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Study of Executive Rationale in
Germany and Japan

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An Empirical Study of Executive Rationale in Germany and Japan**

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Abstract

This paper contributes rare primary empirical evidence to one of the major research questions in the social sciences today, namely, the linkage between national cultures and institutional structures of national business systems. Drawing on the work of Redding (2005), we explore the thinking, or “rationale,” of senior executives of leading German and Japanese firms about the ideal structure of the economy. We find considerable variation in rationale across the two countries and in comparison with the shape of the business system of the United States. Our study has implications for our understanding of the meaning of economic activity in different countries and of the evolutionary trajectories of national business systems.

1. Introduction

In this paper we provide evidence of fundamental differences in the ways senior executives of leading German and Japanese firms conceive of the ideal structure of their economies. In doing so, we help fill an important empirical gap in our understanding of cross-national variations in patterns of economic activities.

There is wide recognition of the presence of institutional variations across nations in the field of International Business (IB), the business literature more generally, and streams of research in related areas of the social sciences such as socio-economics and political science. The main thrust of the existing IB literature on institutional variations across countries has tended to fall into three broad themes linking institutional variations to the activities of multi-national enterprises (MNEs) (Jackson and Deeg, 2007): the role of host country institutions in affecting MNE entry (e.g., Meyer, 2001; Brouthers, 2002; Henisz, 2002); the availability of resources for MNEs in host countries (e.g., Wan, 2005); and institutional distance between host and home countries as a potential source of friction (e.g., Kostova, 1999; Eden and Miller, 2004).

In the business literature more generally, cross-national variations in institutions and their interactions with firm strategy and the extra-institutional environment have been a core component of the research agenda in the literature on coevolution within organization science (e.g., Lewin, Long, and Carroll, 1999; Lewin and Volberda, 1999; Volberda and Lewin, 2003; Lewin and Kim, 2004). Similarly, works on differences in institutional structures and attendant variation in outcomes have occupied an important place in the literature on corporate governance (e.g., Aguilera and Jackson, 2003; Fiss and Zajac, 2004; Ahmadjian and Robbins, 2005; Buck and Shahrum, 2005; Jackson, 2005; Crossland and Hambrick, 2007; Aguilera, Filatotchev, Gospel, and Jackson, forthcoming).

In the related social sciences, research on institutional variations across nations has flourished as the “comparative business systems” approach in socio-economics and the “varieties of capitalism” literature within comparative political economy. One key thrust has been extensive research in identifying and describing the key dimensions of institutional variation across different capitalist economies systems (e.g., Lazonick, 1991; Orrù, Biggart, and Hamilton, 1997; Whitley, 1999; Fligstein, 2001; Hall and Soskice, 2001; Redding, 2005). Another has been an increasing concern with the implications of these variations in terms of outcomes, both at the level of the economy (e.g., Quack, Morgan, and Whitley, 2000; Rueda and Pontusson, 2000; Hall and Soskice, 2001) and the firm, especially in the context of innovation patterns (e.g., Lehrer, 2000; O’Sullivan, 2000; Vitols, 2002; Boyer, 2004). A growing number of works has further sought to shed light on processes of institutional change within national institutional configurations (e.g., Thelen, 2004; Streeck and Thelen, 2005; Vogel, 2006; Witt, 2006).

While most of these works focus entirely on institutional variations, a number of them also suggest that a full understanding of their origins and evolution requires an in-depth understanding of cultural differences. Hall and Soskice (2001:13) note that although much published analysis proceeds from formal institutions onwards,

something else is needed to lead the actors to coordinate on a specific equilibrium and ... what leads the actors to a specific equilibrium is a set of shared understandings about what other actors are likely to do, often rooted in a sense of what it is appropriate to do in such circumstances.

Their conception of culture is of “a set of shared understandings and available ‘strategies for action’” (Hall and Soskice, 2001:13) accumulating from experience in a particular environment.

Fligstein (2001), inspired by Bourdieu (1977) among others, presents a theory of “fields,” or organized social spaces in which collective actors (such as CEOs and their board colleagues) produce a system of dominance in their space. This entails the production of a local culture that

defines social relations in such a way as to legitimate the power structure. The “conception of control” that results derives from the cognitive elements within that culture that define social relations, and give meaning to action. The end result is that

ideas of market orders are embedded within a particular society and a government and reflect the society’s peculiar history. The dominance of different groups in society means that those rules tend to reflect one set of interests over another ... there are national styles of ownership and regulation (Fligstein, 2001:16)

Guillén (1994) in his comparative study of organizational paradigms identified a key element as “elite mentalities.” He argued that these enduring modes of thought are interpretations of how the world works, and that they dispose a group to accept one particular organizational solution over others. He makes a distinction between such a mentality or “spiritual disposition,” and an ideology, the latter being more a legitimation of a position of power (cf. also Mannheim, 1936). But he argues that the two are connected in practice, and a prevailing mentality will predispose a group to select a particular way of expressing authority, citing a correlation between Catholic humanism and the human relations paradigm and its contrast with Protestant inclinations towards scientific management.

Whitley’s (1999) typology of business systems also pays tribute to the role of shared beliefs about authority, trust, and communitarian ideals, in the forming of the six principal types of business system he defines. Although he sees trust and authority relations working as institutions, his narrative accounts show the roles of cultural and historical forces in their emergence.

Despite this recognition of the importance of “shared understandings,” “available strategies of action,” “ideas of market orders,” and “elite mentalities,” empirical work exploring these aspects of national culture in depth is virtually non-existent, with the notable exception of Guillén’s (1994) work on models of management. There is a body of work describing senior

executive views about firm strategy, governance and management ideals, social responsibility, and environmental challenges (e.g., Calori, Johnson, and Sarnin, 1994; Hitt, Dacin, Tyler, and Park, 1997), but there is a shortage of empirical description of their views as to how economic action should be conducted in ways appropriate to the context of a specific society. The objective of this paper is to help fill this empirical gap in the literature through an ethnographic comparative study of *executive rationale*, or the thinking of senior executives, about the ideal shape of the economy in Germany and Japan. In exploring this issue, we focus on thinking about the institutional structure *surrounding* the firm, which corresponds to the middle layer in Redding's (2005) business system model. An exploration of rationale about the top layer of that model—which speaks to questions of ownership including corporate governance, networking among firms, and approaches to management—is outside the scope of this paper.

Our findings suggest considerable differences in German and Japanese executive rationale about the ideal shape of the economy. These conceptions also remain different from institutional practice in the United States, with concomitant implications for the ongoing debate on institutional convergence.

In the sections that follow, we begin by laying out the theory underlying our research. After a description of our data and method, we present our results. We conclude with a discussion of the implications of our work for work on cross-national institutional variations and research in the field of IB.

2. Theory

The question of how culture and institutions link up is not unique to the study of comparative capitalism. Indeed, it is arguably one of the biggest open questions in the social sciences today,

with a number of major research streams independently arriving at essentially the same question. In addition to the area of comparative business systems, which we have already addressed in the introduction by way of framing this paper, three streams in particular are of relevance: convergence; economic history; and culture and institutions. We review these in order before laying out the specific theoretical foundations on which we have built our study.

