emphasized the role of the state in establishing and preserving economic order while maintaining that state intervention in economic processes, such as allocative decisions, should be limited to exceptional cases (Siebert, 2005). Since most of our executives are likely to have attended university during the 1950s and 1960s, it is likely that would have been exposed to

strong doses of ordoliberal thinking, both in academia and in observed economic policy, during their formative years.

The call for a reduction of social security and more individual responsibility is reflective of a long-standing and historically grown tension between individualistic and communitarian values embedded in the German postwar construct of “social market economy” (Streeck, 1997; Siebert, 2005). The desire for individual freedom is based not only on the German experience with totalitarianism in the Third Reich, but also the adverse economic outcomes of heavy state intervention in the economy during and between the two World Wars (Siebert, 2005). At the same time, there is a strong communitarian streak in German society expressed in Christian social ethics that advocate the protection of the individual by the community as well as in collectivist ideas propagated by the socialist movement (Streeck and Yamamura, 2001). The majority of executives interviewed seems to feel that the balance between these two competing views has tilted too far toward the latter and that individual freedom needs to regain greater emphasis in the minds of the German people and in government policy. Linked with the performance principle advocated by the interviewees, this suggests an openness to a somewhat higher income dispersion than is presently the case, though at a lower level than in the United States.

Consistent with historical experience is further the emphasis on a strengthened education system, innovation, and entrepreneurship. Many major German firms have their origins in the entrepreneurial boom of the second half of the 19th century. Strong ties with German universities allowed these erstwhile startups to draw on advanced technology and establish themselves quickly as major players in world markets. For instance, the rise of the German chemicals industry owes much to scientific advances made at German universities in the field of organic dyes (Murmans, 2003). In advocating stronger education, more innovation, and more entrepreneurship, German



executives are thus asking for a return of modern German capitalism to its roots.

## *5.2 Japan*

The acceptance of a strong role of the state in the economy is consistent with the concept of the developmental state. A state is considered “developmental” if it seeks to hasten economic development by intervening actively in the economy, typically through industrial policy (Johnson, 1982). Postwar Japan was a paradigmatic example of a developmental state. Building on control mechanisms developed during the Pacific War, the Japanese bureaucracy took a leading role in fostering economic development (Johnson, 1982). To this end, government adopted measures such as protecting rising industries from foreign competition, offering access to capital and raw materials, and coordinating R&D consortia for firms to develop new technology jointly (Johnson, 1982; Okimoto, 1989; Sakakibara, 1997). It is likely that Japanese businessmen who lived through the period of high growth during the heyday of industrial policy may consider close cooperation with, and leadership by, government as a desirable model.

The notion that too much competition is dangerous has a long tradition in Japan. In the Tokugawa period (1603-1868), guilds made sure that members did not engage in improper competition (Hirschmeier and Yui, 1981). In the 20th century, a brief period of relatively free market capitalism in the 1920s was followed by government-led efforts at cartelization in order to dampen the adverse impact of the world economic crisis. Government encouraged, and later required, firms to organize in industry associations, which allowed competitors to fix prices and monitor compliance (Schaede, 2000). In addition, government policy after the war has consistently discouraged “overcompetition,” has helped form cartels, and has at times punished deviants disturbing what the bureaucracy considered orderly competition (Upham, 1991; Tilton,

1996).

The reaction against equality of outcomes and emphasis of the performance principle may likewise hark back to the youth of at least the more senior of the interviewed executives. Until the end of World War II, Japanese society was quite accepting of an uneven wealth distribution. As one executive pointed out, and others confirmed, a section chief (*kachou*) in firm belonging to one of the major conglomerates of the time would receive an annual bonus large enough to buy a villa. It was only after World War II that the income distribution flattened and many associated characteristics of the Japanese economy, such as the seniority system and lifetime employment, emerged (Hirschmeier and Yui, 1981; Gordon, 1988).

The positive view of education is consistent with the Confucian emphasis on education embedded in Japanese society. This influence is visible in elements throughout the system, such as the emphasis on rote rehearsal; competitive entrance examinations for access to higher schools; and the tendency of the top graduates of the top universities to become civil servants. The absence of a link between education and technology in the mindscape of Japanese executives is the result of another historical development, namely the refusal of many Japanese universities following the war to engage in research with direct commercial applicability (Hicks, 1993; Branscomb, Kodama, and Florida, 1999). This occurred partially in response to the role Japanese universities played in sustaining the Japanese war effort, partially out of conviction that academia should not be sullied by commercial concerns. Only in recent years have firm-university links begun to revive (Branscomb, Kodama, and Florida, 1999).

