Communitarianism Meets Strategic Management:
What Group-Think Can Tell Us About Competing in the Real World

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Introduction

Lodge [1987] asserts that the manner in which countries organize business on both the macro (economic) and micro (organizational)levels reflects the values of the culture. He defines ideology as the link between cultural values and practice. Ideology becomes a means by which society legitimatize itself. Lodge identifies two ideal-type ideologies: communitarianism and individualism. Periodically, the "relevant context" (situation) of society shifts such that one ideology is espoused, yet another is practiced.

The strategic management discipline finds itself in a legitimacy dilemma as economics-based models and constructs seem able to explain fewer and fewer of the questions being asked [Hamel and Prahalad, 1996]. This paper shows how constructs and models of strategic management are an artifact of an economic system predicated on individualist ideology, and that these models must be augmented to reflect communitarian ideology if the discipline is to move toward a cross-cultural, global model of strategic management and competitive advantage.

The following chart describes how important dimensions of society and business differ between individualistic and communitarian cultures.

VALUE DIMENSION	INDIVIDUALISM	COMMUNITARIANISM
Survival	Primarily through competition	Primarily through cooperation
Justice	Equality of opportunity	equality of result
Resource allocation	Invisible hand of the market	Active state oversight
Doctrine of the state.	"What's good for the individual is best for the state."	"What's good for the state is best for its individuals"
strategy formulation/ implementation	Primary assumptions to all approaches are (1) anti-trust, (1) long-term r the firm. (1) firm with best Formulation takes place within the firm.	Primary assumptions are (1) strategy must be harmonized with other firms and government. (2) Firm with best connections to government/ business will win. (3)Market share better reflects values than profit maximization. Formulation involves outside stakeholders

loosely adapted from Lodge (1987)

The effects of communitarian ideology are being increasingly felt in the global business environment as (1) communitarian (typically Eastern) nations rapidly develop and capture a larger share of global GNP, and (2)Western firms competing in communitarian countries are confronted with a new set of criteria other than a "price-value relationship" for winning business. Gomes-Casseres (1994) argues that global competition is increasingly group vs. group instead of company vs. company.

Moreover, the paper argues that in many competitive arenas, converging price-value parity renders the economic bases for understanding competitive advantage subordinate to non-market, "cooperative advantage" bases.

This paper is organized as follows: first, evidence is presented that suggests that the economic literature which has influenced the strategic management discipline is substantially an artifact of Western individualism. Next, since the strategy discipline is primarily concerned with overall firm performance, what constitutes appropriate performance measures in communitarian and individualistic societies will be contrasted. Finally, popular strategic management constructs and models are examined in light of communitarian values.

If Revisionism be True...

A school of economics disparagingly called "revisionism" has emerged, postulating that the economies of Japan, Singapore, Taiwan, Korea, China, and other rapidly developing countries have flourished *because* of economic practices that are contrary to free-market capitalism. Through such practices as government manipulation of markets, industry targeting, and unenforced anti-trust laws, these countries have developed much more rapidly than they would have had they played by laissez-faire "rules" [Johnson 1995, Stopford and Strange 1991,Prestwitz et al. 1991, Kuttner 1991, Wade 1990, Amsden 1989, Alam 1989, Vogel 1987, Scott 1984, Hosumi and Okumura 1982].

It is beyond the scope of this paper to address normative questions about which system is "better." Such questions are better left for the economists and the social theorists. Here, the received models of strategic management are examined in light of the possibility that the rules of the game may have changed - at least in some competitive arenas.

SO WHAT'S DIFFERENT ABOUT THE COMMUNITARIAN APROACH TO ECONOMICS?