2.1 Convergence Theory

The original convergence theory (Kerr, Dunlop, Harbison, and Myers, 1960) was written at a time when the ascendance of Western-style, and especially US, applied rationality in finance, organizing, production and marketing seemed assured. It seemed set to have the rest of the world emulate it or fall under its influence. But Kerr (1983) later published a highly significant revision to the core idea, saying that convergence seemed to have taken place to a degree, but then stopped, and that the converging systems then ran along parallel lines at a distance from each other. This revision came about because the earlier theory had misjudged the significance of the culturally different structures of meaning lying below economic behavior. As he explained,

Convergence, overall, slows down as the imprint of industrialism brings substantial uniformity in the areas where it has dominant influence; as convergence in the areas subject to bipolar solutions develops slowly; and as the limits of conduct dominated by beliefs, not subject to convergence, at least in the short run, are reached... The most impenetrable barriers to convergence are the power and tenacity of the elites that lead the process, the inevitable eternal conflict over the highest economic and political goals, and the ingrained beliefs of the people. The second of these is probably the most persistent among, but also within, nations. (Kerr, 1983: 87)

At the time of writing Kerr was pointing to the deep ideological divide between the communist and capitalist worlds, and it has to be acknowledged that that divide disappeared in large measure as

the Berlin Wall came down, bringing with it widespread acceptance of capitalism as economic system and thus arguably, on a fundamental level, a degree of convergence.

Yet differences remain salient, even among capitalist countries, both at the cultural and the institutional levels. At the cultural level, a common empirical finding has been the occurrence of crossvergence (Ralston, Gustafson, Cheung, and Terpstra, 1993; Ralston, Holt, Terpstra, and Yu, 1997), which takes place

when an individual incorporates both national culture influences and economic ideology influences synergistically to form a unique value system that is different from the value set supported by either national culture or economic ideology. (Ralston et al., 1997: 183)

Similarly, empirical studies on institutional convergence have identified a general pattern of hybridization, in which institutions transferred from other institutional contexts are adapted and reconfigured in the process of fitting them into the existing institutional structure (Pieterse, 1994; Djelic, 1998; Aguilera and Jackson, 2003; Vogel, 2003). Though definitional inaccuracies lead to a tendency in the literature to overestimate the occurrence of crossvergence (Witt, 2007) and possibly also of hybridization, the available evidence suggests that a high degree of variety both in culture and institutions remains manifest and, in terms of economic outcomes, competitive with each other in world markets. It is this variety that needs to be explained, and in simple terms its basis is now conceived as either (a) different philosophies about the purposes and methods of economic action (e.g., Estevez-Abe, Iversen, and Soskice, 2001; Fligstein, 2001; Guillén, 2001; Biggart and Delbridge, 2004; Sorge, 2005), and/or (b) different equilibria in the combining of institutions (e.g., Crouch and Streeck, 1997; Amable, 2003; Streeck and Thelen, 2005; Greif, 2006).

2.2 Economic History

Economic history takes many approaches to the study of how societies emerge differently and the details of the various schools are beyond the scope of this paper. Many scholars present accounts that capture the full complexity of the process of emergence (e.g., Toynbee, 1957; Marx, 1967; Jones, 1981; Braudel, 1982; Landes, 1998). Others might discern a particular theme within the complexity, the classic example being Weber's (1930) explanation of the role of the Protestant Ethic. In this category also lies Greif's (2006) analysis of the influence of individualism-collectivism, or the findings on egalitarianism of Siegel (2007), the study of emerging political structures by Moore (1966), or of capitalism *per se* by James and Thomas (1994).

Of special interest because of their widespread impact are (1) the work of Weber as a pioneer in socio-economics describing the interactions of ideal and material processes, and (2) the work of North in a lifetime study of institutions, now coming to terms with the additional and crucial role of culture. We shall concentrate on these two.

The pioneering work of Weber (1922; 1927; 1930; 1964) in socio-economics is both rigorous and diverse, but may be summarized as an exploration of the penetration of Western societies by a distinct and peculiar form of rationality, something also noted by Gellner (1992: 136) as a "way of life," and by Stinchcombe (1990: 313) as an "achievement of civilization." This rationality takes the form of "scientific" thinking applied in the economic realm, and rests on responses such as calculation and respect for rational analysis, concern with evidence, planning, organizing, standardizing, and specializing. Such an organizing mentality is not an invention of Western civilization, but was built into the fabric of Western societies more completely than in other cases, and at a time when it would coincide with the development of science and technology and the creation of new political orders to disperse power in stable conditions. It also, in its current

forms, expresses distinct Western heritages in language and modes of implementation. One of its expressions is the “science” of management and organization, visible in the “instrument” of bureaucracy.

In order to appreciate the variety of possible mental landscapes, and the societal origins of such variety, it is necessary to examine more closely the way the process works between the forming of a relevant worldview and its connecting with action. To do so Weber first put to one side a feature he termed *formal rationality*. This represents calculation, and because of the logics of mathematics and algebra, it may be taken as a universal. He then considered the other aspect of rationality he termed *substantive rationality*. This is more directly connected to action, to the substance of things, and its original German adjective is “*materiale*.” It is nevertheless a mental state conditioning choices for behavior. It is Schumpeter’s (1942: 130) “choosing mentalities,” which in his view are the result of a societal process of refining out of options and shaping of choices. Weber’s (1922: 85) definition of it is

the degree to which the provisioning of given groups of persons with goods is shaped by economically oriented social action under some criterion (past, present, or potential) of ultimate values, regardless of the nature of those ends.

We are here in the territory of decisions affecting who gets what and why. It is the field in which the merits and demerits of favoring shareholders over others are weighed, the field of welfare philosophies, of beliefs about employment and the sharing of reward, of the ideals governing competition, of social responsibility, of how a society’s economy should function.

Weber introduced a further important distinction to separate the *value* component, which is concerned with ends, and the *instrumental*, which is concerned with means, a crucial defining aspect of the latter being deliberate planning. Thus, why and how? Weber saw clearly that consciously planned action that is *instrumentally rational* (*zweckrational*) does not account for all

economic behavior. Much happens that is also *value-rational* (*wertrational*), such as the traditional, the emotional, and the ethical. The *how* cannot be separated from the *why*. This brings into play the question of meaning—the essence of culture (Berger and Luckmann, 1966; Geertz, 1973). What it *means* to run a company—when fully explored, reveals a mental landscape full of answers to the question *why*?

One final point, from Weber (1920), is the acknowledgement that these ends and means do not hold a monopoly over the shaping of action, as the crucial feature of “interests,” seen as economic self-interest, will always intervene. Although Weber assigned primacy to interests, in determining action, and saw such interests as relevant to both ideal and material issues, he nevertheless acknowledged that “the world views, which were created by ideas, have very often acted as the switches that channeled the dynamics of the interests” (Weber, 1920: 280, cited in Schluchter, 1981: 25). The world views, then, influence the channeling of the flow of action. The *why* and the *how* account for much of the *what*.

The theory of institutions as the basis for economic growth owes much to the work of North in economic history (North, 1990; North, 1994). In this a society’s economy is seen as supported by a scaffolding of order, based on “rules of the game,” and adapted to the evolution of such rules in a coevolutionary process (cf. Lewin and Volberda, 1999; Volberda and Lewin, 2003). In more recent thinking, (North, 2005) has incorporated culture into his schema, and has done so because of two shortcomings he notes in economics: it is not designed to deal with change; and “understanding is a necessary prerequisite missing in the economist’s rush to model economic growth and change” (North, 2005: ix) because as a theory of choice it neglects to deal with the context within which choice occurs. In this view, the uncritical acceptance of the rationality

assumption is “devastating for most of the issues confronting social scientists” (North, 2005: 5) and a major stumbling block to progress. North is further unequivocal in stating that

the immense variation in the performance characteristics of societies makes clear that the cultural component of the scaffolding that human erect is...central to the performance of economies and polities over time. (North, 2005: ix)

In his discussion of this cultural component he sees it as accompanying a genetic component, and a religious heritage that underpins the inference structures of people. There is, in his view, a cultural heritage of cumulative learning transferred through generations (for a recent treatment of which—seen as social axioms—cf. Bond et al., 2004), and the institutionalizing of social life is achieved by the attempts to reduce uncertainty within the constraints of that heritage. The culture explains—in a way that can be communicated—what the world “is,” and the institutions define what people do about it. The great variety of outcomes derives from the manner of this happening: who makes the rules; for whom are they made; what are their objectives? Rational *homo oeconomicus* may not be all that visible in the answers.