## **6. Executive Rationale and Recent Institutional Change**

It is clearly beyond the scope of this paper to demonstrate conclusively a link between the beliefs

of senior executives in Germany and Japan about the ideal institutional shape of the economy and recent institutional changes in both countries. Doing so would require us to present a detailed trace of the policy-making processes that gave rise to institutional changes. Given the large number of participants typical in institutional change processes in countries with high levels of societal coordination such as Germany and Japan, it seems likely that a series of papers or a substantial monograph would be required to do the challenge justice.

What we can do within the constraints of this study, however, is to offer a brief sketch of major institutional changes in the areas of concern to the interviewees. It suggests considerable alignment between the beliefs expressed by our interviewees and subsequent institutional changes in both countries. Especially noteworthy is that several such instances of institutional change proved greatly unpopular with the general populace. This suggests that business interests may have played a disproportionate role in the underlying political processes.

### *6.1 Germany*

German governments under Schröder and Merkel have initiated institutional changes that are in line with executives' beliefs about the ideal shape of the economy. The most prominent and encompassing measure since completion of our interviews is Schröder's "Agenda 2010," a large package of institutional reforms aimed at producing a highly competitive and dynamic economy by the year 2010. Changes encompass virtually all areas the interviewees viewed in need of reform. Core provisions of the Agenda 2010 include:

- Deregulation: A "*Meister*" (master) certification is no longer required in many artisanal professions for opening one's own business.
- Tax reductions: The top tax rate is reduced from 48.5% to 42%, the minimum tax rate,

from 26% to 15%. At the same time, the threshold for income tax is raised.

- Reduction of social protection and social insurance benefits: The package relaxes restrictions on redundancies; reduces unemployment and public health insurance benefits; shifts more of the costs of social insurance from employers to employees.
- Promotion of entrepreneurship: Unemployed individuals starting their own business receive subsidies.
- Education: The Agenda provisions for a 25% increase in public educational spending, an investment of €4 billion in full-day schooling facilities, and a raise in public financial aid for university students.

While these measures are in tune with what our interviewees considered desirable, the package provoked strong popular discontent. Especially voters on the political left felt that Schröder's Social Democratic Party (SPD) had betrayed their interests. As a consequence, the SPD is said to have lost 100,000 members, equivalent to one-sixth of its total membership. Public rejection of the reforms further registered in a string of elections in which the SPD performed poorly, culminating in the electoral defeat of Schröder's government in the 2005 federal elections. One possible interpretation is that the SPD seems to have felt compelled to cater to reform demands voiced by business. The fact that many German businesses were at least perceived to be responding to lacking institutional reforms by increasing investment outside of Germany is likely to have contributed substantially to this pressure (cf. Witt and Lewin, forthcoming).

## *6.2 Japan*

The foremost concern of executives was reform of the political arena. The Koizumi administration moved toward delivering such reform, both of the bureaucracy and of the hegemonic political

party, the Liberal Democratic Party (LDP). Key among a number of efforts in this direction has been the privatization of the postal service. While the Western press presented this measure mostly as evidence of structural change in the Japanese economy, its true implications are political. For one, it removes a considerable area of economic activity, including the country's largest banking business, from the hands of the civil service. This is consistent with government policy aiming at small government, something our interviewees identified as desirable.

At the same time, privatization of the postal service forces the LDP—Koizumi's own party—to be less responsive to rural voters, who have tended to be conservative and inclined toward economic protectionism. Under the present, government-run postal service, local postmasters in rural areas have played a crucial role for turning out the vote in favor of the LDP. Given imbalances in the Japanese voting system that give rural votes up to three times the weight in determining election outcomes as urban ones (Horiuchi and Saito, 2003), political oversight over the postal service has been an important contributor to the political success of the LDP. Postal privatization—which will be fully implemented only in 2017—is likely to destroy this electoral advantage. It is for this reason that Koizumi's own party initially voted against the privatization plan. However, voters were overwhelmingly in favor, and it seems likely that our interviewees supported it, as a shift in LDP attention away from rural voters increases the scope for more business-oriented policies such as deregulation.

Change has also been afoot in a second area, equality of outcomes and the performance principle. While the available statistical evidence does not yet support the contention that corporations have become more performance-oriented (Witt, 2006), inequality in Japanese society has increased to the point that the country now has the second-highest rate of relative poverty in the OECD behind the United States (OECD, 2006). Tax changes under the Koizumi

administration may have contributed to this development, and leading politicians have voiced their support of an increased spread in the income distribution in accordance with individual performance. While in line with the beliefs of our interviewees about the ideal shape of the economy, the Japanese public has reacted strongly against this development, reducing electoral support in favor of market-oriented economic reforms.

Some institutional reforms have further occurred in the area of education. Main objective of these changes seems to have been to introduce more room for creativity and make the system in general less onerous on students and more flexible. These changes are not only in line with the beliefs of our interviewees, they were also welcomed by the Japanese people in general. However, when it became clear in recent international comparisons of educational attainment (OECD, 2004) that Japanese students were dropping in the rankings, a public backlash ensued. At the time of this writing, it seems likely that at least some of the reforms will be reversed.