The economic structure of a communitarian society on both the macro and micro levels is best understood by examining the relative importance of institutions. Figure 1 below depicts a series of social "institutions" in increasing order of scope.

insert figure 1 here

In the center is the individual, on the outside is the state. For Americans in particular, representing the quintessential individualist society, the outer rings exist to serve the inner rings, with the world revolving around the individual. The government and the economic structure is legitimized by the effect they have on the individual. In communitarian cultures, the inner rings exist to serve the outer rings. Hence, business and government exist to make a great state, and institutions and behaviors are legitimized by how they serve the state. Lenway and Murtha (1994) tacitly recognize this difference in their notion of the “state as strategist.”

The implications of this simple diagram are profound with regard to economics. If the welfare of the state is the highest good, then economic efficiency may be subordinated to various social objectives. For Western capitalism, the economic-maximizing individual rules, and their state benefits incidentally. In communitarian cultures, national economic well-being rules, and companies and individuals benefit incidentally. Boling [1990] confirms, "The [Japanese] bureaucracy is presumed to be impartial and immune to special pleading, and therefore able to correctly pursue the best interests of the whole according to the supreme principles of justice and public interests." Thus, the missions of the neoclassical firm and the revisionist firm are fundamentally different. One promotes individual economic welfare explicitly; the other promotes societal welfare explicitly.

The following five points highlights major differences between communitarian economic structure and Western capitalism. Variants of these five practices can be found in China, Korea, Taiwan, Singapore, Indonesia, Thailand [Wade 1991, Alam 1989, Vogel 1987] and elsewhere.

(1) *the state effectively substitutes its own agenda in*

place of "utility maximization" on both the firm and individual levels (Marshall 1967, Boling 1990)

(2) *Allocation of capital is strongly influenced by industrial policy or family business obligations* (McCraw 1992, Weidenbaum 1996). Notes Shinyasu (1992) regarding the process of the allocation of capital, "The Postwar Japanese [economy] was something closer to a planned economy, not true capitalism, but capitalism under strict control." Weidenbaum (1996) documents the responsibility of Chinese businesses to finance other businesses within their extended family net. The economics underlying strategic management do not account for the allocation of capital based on anything beyond firm profit maximization.

(3) *Industry structure is subject to heavy bureaucratic control and market tampering. (*Haruo 1992, Fingleton 1995). Unified strategies toward dealing with new entrants, pricing, and foreign competition are devised, thereby reducing competition. The economics that underlie Western strategy constructs relating to industry structure do not provide for the wholesale tampering of market mechanisms through the encouragement of trust practices such as cartels, keiretsus, chaebols (Korea), bid-rigging, and the like.

(4) *Domestic markets are heavily restricted to foreign competitors or are highly regulated.* Penetrating these market may be more a function of having the right connections, or being willing to bribe than having the best product at the best price.

(Fingleton 1995, Johnson 1995)

(1) *Outside shareholders are low-priority stakeholders and have little or no influence on management.* "The company selects shareholders it wants to have acquire its shares" (Elliot 1991). To illustrate, corporate raider T. Boone Pickens was denied a seat on the board of a Japanese auto parts company despite owning 26 percent of it [New York Times 1990]. Hence, "shareholder value", the ultimate economic measure of firm performance implied by strategic management research and models may be invalid in communitarian systems. According to Johnson [1995], market share may be a more appropriate measure, and possibly mere firm survival as the firm continues to survive in service to its larger communities.

Since strategic management is concerned with overall firm performance, we now turn to the issue of how different systems esteem different performance outcomes.

Performance

The strategic management discipline has historically focused on overall firm performance as the measure of ultimate interest. However, Chakravarthy [1986] shows how traditional measures of performance (ROE, ROA, ROS, ROTC) failed to identify excellent companies because such measures are unable to evaluate the transformational capabilities of the firm and neglect the interests of stakeholders other than stockholders. "A necessary condition for excellence is the continued cooperation of the firm's multiple stakeholders (p.448)." He distinguishes between adaptive specialization where a firm seeks a good fit with its environment, and adaptive generalization whereby a firm will be positioned to adjust to unforeseen and unknown environmental changes. Traditional measures of performance can evaluate a firm's success at adaptive specialization, but do not assess the firm's capacity for adaptive generalization. In communitarian societies, where these stockholders are of minimal concern to management, traditional measures become even less useful.