For North, the notion of intentionality stems from the fact that human evolution, unlike that in the animal world as seen by Darwin, is heavily influenced by people acting consciously for a purpose. To have intentions is to have deliberated over why to do something, and to have thought about the consequences of the behavior. This is not to say that intentions and outcomes are neatly aligned, as in reality they are in constant tension. It is more simply to say that if you want to know why people act, you should analyze their intentions as they themselves conceive them. Within such conceptions—and perhaps not easily expressed—lie the informal norms that derive from the genetic heritage. An example here is the tendency in *homo sapiens* to behave cooperatively in the interests of survival through concerted action. Equally potent, and traceable to survival instincts, is territoriality, the two primal drives balancing each other.

2.3 Culture and Institutions

The theory of culture developed by Berger and Luckmann (1966) argues that the process of socially constructing reality is reciprocal between people and their surroundings. Three processes occur: *externalization* is when the person goes out to experience the surrounding world and interacts with it; *objectivation* occurs when sense is made of that world via description; *internalization* results when the socially constructed reality is re-appropriated into the consciousness of individuals and becomes their own reality. So, as society is a product of people, people are themselves products of society.

Primary socialization occurs in terms of basic rules of membership of a human group. Secondary socialization occurs as pluralism leads to differentiation of action, and new social spaces emerge with their own internal sets of meanings. In this view, institutions form when habits and routines become fixed. As human conduct comes under the control of the institutions, the predictability of behavior increases, and with it the potential for cooperation.

Behind the routines of the institutions lie ideals and values. This is because the routines are essentially controlling of behavior and as such need to be seen as legitimate. The habits and routines embodied in institutions were intended to serve a purpose, and the purpose remains implicit in the action, the latter being fixed in either rules or roles. In a stable society, overriding ideals about the meaning of behavior keep the whole structure in balance (Sorge, 2005), with the accumulated meanings allowing people to “make sense of” their surroundings.

Theories of culture that focus on the construction of shared meaning (e.g., Geertz, 1973) all pay tribute to the causal significance of such mental structures in accounting for societal behavior, usually acknowledging the reciprocal nature of such determinacy. What remains as a major

challenge in comparative studies of institutions is the clear tracing of the patterns of this determinacy (DiMaggio and Zukin, 1990). Our intention in this paper is to contribute to efforts at such tracing.

2.4 The Study of Rationale among Key Economic Actors

In the business system model proposed by Redding (2005) (Figure 1), the lower set of three boxes was designed to capture the description of “meaning” in a society. This concept is fundamental to the understanding of culture, and reflects the “social construction of reality” perspective of Berger and Luckmann (1966) and the echoing of Weber by Geertz (1973: 5) in saying that “man is an animal suspended in webs of significance that he himself has spun.” This viewpoint leads logically to a science of interpretation in the understanding of the culture effect, and it is just such interpretation that is the basis of the research described in this paper.

*** Insert Figure 1 about here ***

In the Redding model, three major categories are used to capture the essence of culture in a society. In simple terms these are: (1) the pattern of “reasons for” action, under the overall rubric of *rationale*, seen essentially as sets of purposes, intentions, or ends (and thus North’s “intentionality”) and their associated sets of legitimate and appropriate means, (2) the way in which a society makes sense of *identity* and belonging in the lives of individuals, and (3) the way in which a society makes sense of *authority*.

For the purposes of the research reported here we are concentrating just on the first of these three components—rationale—and its role as a reciprocal determinant in shaping institutions. But we acknowledge in full that such focused attention should not conceal the fact of extensive interconnections with the other two major cultural elements shaping meaning. We choose to

concentrate on *rationale* because of the paucity of research addressing the topic, in contrast with a very large literature in cross-cultural studies addressing *identity* through such variables as “collectivism,” and addressing *authority* via other variables describing values surrounding power (e.g., for a review of works using Hofstede’s constructs of individualism/collectivism and power distance, cf. Kirkman, Lowe, and Gibson, 2006; cf. also Trompenaars, 1998; House, Hanges, Javidan, Dorfman, and Gupta, 2004).

Building on the work of Weber as already discussed, rationale encompasses the conceptions about economic action in a society. We leave aside the *formal rationality* carried in mathematics and algebra as a universally available tool (albeit with societally different proclivities to use it). We then concentrate on *substantive rationality*, seeing it as “using criteria to choose courses of action.” Within this category, in order to keep clear the important distinction, in both thought and action, between ends and means, we then separate those two into *value rationality* (ends), and *instrumental rationality* (means). Our empirical work on the ideal shape of the economy is an examination of the perceived ends and preferred means for economic behavior in specific societies.

In the centre of the model is the layer of societal order, the institutions. These are seen graphically by North as society’s scaffolding (2005), the “rules of the game” (1990). They have the function of constraining and channeling action, but they also foster the predictability of behavior and thereby permit longer term deliberation and commitment. They work via both, rules and roles. The Redding model treats these by analyzing them over the three categories that, while not exhaustive of the entire institutional structure, are arguably the ones most necessary to economic life: (1) capital, and especially its sourcing and allocation; (2) human capital, including knowledge, skill, and the organizing of labor markets; and (3) social capital and the workings of

both personal and system trust. The model further incorporates an important role for the state, and thus politics, in shaping and maintaining the institutional layer, as well as the formative impact of key historical events.

We recognize that the process of influence running between the cultural layer of *meaning* and the institutional layer of *order* is not one of simple determinacy, but contains a reciprocal flow of forces and is complex in the patterning of determinacy. It is influenced by external features such as new technology, or price changes, or market structures changing, as well as the diffusion of new paradigms of thinking across national boundaries.

The study of rationale is the study of people's "reasons for" action. Our interest is in knowing how the shaping of the institutional framework for economic order in a society is affected by the culturally determined sets of meaning in the rationale. The enquiry is in company with a number of research initiatives to investigate such fundamental questions. Biggart and Guillén (1999: 726), for instance, discuss firms as expressions of social order "imbued with the patterns of meaning of the larger society in which they find themselves." These different "interpretive schema[s]" are also pointed to by DiMaggio and Zukin (1990) in their analysis of the social organization of economic life, when they advocate three research probes into this territory: How do actors define their interests; how does a society constrain the individuals pursuing those interests selfishly; and how do people coordinate to mobilize their capacity for cooperation, and to what ends?

In our study, we focus on the rationale espoused by senior executives. The potential for firms to influence the shape of the institutional structure of economies is well established in the business literature and in related social sciences (e.g., Hirschman, 1970; Pfeffer and Salancik, 1978; Oliver, 1991; Boddewyn and Brewer, 1994; Lewin et al., 1999; Culpepper, 2001; Hall and

Soskice, 2001; Mares, 2001; Wood, 2001; Van de Ven and Hargrave, 2004; Vogel, 2006; Witt and Lewin, 2007). Within firms, we focus on the rationale of senior executives, for three reasons. First, of all the actors in the arena of business decision-making, senior executives seem to occupy the most crucial role in comparison with other identifiable roles. This is because the decision to allocate resources, and to change the organization—as when strategic commitments are decided upon—usually starts and ends with the management board. Second, and related to this, is the duty of senior executives serving on management boards, in normal circumstances, to represent an achieved consensus across a wide field of constituents and interested parties. Third, and analyzed from the standpoint of the complex adaptive systems theory that underpins our analysis, is the contention that the most appropriate unit of survival in such a system is the business unit (Beinhocker, 2005); that is, the kind of strategic business unit senior executives become responsible for, even if he or she does so across several such units. It is within such units that the processes of design experimentation occur, and become tested against similar competing units, in the search for higher levels of control, predictability, and growth.