## **7. Conclusion**

### *7.1 Summary and Limitations*

In this paper, we contribute to the ongoing discussion on the prospects of institutional convergence among the advanced industrialized nations. There is considerable evidence in the literature that such convergence has not yet occurred (Whitley, 1999; Hall and Soskice, 2001; Redding, 2005). At the same time, the absence of convergence in the present does not mean that pressures are absent that may, over time, produce convergence.

We have focused on one prominent mechanism taken to work for convergence, namely, the notion that the institutional structures of some countries are more efficient than those in others. This implies a competitive disadvantage for countries with less efficient institutions, and

consequently an incentive for them to copy institutional structures of other countries that they perceive to be more efficient. Over time, the institutional structures of different countries are consequently likely to become more similar, that is, to converge.

We have explored the likely impact of this mechanism in two countries, Germany and Japan. A growing body of literature postulates a link between rationale and the shape of the institutional environment in a given country (North, 2005; Redding, 2005; Sorge, 2005). This implies that convergence in rationale should precede convergence in actual institutional structure. Given international competition, such convergence in rationale should be particularly pronounced in the business community, and especially its senior executives.

Our evidence, gained from ethnographic interviews with 34 senior executives in both countries, does not support the prospect of major convergence occurring through this mechanism. The mental landscapes of executives in each country vary considerably from one another. They also deviate in numerous and important aspects from the institutional structure of the United States economy, which in public debate is often seen as the implicit model to follow (Dore, 2000). Rather, many of the elements of executive rationale in both countries seem to be conditioned by path dependence.

In interpreting these results, it is important to bear in mind the limitations of this study. First, there is a question of generalizability. As discussed earlier, we are confident that our results are representative of the views of senior executives in Germany and Japan, though we cannot completely rule out that they are not. More importantly, the present study is limited in geographic scope to two countries. It is possible that these countries may be exceptional in resisting convergence pressures linked to international competitive pressures. Given the status of Germany and Japan as the third- and second-largest economies in the world, respectively (at market

exchange rates), these would be very important exceptions indeed. Still, further research is needed to establish whether other countries show similar independence in executive rationale.

Second, in Germany and Japan as elsewhere, additional mechanisms pushing for convergence are likely to be at work. Two prominent examples pertain to the role of international organizations and institutions and the power of ideas in facilitating institutional convergence. International institutions may induce convergence to some degree by requiring countries to adjust their own institutional structures in accordingly. Prominent examples include various market harmonizing measures by the European Union; GATT/WTO rules pertaining to non-tariff barriers; and Bank of International Settlement regulations on risk management in the banking sector. The latter example, however, also indicates that even under these unified schemes, convergence pressures may be limited. In the context of drafting the present regulatory framework (“Basle II”), the involved states actively sought shape the rules in such a way that their own institutional peculiarities, such as Germany’s property-secured lending business, would remain unaffected. In other cases, states may simply ignore international institutions that are seen not to be in the national interest, as the United States has demonstrated over recent years.

The power of ideas may be linked to convergence through their impact on rationale. Research has shown that ideas and paradigms may spread internationally and influence the course of politics in the domestic arena (e.g., Hall, 1993; Redding, 2005). To be potentially influential in institutional change, it is sufficient that these ideational influences enter the rationale of one potent constituency. In the context of the economy, this could for instance be business adopting a stance consistent with Reaganomics/Thatcherism, or (in an earlier age) the idea of social democracy finding advocacy by labor organizations throughout Europe. Our results on executive rationale show no evidence of any strong idea or paradigm presently serving as a rallying point around



which executives in Germany and Japan organize their beliefs. This suggests that at least in the business community, this mechanism does not seem to be strongly developed at present. It is possible, though, that this mechanism may influence institutional change toward convergence through other constituencies.

## *7.2 Implications for IB Research*

On balance, we conclude from our results and the foregoing discussion that the extent of institutional convergence is likely to remain limited—almost certainly so in the case of Germany and Japan, but probably also more generally. For the field of IB, this means that the toolset the field has developed for integrating institutional variations across countries into IB models as an explicans is likely to retain its uses for the foreseeable future.

However, it also has much larger implications, in the sense that diversity in institutions opens up a golden opportunity for IB research to transform itself from a field that lives off ideas developed in other fields of the social sciences to one that produces genuinely new theory. Arguably the key theoretical innovation our field has produced is the theory of the multinational firm (Buckley and Casson, 1976; Dunning, 1981; Hennart, 1982). This is no mean feat, but thirty years later, it still dominates the research agenda of the field. It seems to us it is time to break out of this self-imposed silo. We need to broaden the scope of IB research so it can speak to larger theoretical issues.