Chakravarthy proposes an elaborate performance function that emphasized a firm's ability to generate and effectively use "slack" resources. He argues that excellent firms use the resources to build bridges to an unknown future by building bridges with stakeholders and by spending on internal competencies. Both of these activities may be at the expense of stockholders.

Firms of communitarian cultures view the state, keiretsu, chaebol, municipal bureaucrats, family connections and the like as those structures which will assist them in adaptive generalization. Resources may be spent maintaining these relationships beyond what economic efficiency would require. Hence, individual companies may be expected to bail out a faltering bank in their keiretsu at their own expense. But the keiretsu will also provide "slack" to its manufacturers who need time to adapt to changes that caught them unawares.

Given such economic relationships, market share is the performance measure of choice for communitarian companies [Fingleton 1995, Johnson 1995]. Whether the market is defined globally or locally, market share begets influence with both customers and suppliers. Moreover, market share is the vehicle through which jobs are created, foreign exchange is earned and other developmental objectives are met - all “macro” considerations which would not likely influence managers of individualistic cultures. While Buzzell, Gale, and Sultan [1975] have established a general link between market share and profitability, firms of communitarian societies are less likely to manage the fruits of high market share in a manner that shows up in profitability ratios, preferring instead to maintain organizational “slack” sufficient to support their adaptive generalization.

Evaluating strategies in terms of effect on shareholder value and traditional measures of firm efficiency only is to set the strategy question in the wrong framework in a marketplace that is increasingly turbulent and discontinuous. Moreover, managerial prescriptions designed to maximized shareholder value or firm efficiency might ignore the shared values of the firm, work against the stakeholder network upon which the firm depends for survival, or leave a firm poorly positioned to accommodate discontinuous change.

Industry structure

The determinants of industry structure differ considerably between communitarian and individualistic societies. While Porter [1980] specifies important features of industry structure, the significance of non-market influences such as collusion, interlocking directorates, bureaucratic management of industry structure, and the like receive little attention.

Porter [1990], concedes that the governmental roll *should* be as "catalyst and challenger" toward stimulating competitive rivalry. He commends Japanese bureaucracy as understanding government's roll better than any other country's. Ironically, Japan has managed competition in a way that only selectively encourages competition, and quite often discourages it.

Austin [1990 p.109], in writing how Porter's Five Force model relates to developing economies, states, "It is necessary to elevate another element, government actions, to the status of a 'megaforce'. [G]overnment's influence over industry structure and dynamics is so pervasive and powerful that it constitutes a sixth competitive force... ." Austin views government as the critical determinant of industry structure - a far more aggressive involvement than Porter would prefer. Austin offers two broad categories of governmental agenda in mediating interfirm rivalry: import substitution or export orientation. Those who would disrupt national policy objectives or industry structure are not allowed to compete regardless of the price-value relationship they might be able to offer potential customers. Figure 2 below captures the way in which this governmental influence and communitarian institutions of cooperation moderates interfirm rivalry both directly and indirectly.

Insert figure 2 here

The government bureaucracy is the center of influence on interfirm rivalry. It may influence interfirm rivalry directly through price controls, market share controls, and other industry specific regulations that promote the development plan (line 1). The price supports for Japanese rice growers, coupled with high tariffs on imported rice, shape the competition in the Japanese rice industry by decreasing interfirm rivalry.

Furthermore, the government controls the amount of business trust it will permit. Most communitarian cultures allow high levels of cooperation and collusion in business (lines 2,3). Mechanisms for encouraging trust practices *within* an industry include trade associations, bid-rigging, price fixing and other "anti-competitive practices" [Johnson 1995]. Mechanisms for encouraging cross-industry trust, up and down the value chain, include chaebols, keiretsus, and the more informal notion of guanxi in China. The power of buyers is attenuated by intra-industry cooperation (trust) (line 4), while the power of suppliers is mitigated by the relationship that a company has with other companies in its value chain (line 5). These relationships are based on extensive cross-shareholding and interlocking directorates. Such practices are commonly forbidden by anti-trust laws in individualistic cultures. Lines 6 and 8 show buyers and suppliers influencing interfirm rivalry, but only to the extent allowed by the aforementioned non-market mechanisms.