3. Data and Method

3.1 Country Selection

In this study, we explore the rationale of senior executives of major firms in two countries, Germany and Japan. These two countries make for a good starting point for a comparative explanation of executive rationale because they are the two most prominent exemplars among advanced industrialized nations of non-liberal market economies (also known as “coordinated market economies,” or CMEs) (cf. Hall and Soskice, 2001; Streeck and Yamamura, 2001; Streeck and Yamamura, 2003).

We choose to focus on CMEs in this paper because an analysis of executive rationale in them is, in our view, more likely to produce important new insights than an exploration of executive rationale in liberal market economies (LMEs), such as the United States. LMEs achieve order in the economy through markets, and especially the price mechanism (Hall and Soskice, 2001). Their institutional structures typically aim to support the ability of markets to function, which suggests a limited role for executive rationale in institutional design beyond a basic consensus in favor of following market forces. By contrast, CMEs establish order through elaborate institutional structures that are created through political processes and thus not necessarily market-conforming (Hall and Soskice, 2001). Consciously or unconsciously, these political processes will be guided by mental models of what the economy should look like (North, 2005). This suggests that actors involved in the shaping of institutions in CMEs, such as senior executives, are likely to hold mental models of the ideal shape of the economy that deviate from market-oriented orthodoxy likely to be dominant in LMEs. In other words, while an analysis of executive rationale in LMEs is unlikely to produce many surprises—the basic logic of markets is well developed in the economics literature—an exploration of executive rationale in CMEs is may reveal important new information about the underlying causes of variety in capitalism.

Qualitative research of the kind undertaken in this paper typically trades off sample size in favor of depth of detail (King, Keohane, and Verba, 1994). Counter to popular perception, single cases can generate important learnings (e.g., Rohlen, 1974; Redding, 1990; Guthrie, 1999). At the same time, comparisons involving two or more cases often afford additional insights (Ragin, 1987; King et al., 1994). In the present case, for instance, studying executive rationale in more than one CME could illustrate not only how senior executives in each country envision the ideal shape of the economy, but also how similar or different these visions are across countries. Conscious also

of article length, we consequently focus on two cases, Germany and Japan. Among the CMEs, these countries stand out as the two largest and arguably most important economies as well as a prominent pairing in academic research on the contrasts between CMEs and LMEs (e.g., Dore, 2000; Streeck and Yamamura, 2001; Yamamura and Streeck, 2003; Lewin and Kim, 2004; Witt, 2006). Such pairing has often been done because of their perceived similarities (e.g., Albert, 1993; Boyer, 1997; Dore, 2000), and this makes the research about their differences more challenging.

3.2 Data Collection

Data collection involved ethnographic interviews (cf. Spradley, 1979) with senior executives of major firms, as used in Redding's (1990) ethnography of ethnic Chinese business leaders in East Asia. 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.

All interviewees were male, which is consistent with the virtual absence of females from top management in Germany and Japan. For example, the German government found for the fourth quarter of 2002 (approximately the time of our interviews) that only one percent of the members of the management boards of Germany's 87 largest public corporations were women. For Japan, a 1998 report from Corporate Women Directors International showed that women held only 0.2% of corporate board seats of 2,396 companies listed on 8 Japanese stock exchanges.

Our definition of "senior executive" varied slightly to allow for the difference in governance structures 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.

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 the median or mean to identify key categories in the executive mindscape.

We obtained data from our samples of executives through in-depth ethnographic

interviews. The interviews were semi-structured in format (cf. Spradley, 1979; 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 report our findings concerning the latter.

In line with precedent (Redding, 1990), 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 has the advantage of deepening the discussing by allowing executives to play off each other's thoughts.

Pairing interviewees has the potential drawback of introducing conformity pressures into the conversation that could induce interviewees to express agreement with the statements of the respective other interviewee even when their views actually differ. We eliminated one prominent source of such conformity pressures, status differentials, by matching the status of paired interviewees, taking into account dimensions such as formal position, size of firm, and eminence in the business community. During the interviews, in line with ethnographic practice, we looked for indications of conformity pressures, such as body language; we found none that would have concerned us. Further evidence allaying concerns about conformity pressures emerged during the analysis and will be discussed in the next section.

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 elements 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 (i.e., statements with meaning related to the research topic) contained in these transcriptions. Given the exploratory ethnographic nature of this study, we did not a priori impose coding categories (labels to classify propositions with shared meaning), but followed established practice in ethnographic content analysis of letting the coding categories emerge (Altheide, 1987; Redding, 1990; Krippendorff, 2004). Overall, we identified about 300 coding categories for the German sample and about 470 categories for the Japanese sample.

In non-technical terms, this means that we did not approach the interviews with a

preconceived list of “buckets” (coding categories) into which to sort the views of the interviewees (as expressed in the propositions), but rather compiled two lists of such “buckets”—one for Germany, one for Japan—from the propositions, adding new “buckets” as we encountered propositions requiring them. For example, the proposition “the spread in income levels in society should be as small as possible” might be assigned to a coding category called “equality of outcomes.” Had we analyzed the interviews on the basis of a preconceived list of coding categories and, for some reason, not included “equality of outcomes,” we would have missed the message contained in the example proposition (and, it turns out, in our interview data). We refined each list of “buckets” (one list for Germany, one for Japan) by going over it repeatedly to combine similar “buckets” where appropriate.

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, introduced in the results section, 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 each having offered at least one proposition that falls in the given category.

In addition, we assigned to each proposition 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 most stringent threshold proposed in the literature of 0.75-0.80 (Popping, 1988; Banerjee, Capozzoli, McSweeney, and Sinha, 1999). 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 threshold.

In analyzing our results, we revisited the question raised in the previous section of possible conformity pressures between paired interviewees and their impact on our results. Our analysis suggests that such pressures, if any, are likely to have been minor and insignificant for our results. First, we find that paired interviewees vary in their expressed views. In numerous instances, only one executive refers to a given category, or the two executives have altogether different views. Second, we recalculated our results under the worst case assumption that each time two executives

interviewed together both made reference to the same category, only one of them really had a view on it, while the other mentioned it only to conform. We find that the categories we identified as most salient still remain the most salient, i.e., none of them would be dropped from the figure. There would only be three additions to the figures—one for Germany and two for Japan—all of them just barely reaching the lower threshold for being counted as core elements in the mental landscapes.

4. Results

4.1 Germany

Figure 2 shows the key elements in the thinking of German senior executives about the appropriate shape of the economy. We organize our discussion of these findings around three large themes: markets and the appropriate role of the state in them; the “social” component of the German notion of the “social market economy;” and the interplay of education, innovation, and innovation and courage.

*** Insert Figure 2 about here ***

Virtually all executives expressed a preference for a market-based economic order in which the state provides a basic regulatory framework but otherwise refrains from intervening in the economy. This view 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 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.

Executives expressed their support of a market-based economic order in a number of ways. Nine interviewees said so directly in statements such as “I would be in favor of a strongly market-oriented economic order.” More commonly, however, support of markets was expressed through rejection of the existing economic realities in Germany, in which the market is seen under threat by the “octopus state that crawls into everything” and stifles the economy with rules and regulations. Consistent with the ordoliberal view, executives suggested that the proper role of the state in the market economy was 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.

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

Executives conveyed a clear sense that they believed the German state was too interventionist. Accordingly, fourteen of the interviewees pushed for liberalization in the sense of a retreat of the state out of economic life—“less state and more free development,” as one interviewee put it. This means not only that the state “concern[s] itself much less with things that are better decided locally and instead concerns itself a bit more with things that only it can solve.”

It also implies a reduction of taxes and an attendant decrease in the size of the state, less bureaucracy, and especially deregulation through “the abolition of hundreds, of thousands of laws that we here have introduced in the past five years [as well as] simplification of laws.” Especially labor markets were seen in need of liberalization and deregulation; as one executive put it,

[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 [with rules]. So we can have more hirings, redundancies must be easier.