The present paper most directly contributes to the larger theoretical debate about convergence. Yet it also opens up further questions of immediate relevance to IB. Our paper indicates that senior executives in different countries see different institutional structures as ideal. These institutional structures, however, are expressions of instrumental rationality, that is, beliefs

about the appropriate tools for attaining the desired ends of economic activity. One interpretation is that executives are ignorant about objectively optimal institutional structures. That is possible, yet to paraphrase eminent political scientist Stephen Krasner, stupidity is not an interesting analytical category—anything is possible under the assumption of stupidity. Another interpretation is that different institutional structures, growing out of path-dependent development, may be structured such as to be similarly conducive toward obtaining the same objectives in economic activity. This is the stance most commonly maintained in the varieties of capitalism literature in socio-economics (e.g., Whitley, 1999; Hall and Soskice, 2001). A third option, however, may be that institutional variations across nations reflects nationally contingent ends for firms and other economic actors, which influence the choice of the institutional means (Redding, 2005).

This latter interpretation, if supported by empirical studies, opens up the potential for major theoretical innovation in our understanding of international business. If firms from different nations pursue different ends, they may use different means in response to objectively the same situations. International competition may thus in part be shaped by locally contingent firm objectives, and taking these objectives into consideration may help increase explanatory leverage in IB research. At the same time, a finding that there is international heterogeneity in firm objectives would make a direct contribution to larger theoretical issues, such as the construct of shareholder value.

In our view, these kinds of questions represent a viable path for IB to attain greater theoretical relevance in the social sciences. These kinds of questions are best tackled through use of the comparative method (Ragin, 1987; Redding, 2005). Through their familiarity with diverse national institutional contexts, IB scholars should be better positioned to apply it than most other

scholars studying business.

QuickTime™ and a  
TIFF (LZW) decompressor  
are needed to see this picture.

**Figure 1. Mental Landscape of the Ideal Shape of the Economy, German Executives.**

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TIFF (LZW) decompressor  
are needed to see this picture.

**Figure 2. Mental Landscape of the Ideal Shape of the Economy, Japanese Executives.**

## **Appendix A: List of Interviewees**

Positions indicated as of the time of the interview.

### *Germany*

- Dr. Uwe-Ernst Bufe, former CEO, Degussa
- Leonhard H. Fischer, exec. board member, Allianz & Dresdner Bank
- Peter Fischl, CFO, Infineon
- Dr. Carl Hahn, former CEO, VW
- Dr. Wolf Klinz, exec. board member, AGIV
- Hilmar Kopper, former CEO, Deutsche Bank
- Dr. Dietmar Kuhnt, CEO, RWE
- Dr. Ulrich Middelman, Vice CEO, ThyssenKrupp
- Dr. Werner Schmidt, former CFO, VW
- Dr. Ronaldo Schmitz, former exec. 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 of the Supervisory Board, HypoVereinsbank
- Dr. Herbert Wörner, former exec. board member, Bosch; former CEO, Bosch Siemens  
Haushaltsgeraete
- Dr. Jürgen Zech, former CEO, Gerling
- Anonymous, CEO, DAX firm (i.e., one of Germany's 30 largest public firms)

*Japan*

- Yoshikazu Hanawa, Chairman, Nissan
- Toru Hashimoto, former Chairman, Fuji Bank
- Terukazu Inoue, Special Auditor, Toyota
- Takeo Inokuchi, Chairman and President, Mitsui Sumitomo Insurance
- Masami Ito, President, Ito Ham
- Tetsuro Kawakami, former Chairman, Sumitomo Electric
- Yorihiro Kojima, Senior Executive Vice President, Mitsubishi Corp.
- Akira Uehara, President, Taisho Seiyaku
- Kaneichi Maebara, 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

## **Appendix B: Interview Schedule**

### *Purpose of the Firm*

- If you had to choose the most important reason for your firm being in existence (beyond operating efficiently to survive), what would it be? Why is it important for it to survive?
- What is the firm ultimately for? Accepting a list of reasons, what comes first and why?
- What firms do you admire most and why?
- What business leaders do you admire most and why?
- When you retire what will you look back on as having achieved?
- What should the contribution of the economy be to the society at large, in addition to generating wealth?
- How should the wealth be distributed and why?

### *Institutional Structure of the Economy*

- Around the world there are many ways of constructing an economy. Given a free choice which formula do you prefer and why?
- What are the three most significant principles on which it should be built, in order of importance?
- In implementing the above design principles what main practical means are necessary?
- What is needed to make it work, and what is the process which allows such components to contribute. What are the main vehicles needed?
- Describe a serious weakness in the structuring of an economy which you have observed.
- Describe an important contributing aspect of a successful business system which you have observed.



- How does your own business system work so well? Main strengths and weaknesses as a system.

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