Line 9 indicates that government may limit substitutes either by technical specification, distribution channels, or price controls. Beyond such limitations, the attenuated effects of substitutes on interfirm rivalry impact the industry directly (line 10). Line 11 indicates that government may restrict new entrants directly, and in any case, they may be required to be members of the trade association (line 10), etc. which may constrain their competitive tactics in favor of managed competition.

To summarize, the main forces determining industry structure are non-market in nature and include (1) direct bureaucratic intervention, (2) mechanisms for intra-industry cooperation, and (3) mechanisms for inter-industry cooperation. Finally, (4) substitutes may effect inter-firm rivalry directly, but only to the extent that the bureaucracy is willing to allow.

Discussion of Industry Structure Model

Porter's (1980) notion of supplier "power" and buyer "power" must yield to the more communitarian notion of cooperation. By allowing collusion, cartels, price-fixing, price maintenance agreements, bid-rigging, kickbacks and the like, the bureaucracy can indirectly mitigate the influence that buyers have on interfirm rivalry. By presenting a unified front toward buyers, interfirm rivalry can be managed in a way that will benefit the industry at large.

For example, throughout Tokyo, the barber's union has effected a cartel that keeps the cost of a haircut well above what market prices would support [Johnson 1995]. These cartels can also serve as barriers to entry for prospective competitors through regulations regarding entrance into the cartel. In individualistic societies, Porter's [1980] notion of "signalling" is the most "collaboration" that anti-trust laws will allow between competitors.

The model offered here emphasizes cooperation, yet it substantially collapses to Porter's model in the absence of non-market forces. Hence, this model should prove to be robust in analyzing industries in any economic environment. It should also be noted that while cooperation characterizes intra-industry and inter-industry relationships, co-optation through power characterizes the way that a united industry deals with unwanted new entrants, substitutes, and buyer power. This model also suggests how strategy formulation in communitarian economies must involve stakeholders outside of the corporation.

Business-Level Competitive Advantage

Competitive advantage in the broadest sense is obtained by being either differentiated or low-cost [Porter 1980]. The critical assumption of such an assertion is that the market of economic maximizers will buy the product that offers them the best price-value relationship. In many cases, however, bureaucrats, corporate personalities, or family members are gatekeepers of the market. They decide what options will be available in the market and frequently do so on non-market based rationale. Figure 3 below shows the sources of market and non-market based competitive advantage.

insert figure 3 here

The market bases for competitive advantage are well developed in the strategic management field and shown on the left side of Figure 3. Whether organizational or economic factors are emphasized, the debate among researchers seems to focus on the relative importance of the items on the left side of the equation.

However, in many markets, competitive advantage is a function of non-market based advantages. The right side of Figure 3 presents a framework for understanding competitive advantage where non-market influences are permitted; this includes most of the world. The model can be applied to both domestic and international competitive advantage.

Sources of Non-Market Based Competitive Advantage:

A firm that lacks compelling differentiation or cost advantages may succeed because of personal or business relationships, national economic policy, or national identity.

Advantage by personal relationship can take several forms. Among the most common, business is placed in deference to one's family [Harris and Moran 1994]. Alternatively, "stuck in the middle" firms may win business because of close friendships with bureaucrats or corporate officers awarding the contracts or licenses. This is the essence of Chinese guanxi (network). Network obligations come before price-value relationships. Finally, competitive advantage can also be secured through bribery or reciprocal sales agreements. Because some countries such as the U.S. penalize their own firms for such behavior, firms from countries without such laws secure a sustainable competitive advantage over some of their competitors in certain situations. The Wall Street Journal [1995] documents instances where American businesses lost contracts to foreign firms because officials demanded bribes, or where American businesses won contracts but later received a heavy fine for violating the law.