Reflected in this view, especially the last sentence, is the notion that the German state had built up “an exaggerated arsenal of protective instruments that only protect the employee but contravene the interests of those who have no employment.” These measures make it very difficult to dismiss employees, discouraging German firms from hiring because they cannot reduce their headcounts easily when needed and thus contributing to high levels of unemployment in the German economy.

This connects to the second large theme, namely, the discussion of the appropriate trade-off between freedom and individual responsibility on the one hand and social protection by the state on the other. This debate 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), which seeks to combine a market economy with a social safety net. 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). In accordance with this view, a majority of executives asked for “more individual responsibility [*Eigenverantwortung*], more freedom.” In this view, individuals should take charge of their own lives and take responsibility for the outcomes of their actions. This is closely related with the “performance principle” (*Leistungsprinzip*), that is, the notion that any gain must be

earned through one's actions.

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). While executives generally affirmed the need for the state to provide social security to the weakest members of society, many seem to believe that the present system has become too generous and expansive. Interviewees' responses suggest a search for a golden mean that reconciles both objectives, freedom and protection. As one executive put it,

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 ... we are here concerned with a performance principle.

And in the words of another executive:

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.

A recurrent word in this context is "*Gleichmacherei*," which translates literally as "making equal" and refers to efforts or the tendency to seek to attain equal outcomes for everyone. While executives were critical of equality of outcomes, a number of executives also 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, as well as a desire to reduce job protection of employees (as discussed earlier) 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. Yet even those executives who regarded unions in general as a good thing took a dim view of German unions today, accusing them of pursuing “class struggle” and expressing regret that one could not “shoot them to the moon.” An important bone of contention in this context was 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.

A third major theme emerged around the constructs of education, innovation, and initiative and courage, the latter also encompassing ideas of entrepreneurship. This topic is consistent with historical experience, in that many major German firms have their origins in the entrepreneurial boom founded on scientific breakthroughs in 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 (Murmann, 2003). In advocating stronger education, more innovation, and more entrepreneurship, German executives are in effect asking for a return of modern German capitalism to its 19th century roots.

With twelve of our interviewees holding doctorate degrees, it is not surprising that education occupies a salient space in their notion of the ideal economy. The education system is

seen as “the key to the success of the economy,” with schools and universities intended not only to convey knowledge, but also to “develop ... [a] feeling for individual responsibility” and to “contribute to the topic of entrepreneurship in a decisive way.” This bright view of the importance of education stands in contrast with the perceived present state of the German education system. Probably reflecting news of the poor showing of German students in international comparisons of educational attainment (OECD, 2003), executives expressed concern that the German education system, once the pride of the nation, was no longer competitive and in need of a major overhaul. No concrete proposals emerged about how to effect this overhaul.

The concern with education is connected to a positive view of innovation in the economy. While Germany used to be a world leader in innovation, there was a general feeling that the German public had become hostile to innovation, and the innovative process, stifled by legal red tape, with the result that “key experts today all emigrate to Harvard, Stanford, or somewhere in Boston.” Linking back to the argument that the education system should inculcate a sense of entrepreneurship, executives also felt that in terms of innovative capacity, “it would be of benefit ... to return to our origins and become as audacious as we have once been.”

In fact, two thirds of the interviewees believed that a lack of courage and initiative was an important shortcoming in the German economy today. Key words in this context included “angst” as well as “insurance thinking,” the latter referring to the German tendency to play safe and seek to cover all the contingencies. One executive described how his own father, who must have been in his eighties, refused to buy new furniture because he wanted to save the money, just in case—even in octogenarians with wealthy children, “the courage for the future is missing.” To some executives, the root cause of this angst lay in the stifling influence of state regulation that “ruins our economy because it does not allow initiative to develop,” which provides a conceptual linkage

back to the topic of liberalization discussed initially.

4.2 Japan

Figure 3 shows the key elements in the thinking of Japanese senior executives about the appropriate shape of the economy. We organize our discussion of these findings around four large themes: the role of the state in the economy; limits on market forces; economic outcomes; and education and its separation, in executives' minds, from technology.

*** Include Figure 3 about here ***

Executives expressed support of state leadership in the economy while deploring the inability of the Japanese state to do so at the present time. The notion of state leadership is consistent with modern Japanese economic history, and especially the “developmental state” period between the end of World War II and the late 1970s. A state is considered “developmental” if it seeks to accelerate economic development by intervening actively in the economy, typically through industrial policy (Johnson, 1982). Postwar Japan was a paradigmatic example of this approach. 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).

While the days of the developmental state are over, the general notion that the state should provide direction and leadership for the economy has survived. Noting that “the problem holding down Japan is basically a political problem rather than an economic one” because “the political leadership is incompetent,” executives concluded that “the country foremost needs top-down

leadership now.” The absence of leadership in Japanese politics was seen as a “terrible problem.” This dire view is particularly remarkable considering that at the time of our interviews, the country was under the leadership of Junichiro Koizumi, who is generally seen as one of postwar Japan’s stronger and effective prime ministers. 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 perceived inability of the Japanese state to provide leadership gives rise to general discontentment with anything government-related—the state, politicians, and the bureaucracy—and an attendant desire for political reform along virtually all major organizational dimensions. In terms of size, executives felt that reducing the number of bureaucrats would be appropriate. In terms of structure, executives advocated simplification, arguing that “the government [is] too stymied by separate organizations, not being able to get together and change.” In terms of policy-making, executives identified a need to clip the wings of the bureaucracy, whose status-quo orientation is taken to prevent change in the economy. And in terms of government output, executives suggested that politicians and especially bureaucrats were out of touch with reality. As one executive put it,

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.

Executives attributed this perceived ignorance in part to reduced information exchange. For instance, one executive complained that in the light of strict limits on company hospitality for civil servants introduced in the late 1990s, “because one does not want to get arrested, one cannot even have a meal with the bureaucrats.” This is a significant concern because in Japanese society, meals and especially drinks provide the best setting for open information exchange (Witt, 2006).

A second theme centers on the notion of limited market forces. Executives showed only

lukewarm support of free market competition, underscoring that “it is necessary to understand that there are also limits to the market economy.” This notion that competition needs limits—and indeed, 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 compete too fiercely (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 destructive competition (“overcompetition”), has helped form cartels, and has at times punished deviants disturbing what the bureaucracy considered orderly competition (Upham, 1991; Tilton, 1996).

The unfavorable view of unbridled competition is also visible in executives’ opinions about the need to increase flexibility in labor and wage systems. Only few executives raised this topic, and those who did showed on average fairly low positive affect for the topic. To these executives, the difficulty of workforce reductions and current wage levels meant a disadvantage in international competition. While wage reductions in hard times are common in Japanese firms and thus uncontroversial, the notion of making redundancies easier is remarkable because it suggests that international competition is putting pressure on a central feature of the postwar Japanese business system, lifetime employment. Since executives still regard the well-being of their employees as a key component of the *raison d’être* of their firms (as we will report elsewhere), it is not surprising that executives would view competition as requiring limits.

This belief in limits to competition and the historical role of the state in providing them is reflected in executives’ views about deregulation and liberalization. In general, executives tended

to argue that “deregulation is necessary” because “the various regulations, social regulations, they are all over-spec.” At the same time, however, executives cast a negative light on the idea of liberalization, arguing that “it is extremely dangerous if you fully liberalize.” One executive remarked that he supported “not liberalization, but deregulation to some extent.” Given that the definitions of both terms in the Oxford English Dictionary are virtually identical, this would seem contradictory to Western minds. The contradiction is resolved by the realization that the Japanese meanings of the two terms differ from the English ones. The expression 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. Consistent also with the desire for the state to play a leading role in the economy, the visible hand of the state imposing order is preferred to the invisible hand of the market.

A third theme executives brought up pertains to the question of economic outcomes and their determinants. Executives expressed the view that Japan was “too much of an equal society,” a society with “bad equality” (“*aku byoudou*”). Not only do executives believe that the distribution of wealth is too equal, but also that the implied emphasis on “fostering the middle class” was one reason of why “there is no leader coming out.” This reaction against equality of outcomes is likely to relate 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 a firm belonging to one of the major conglomerates (*zaibatsu*) 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).

At the same time, one must not mistake executives' comments against equality of outcomes as an unqualified endorsement of inequality. Executives tended to be very negative about economic inequality and pay differentials in the United States, and the very term "bad equality" suggests that there is also a "good equality." Rather, executives called for a moderate increase in variation through a system that links rewards more strongly to individual performance. For most of the time since the end of World War II, this linkage was absent or very weak, leading to a state of "strange equality [in which] though one's work differs, [outcomes] are equal all the time," with "people who have no ability get[ting] promoted because they have seniority."

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, fostered by the American occupation following the war as an important democratic force, are seen as one of the drivers of this development. Apart from this link with "bad equality," executives generally perceive unions as respectable and necessary in the Japanese economy. Executives tend to view them as "one wing of management" who "study more about management than we [managers] do." Accordingly, no interviewee identified unions as an obstacle to necessary reforms inside firms.

A final major theme revolves around education and technology. Executives tended to consider education important, which is consistent with the Confucian emphasis on education embedded in Japanese society. This influence is visible in elements throughout the system, such as the stress 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. While executives generally maintained that "the educational level is high," they also identified a number of areas

requiring improvements, including 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, a topic raised typically in the context of executives' describing their own achievements or those of other business leaders they consider admirable.

A final salient element in executives' thinking about the ideal economy is technology. Its affect is more positive than for any other element of the mental landscape, with executives maintaining that "technology is a terribly important thing for a good economy" and that Japan was blessed with "really good advanced ... technology." Remarkable is the absence of a linkage with education. This is consistent with the tendency of Japanese firms to develop technology in-house, which is related to 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 et al., 1999).

Present, by contrast, is an expectation of state leadership in firm R&D on the grounds that "when a firm develops new technology, it benefits the country." Suitable measures are taken to include "giving tax exemptions and ... putting up a budget." 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), which has partially survived to the present day in the context of state-sponsored R&D consortia (Sakakibara, 1997).

4.3 Comparison of German and Japanese Results with Each Other

As mentioned in our discussion on case selection, Germany and Japan are often seen to be similar in structure (e.g., Albert, 1993; Boyer, 1997; Dore, 2000). Yet a direct comparison of the results for the two countries suggests more differences than similarities in terms of executive rationale. Similarities are evident in views about equality of outcomes and the performance principle as well as about the importance of education in general, though there are important differences in the details. Dissimilarities are salient especially in thinking about the state and markets as well as about unions. In this section, we elaborate on these points.

Executives in both countries expressed dissatisfaction with the level of equality in economic outcomes and generally supported a stronger linkage of outcomes to individual performance. Both constructs had similar salience in both countries, with negative affect for equality of outcomes and positive affect for the performance principle. In both cases, executives saw a connection between equal outcomes and union influence in the economy.

Important differences emerge, however. In the German context, the discussion of equal outcomes was related to executives' perceptions of the ill effects of state intervention in the economy through the social security system—the “social” in the ideal of the “social market economy”—and the ideas of individual responsibility and the performance principle. By contrast, in the Japanese interviews, executives linked this topic to equality in society in general as well as the employment system. One interpretation is that this is a reflection of the different ways in which the two societies deal with the problem of surplus labor. While Germany uses the social security system to support its large numbers of unemployed, the Japanese approach has tended to be to keep as many people as possible employed, with annual promotions and raises (within limits). Executives in both countries may thus be responding to essentially the same

issue—economic rewards being given to individuals whom they perceive as not really contributing to the economy—though in the context of the way the respective business systems have chosen to provide a social safety net. Accordingly, state-provided social security is not a salient element in the mental landscape of Japanese executives. However, as we will propose in the discussion section, this difference could also be related to variation in the ends being served by higher inequality in society.

A second similarity is visible in the appreciation of education. Salience and positive affect is similar for both countries. What differs again is the context of the discussion. In the German case, executives asked for major reforms, emphasizing connections with innovation and the cluster of constructs around individual responsibility, and thus the role of education for entrepreneurship and technological progress. In the Japanese case, the linkage with technology and innovation is, as already discussed, absent. Japanese executives seemed relatively content with the state of Japanese education, despite a series of suggestions for improvement. Unlike in the German case, Japanese executives saw a linkage between education and internationalization, hinging on the hope for improvements in English-language training.

A first key difference is visible in conceptions of the role of the state and the discussions around deregulation and liberalization. German executives essentially ask for a retreat of the state from the economy to free up market forces, though they envision a role of the state in providing a regulatory framework as well as a social safety net. By contrast, Japanese executives want the Japanese state to reform itself so it can play a sensible leadership role in the economy. Unlike in the German case, the idea of markets is not in the picture, and the relatively low positive affect for competition suggests that Japanese executives eye it with some suspicion. Similarly, German executives are considerably more positive about flexibility and liberalization in the labor market

than their Japanese counterparts, with the latter describing themselves as pushed into it by international competition rather than by conviction.

Noteworthy in the context of the state is the German support of freedom as an ideal and—with some misgivings about flaws in its present shape—democracy, both of which are absent in the Japanese case. We hasten to add that this latter point does not mean that the Japanese executives oppose freedom and democracy; such views, if shared by a substantial number of executives, would have appeared as elements with negative effect in Figure 3. It is, however, indicative of differences in thinking about the state and its relationship with the people. German executives espouse an ideal of liberal democracy, centered on individual freedom and citizen control of the state. In the more collectivist context of Japan, by contrast, there is less focus on individuals and their freedom, and executives' asking for state leadership is at odds with the notion of citizen control of the state.

Views about unions are strikingly different. German executives tend to be very negative about German unions as they present themselves today, and barely neutral about the abstract idea of unions as representatives of the labor interests. Executives also see them as linked to numerous evils, such as equality of outcomes and especially labor market regulations. By contrast, Japanese executives view unions as useful partners in management. This difference is likely to be in part linked to union organization principles, with industry unions in Germany and company unions in Japan (Whitley, 1999). The latter organization principle is relatively more conducive to an alignment of interests between unions and their companies, especially when unions are integrated in the decision-making processes of the company (Redding and Witt, 2007).¹

¹ South Korea provides a good example of how top-down, exclusive decision-making contributes to belligerence in company unions.

4.4 Comparison with the United States

In our discussion of case selection, we made a distinction between liberal market economies (LMEs), such as the United States, and non-liberal/coordinated market economies (CMEs), such as Germany and Japan. Since no hard facts were previously known about the underlying differences in executive rationale about the shape of the economy, we made the conjecture that just as the institutional structures of CMEs deviate from those of market-based LMEs, the thinking of senior executives in CMEs was likely to vary from LME-style economic logic. To examine the extent to which this variation is actually visible in the data, we briefly compare the views of German and Japanese executives about the ideal economy with the institutional structure of the economy coming closest to the ideal of the LME, that of the United States.

Liberal market economies such as the United States tend to emphasize the free interplay of market forces within a clear regulatory framework provided by the state (Whitley, 1999; Dore, 2000; Hall and Soskice, 2001; Redding, 2005; Redding and Witt, 2007). The thinking of German executives goes in this general direction, with an emphasis on freer markets with less state intervention. Unclear is how far executives would want these reforms to go. In addition, as we have seen, these views are also consistent with a return to the German model of the 1950s and 1960s. Indeed, German executives tended to cast their views about liberalization and the state as a return to the German model as it should be, rather than in the context of copying the United States. By contrast, the thinking of Japanese executives about markets and the role of the state in them is inconsistent with the US model.