Finally, a firm's national identity can serve as a non-market basis of competitive advantage or disadvantage. China has recently been vacillating between awarding a large contract to Boeing or Airbus Industries, and using the contract as leverage against U.S. policymakers who threaten sanctions for human rights abuses and lack of protection of intellectual property. Here, the outcome of the contract may be based more on which flag the supplier flies than on any price-value relationship. Politicians, bureaucrats, and managers may find it necessary to award or deny business to firms for national political reasons. Current understandings of competitive advantage fail to systematically accommodate competitive advantage not associated with a price-value relationship. Yet such advantages seem to be increasingly important.

Conclusions: Strategy Formulation as Harmony in Communitarian Cultures

Strategy formulation in communitarian societies involves harmonizing firm strategy with state agenda, while coordinating actively with industry partners and competitors. Smothers [1990] describes the resulting strategy as a "pattern of patterns".

Communitarian cultures would more likely recognize "resources" and "competencies" as lying outside of the firm than would firms of individualistic cultures.

The state assists in this process through commercial (e.g.trust) policies, protectionism, and industry targeting. Resources may be found in the keiretsu, the trade association, the firm itself, or the ministerial bureaucracy. As a result, the process of strategy formulation has to encompass a much larger scope of constituents than is necessary in typical Western firm. It can be thought of as two figure "8s" with a common center. The circles of the loops represent the firm, government ministries, trade associations (competitors), and business families (e.g. keiretsus, guanxi).

Strategy formulation becomes a series of iterations where proposals are submitted to each of four "bodies". A consensus decision is eventually formed as the strategy circulates between the bodies and within each one.

Several implications of this view of strategy formulation emerge: First, the firm is not viewed as an "island", attempting to better itself at the expense of the world and measuring performance by how wealthy it becomes. Rather, the firm views itself as an integral part of a loop. *Firm performance is substantially measured by the ability of the firm to remain in the loop, thereby showing itself to be contributing to the multiple interests of the larger loop.*

Secondly, strategy must be formulated in explicit cooperation with various external parties: cartels, chaebols, municipal bureaucrats, etc. Because of the interconnectivity of these groups in communitarian cultures, it is impossible to have a coherent strategy without explicit coordination with external stakeholders. In individualist cultures, such collusion may be penalized.

Thirdly, the process is as much political in rationale as economic. Hence, neither the process nor the resultant strategy may make sense from strictly the rational-analytic perspective of Western economics. Communitarian firms are somewhat insulated from the Darwinian economic environment by being a part of a larger system, yet the organizational constraints placed on the firm are considerably greater than firms in individualistic cultures; their choices are circumscribed by their ability to come to harmony with extra-organizational strategy influencers.

Finally, while the communitarian firm has more organizational constraints than an individualistic firm in determining strategy, those very constraints afford more organizational resources from which it can draw to effect the strategy, once it is determined.

Conclusions

This paper has sought to expose the strong leaning that the strategic management discipline has toward individualistic ideology. This bias is reflected in the economics on which the discipline is based, effecting received notions of performance, industry structure, and competitive advantage. The role of the various social institutions through which the autonomous bureaucracy works become sources of competitive advantage, and not just "macro environmental forces" that effect all firms equally. Firm performance is subordinated to the well-being of a larger group (the state, chaebol, municipality, etc.) The models of industry analysis and competitive advantage developed in this manuscript provide a more full-orbed perspective of factors influencing competition including such non-market forces as collusion, nepotism, and national interest. The implications of how changes in these constructs might impact both the process and the content of strategy were briefly noted. It is hoped that the redefined constructs can be useful in stimulating the discipline toward a view of strategy that recognizes the powerful effect of non-market forces in shaping industries, securing competitive advantage, and developing strategy.

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