The generally favorable views in both countries of more variety in economic outcomes and a stronger application of the performance principle seems at first consistent with realities in the United States, such as pay differentials within firms (Albert, 1993; Dore, 2000) and income

inequality in the overall economy (Rueda and Pontusson, 2000; OECD, 2007). However, executives in both Germany and Japan explicitly referred to conditions in the United States as undesirable. For example, German executives saw the US system as one of “early/primitive capitalism” and pointed out that it was impossible in Germany “to turn the wheel of history back that far.” Japanese executives were less blunt, but argued that US-style inequality meant instability and was thus undesirable. So at least by intent, executives in both countries would seem to prefer more equality in outcomes, and thus less of a role of personal performance, than they perceive to be present in the United States. As discussed before, in both countries, less equality and more performance orientation would also be consistent with patterns in their own past.

In terms of the role of unions in the economy, the views of German executives may be fairly aligned with US realities, while Japanese views differ considerably. The United States has generally been inhospitable to the union movement (Whitley, 1999; Hall and Soskice, 2001). German executives tend to be fairly unhappy with German unions as they are today and would not mind seeing them weakened. While this goal may be consistent with a preference for convergence with the US system in this area, it is highly unlikely that the German business community will succeed in attaining it, or even decide to make a major push for it. The societal coordinated nature of the German political economy means that the unions are party to decision-making about institutional change (Witt and Lewin, 2007). Paired with prevailing norms of decision-making by consensus, this permits unions to block attempts at changing institutions to their disadvantage (Witt and Lewin, 2007). In the Japanese case, with executives viewing unions as a useful partner in managing the firm, the business community is unlikely to seek a radical change in the nature of the extant union system.

A last point of comparison is the education system and its linkage with innovation and entrepreneurship, a theme that emerged in the German context, but was absent for Japan. This pattern of connecting education, especially at the university level, with innovation and new ventures is consistent with practice in the United States, especially around Silicon Valley and the Boston area (Saxenian, 1994; Breschi and Malerba, 2005). Yet in the German case, it is also in line with past experience, as discussed, and the wish to strengthen the pattern may be indicative of the desire to return to earlier roots rather than to converge across systems. To complicate matters further, one could even argue that present US practice is modeled on earlier German practice, given the influence of German academia on the development of academe in the United States—for instance, through large numbers of academics fleeing to the United States during the Third Reich—as well as the role of early German entrepreneurs in drawing on cutting-edge university research (Murmann, 2003).

5. Discussion and Conclusion

5.1 Interpretation in Terms of Ends and Means

As explained in the theory section, the focus of this paper is on substantive rationality, which comprises value rationality (ends) and instrumental rationality (means). While our interviewees did not express their thinking in these terms, it is possible to interpret executives' views so as to arrive at a distinction between ends and means that is consistent with the underlying theory. Tables 1 and 2 show the results of our efforts at such interpretation. We introduce a further distinction between primary and secondary means, with the former being of a fundamental kind, such as an overall principle for action, and the latter being of a more grounded and actionable kind, such as concrete steps to be taken (cf. Redding, 2005). The various entries in the table are sorted to

align, to the extent possible, ends with associated primary and secondary means. Because of the complexity of the linkages between the various ends and means, as Figures 2 and 3 illustrate, the alignment expressible in table form is by necessity imperfect.

*** Insert Tables 1+2 about here ***

The interpretation process involved minor relabeling of some categories as well as the addition of further categories that executives did not explicitly raise, but which we see as implied in their elaborations. For example, German executives did not refer to a knowledge-led economy, but their treatment of education and its linkages to private initiative, entrepreneurship, and innovation is suggestive of a desire to build the economy around new knowledge. Similarly, Japanese executives did not expressly ask for hierarchy in society, but the combination of their elaborations on Japanese society being too equal in general and leadership being desirable but lacking because of this equality in society seems consistent with an overall desire of vertical differentiation, and thus hierarchy, in society. Our interpretations are by nature subjective, and while we consider the labels and distinctions included in the table to be accurate and consistent with executives' thinking on the basis of our immersion in the interview materials, some readers may well arrive at different categorizations and labels.

We will not take the reader through the tables step by step, as doing so would involve much duplication of the discussion already presented in the results section. However, one difference between the two tables requires further explanation. Table 1 shows the performance principle as a primary means, and acceptance of larger inequality in outcomes as a secondary means for Germany. In Table 2, for Japan, this is reversed, with larger inequalities in outcomes as a primary means, and the performance principle, as a secondary means. This reversal is due to variation in the ends these means serve. In the German context, individual responsibility is established, among

others, by the general principle of linking outcomes to performance. Higher inequality is seen as an attendant effect that needs to be accommodated. Conversely, in the Japanese case, with hierarchy as the end, the widening of inequality becomes a primary means. One concrete tool of accomplishing such widening would be the strengthening of the performance principle within firms.

5.2 Implications for Research on IB and Variations in National Business Systems

In this paper, we have provided rare primary empirical evidence speaking to the contention of a large body of literature, as reviewed in the introduction and theory sections, that institutional variations across nations are related to differences in underlying thought patterns. Specifically, we have illustrated salient differences in the ways in which German and Japanese executives think about the ideal shape of the economy, both in terms of ends and means. At least in terms of executive rationale, the similarities between Germany and Japan seem to be smaller than parts of the literature suggest (e.g., Albert, 1993; Boyer, 1997; Dore, 2000).

Our findings are consistent with the notion that institutional variations across nations reflect nationally contingent conceptions of ends and means held by business leaders and possibly other economic actors. This 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—such as competitive strategies—in response to objectively identical situations. International competition may thus in part be shaped by locally contingent notions of firm objectives and appropriate tools of attaining them. Taking these notions into consideration may help increase explanatory leverage in IB research. Such research would also be likely to make a direct contribution to the larger theoretical issues we have laid out in the introduction and theory

parts of this paper, but possibly also to our understanding of other theoretical issues such as the social construction of concepts such as shareholder value. A first step toward exploring these issues in details would involve further qualitative studies similar to that presented in this paper to explore the existing variations in the meaning of business and the economy.

It is beyond the scope of this paper to complement our demonstration of the presence of variations in thinking with conclusive evidence that these variations have subsequently informed the evolutionary trajectories of the two economies. Such influence is subject to multiple causalities, path dependence, institutional interdependencies, and the complex interplay of a large number of interest groups (Redding, 2005; Witt and Lewin, 2007). Given recent policy trends in both countries, however, such influence seems at least plausible, and thus a potentially rewarding avenue for further research. In Germany, governments under chancellors Schröder and Merkel have initiated institutional changes that are generally 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 and were pushed through against popular dissent, which contributed to the electoral defeat of Schröder's government in the 2005 federal elections. In Japan, changes have likewise been largely consistent with executives' views. The Koizumi administration initiated reforms in the political and bureaucratic systems. Changes in tax law under Koizumi are seen as a contributor to recent increases in inequality in Japan, against which the Japanese public has reacted strongly. The government has further introduced educational reforms, aiming, among others, to introduce more flexibility and room for creativity in the education system. While these developments are overall consistent with the view that

executive rationale matters in the shaping of the institutional structure of the economy, further in-depth research will be needed to establish more conclusively what role the business community actually played in bringing about these changes.

Assuming the existence of a connection between executive rationale and institutional changes over time, our results may also contribute new insights on process and possible outcomes to the debate about convergence or hybridization with, or divergence from, the LME model embodied by the United States² (e.g., Kerr et al., 1960; Kerr, 1983; Pieterse, 1994; Djelic, 1998; Dore, 2000; Thelen, 2001; Aguilera and Jackson, 2003; Vogel, 2003). Our comparison in section 4.4 suggests that overall, the thinking of Japanese executives about the ideal economy has little in common with present US practices. This would seem to speak against the likelihood that much momentum for more than superficial convergence is present in the Japanese business community. Hybridization may occur in this context, as it has in virtually all areas of Japanese life at least since the opening of Japan to the West in 1868 (Hirschmeier and Yui, 1981; Gordon, 2002), though executives gave no specific clues as to the specific areas in which this may happen.

Interpretation of the German case is considerably more difficult. The thinking of German executives may be consistent with a possible movement toward greater institutional similarity between the German and US business systems. As in the Japanese case, hybridization of German and US practice may occur, as it has in contexts such as management (Guillén, 1994) at least since the 19th century; as in the Japanese case, our interviewees did not identify any specific areas for this to occur. Yet executives' attempts at distancing their ideas from US practice suggest that even full translation of their views into institutional practice may merely mark a one-off move

² We do not include in this discussion the construct of “crossvergence” (Ralston et al., 1993; Ralston et al., 1997) in this discussion because we share the concern expressed by Witt (2007) that the definition of crossvergence is so encompassing that virtually any outcome can qualify as crossvergence.

producing greater similarity that would not be followed by a further push for convergence. To complicate matters further, German executive thinking is consistent not only with greater similarity with the United States, but also with past German practice; that is, what may look like partial convergence could equally be seen as a regression to the German model as it used to be.

From a theoretical perspective, this raises the question of what can be called (partial) convergence. While the outcome may look like convergence, the underlying mechanism driving developments would be considerably different from that envisioned in the convergence literature, which tends to emphasize normative and economic pressures. This ambiguity underlines the need for research on the theme of convergence to examine not only outcomes, but also the underlying determinants of the evolutionary trajectories of different economies, and especially the realm of meaning, and thus culture.

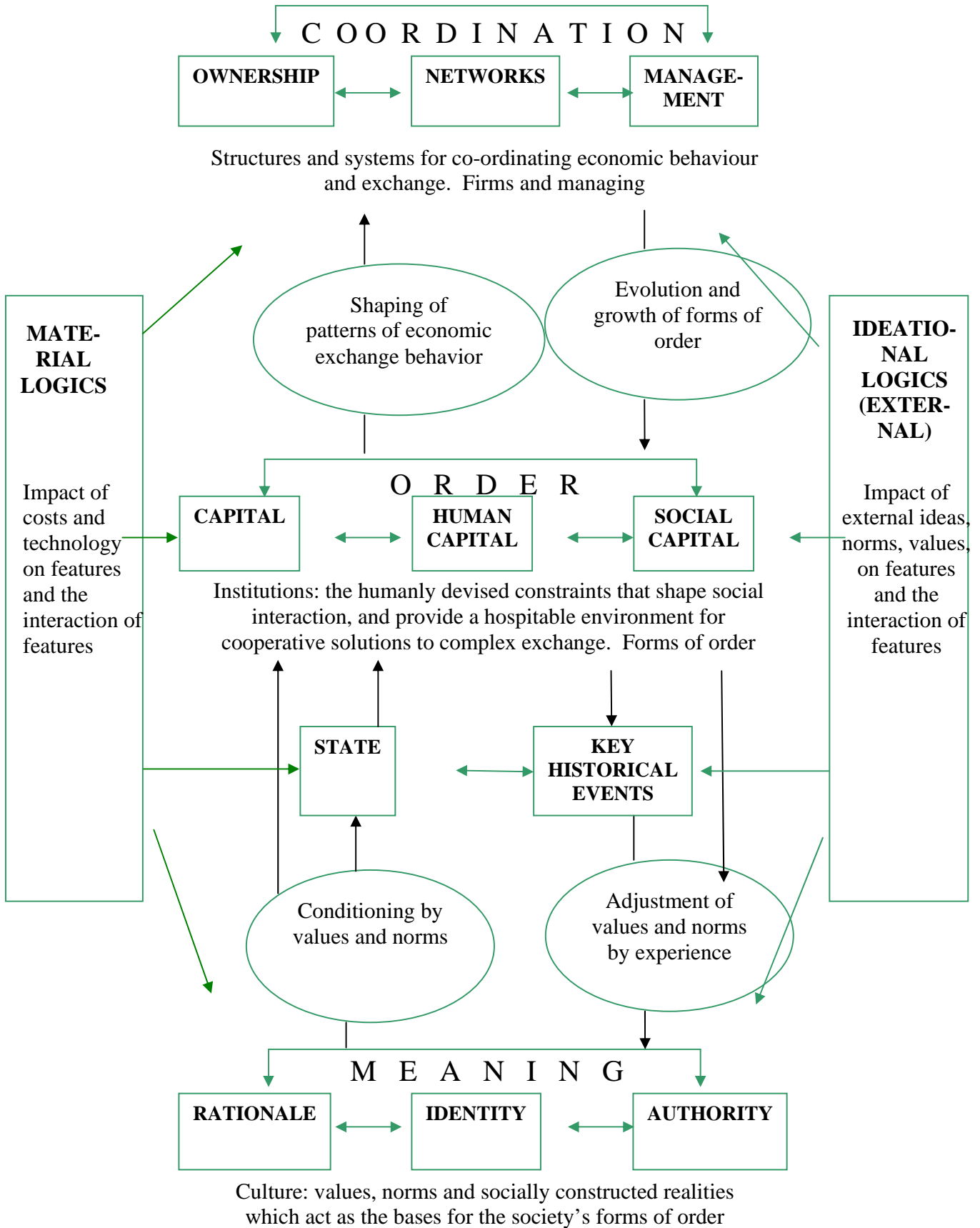


Figure 1. Business System Model, Following Redding (2005).

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

Figure 2. Mental Landscape of the Ideal Shape of the Economy, German Executives. Each circle represents a salient category in the thinking of the executives. Circle size is proportional to the number of executives referring to the respective category, and the brighter the color of the circle, the more positive the affect expressed for the respective category. The numbers in the circles show the respective number of executives referring to the category and the value of the affect.

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

Figure 3. Mental Landscape of the Ideal Shape of the Economy, Japanese Executives. Each circle represents a salient category in the thinking of the executives. Circle size is proportional to the number of executives referring to the respective category, and the brighter the color of the circle, the more positive the affect expressed for the respective category. The numbers in the circles show the respective number of executives referring to the category and the value of the affect.

Table 1. Ends, Primary Means, and Secondary Means in German Executive Rationale

Germany		
Ends	Primary Means	Secondary Means
rational efficiency of market competition	regulatory state	liberalization
		deregulation
	reduction of union influence	tax reform
		labor market reforms
communitarian support of the weak	social market economy	elimination of codetermination
		state social security
individual responsibility	performance principle	less social security than today
		acceptance of larger inequality in outcomes (though less than in the US)
freedom	subsidiarity (local decision-making)	
democracy		political party reforms
state non-interventionist, but more capable of action	majority principle (rather than consensus)	smaller state
knowledge-led economy	education	educational reforms
	innovation	
	initiative and courage	entrepreneurship

Table 2. Ends, Primary Means, and Secondary Means in Japanese Executive Rationale

Japan		
Ends	Primary Means	Secondary Means
collaboratively developed society with state providing direction	political and structural reform	smaller and simpler state
		bureaucratic reforms
	societal coordination	communications state-private sector
		cooperation with unions
controlled markets	limited competition	deregulation without liberalization
hierarchy	larger inequalities in outcomes (though less than in the US)	performance principle (in firms)
		some weakening of lifetime employment and seniority principle
skills-intensive economy	technology	
	education	education reform on several dimensions
internationalization		stronger English-language training

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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