

# The Economic-Social Duality for Executive Rationale: The Interplay between Resource Pool and Game Rule for Sense-Giving and Sense-Making

Peter Ping Li

*Copenhagen Business School Denmark*

**KEYWORDS** Chinese management, culture, economic reform, indigenous management, socially enabling mechanism

---

## INTRODUCTION

I truly enjoyed reading the perspective article entitled ‘Advancing indigenous management theory: Executive rationale as an institutional logic’ by Gordon Redding and Michael Witt (2015), especially its implications for a ‘promising avenue for indigenous management research’ (179). I agree with the authors in general terms that the research on the impact of culture as an informal institution, and also the effect of formal institutions, on business practices must come down from a highly abstract level to a more pragmatic ground, especially their interaction and integration as embodied by various specific mechanisms to guide practices. For that purpose, Redding and Witt introduce an interesting notion of ‘executive rationale’ to guide action. Applying the abstract notion of institutional logic to specific business practices, *executive rationale* refers to the ‘socially constructed, historical patterns of material practices, assumptions, values, beliefs, and rules by which individuals produce and reproduce their material subsistence, organize time and space, and provide meaning to their social reality’ (Thornton & Ocasio, 2008: 101) in the specific context of business practices. In other words, executive rationale provides a mental blueprint for practical actions in a business context. In addition, the authors have empirically generated a tentative model with multiple dimensions to compare the dominant executive rationales as institutionally-embedded across five key economies.

Despite my general agreement and support, I do not think that the authors have gone far enough to provide a ‘promising avenue for indigenous management research’, especially for such research in the Chinese context. I will first offer my

critical analysis on the specific limitations of this article, and I will then discuss the broad implications for future research, with the Chinese context as the shared background for my analysis and discussion.

## CRITICAL ANALYSIS

I have some concerns with some specific tenets of the article. I will present my comments on each of them in an order of increasing importance. First, I wish that the authors could be more explicit and specific about the definitions of such core constructs as executive rationale and institutional logic, especially about their causal link. Further, I wish that the authors could be more explicit and specific in differentiating executive rationale and institutional logic from the familiar construct of institutional system, including cultural and ethical systems as informal ones, and also political, legal and economic systems as formal ones, with legitimacy and taken-for-granted routine as their shared core. Finally, I wish that the authors could be more explicit and specific in differentiating executive rationale from the familiar notions of *dominant logic* at the micro level of a firm (Bettis & Prahalad, 1995; see Franke & zu Knyphausen-Aufsess, 2014 for a review), and *business system* at the macro level of a nation concerning the varieties of capitalism (Whitley, 1999, 2007).

Second, I have some doubts about the sufficiency of framing the reasons for action only in terms of cultural value and norm. This approach to executive rationale seems too narrow due to two primary reasons. First, the sole focus on cultural values and norms neglects the role of formal institutions as well as the interplay between informal and formal institutions (Helmke & Levitsky, 2004; Li, 2005). The broader scope of executive rationale with both informal and formal institutions, especially their interplay, will greatly enhance our understanding of the reasons for action by executives. Second, the sole focus on cultural values and norms neglects the role of economic rationale, which is naturally critical on the mind of executives, as well as the interplay between economic rationale (concerned with the *resource pool* for resource configuration as the ability for action) and institutional (both informal and formal) rationale (concerned with the *game rule* for task coordination as the motive for action). Further, it seems obvious to me that the notion of executive rationale in terms of only cultural values and norms is too narrow to fully explain why the firm exists simply because the firm exists, not only for the reasons related to the game rule and task coordination, but also for the other reasons related to resource pool and resource configuration (e.g., for an efficient mix of resources). I posit that a holistic and dynamic explanation about why the firm exists should take both economic (including resource pool at the macro level and resource configuration at the meso level) and institutional (including game rule at the macro level and task coordination at the meso level) rationales into consideration. In other words, executive rationale should consist of both economic and institutional rationales, especially their holistic and dynamic interplay and joint effect.

Finally, the authors refer to complementarity as the core reason for the diverse elements to co-exist in a configuration. I would argue that complementarity is just one side of the coin, and the other side is conflict between the diverse elements. This perspective is rooted in the Chinese frame of *yin-yang balancing*, which can help articulate the holistic and dynamic link between opposite forces, such as material and ideal interests, inner and outer factors, formal and informal forces, institutional and economic rationales, and contextual influence and agency enactment. I am happy to note that the authors mention the frame of yin-yang balancing as a useful way to explain why and how opposite mental models or paradigms can co-exist to complement each other, even while they are in conflict (Li, 1998, 2008, 2012a, 2014a). One desirable application of the frame of yin-yang balancing is to evoke the dark or negative side of executive rationale as a stable mental map for action, such as the problem of *inertia* associated with any stable system, including mental map. To overcome the problem of inertia, *unlearning* is necessary (Bettis & Prahalad, 1995; Franke & zu Knyphausen-Aufsess, 2014). I wish that the authors could have addressed the process of paradigm shift in executive rationale from the perspective of yin-yang balancing.

## CRITICAL IMPLICATIONS FOR FUTURE RESEARCH

The conceptual construct of executive rationale and the empirically derived typology of its primary dimensions bear several critical implications for future research, especially for indigenous research in the special context of China.

First, it is interesting to note that the U model of executive rationale seems to be an exception rather than the rule because it differs from all other four models. For instance, as shown in Table 1, while all other four models emphasize stakeholders, the US model focuses mostly on shareholders. This evidence provides the support for the criticism that the mainstream research in management is too dominated by the biased U perspective (e.g., the most popular US-based theories in economics and finance, such as the transaction cost theory and agency theory). This implies that the non-US perspectives, such as the views of stakeholders and triple-bottom lines, deserve more attention, and the indigenous research should be more emphasized as a fully legitimate research domain.

Second, it is worth noting that the German model of executive rationale shares the strong emphasis on employee as a top stakeholder as the Japanese and Korean models as well as the strong emphasis on society as the three economies in Asia (including Hong Kong). It is also interesting that both the Hong Kong model and Korean model share the strong emphasis on family as the most typical unit of shareholders or owners. If we extend the traditional notion of biological family to a social notion of *family-like community* as a close-knit in-group, it seems possible to provide a new perspective about the nature and role of the firm as a special form of community. This view may shed a special light on the reasons why family businesses

Table 1. A tentative typology of context for management research

Contextual Functionality: <i>Two Dimensions</i>	Horizontal: <i>Contextual Effects [Duality]</i>	Contextual Effect 1: <i>More Explicit &amp; Objective</i>	Contextual Effect 2: <i>More Implicit &amp; Subjective</i>
Vertical: <i>Contextual Sources [Duality]</i>	Duality: Partially Separable & Partially Overlapped	<i>Sense-Giving</i> (Action-Oriented)	<i>Sense-Making</i> (Perception-Oriented)
Contextual Source 1: <i>More Explicit &amp; Objective</i>	<i>Resource Pool</i> (Task-Oriented)	Cell 1: Natural System Economic System Technological System	Cell 3: Traditional Norm Cultural Value (Job-Related)
Contextual Source 2: <i>More Implicit &amp; Subjective</i>	<i>Game Rule</i> (People-Oriented)	Cell 2: Legal System Political System Social System	Cell 4: Cultural Value (Exchange-Related) Ethical Norm Philosophical Assumption

*Note:* Adapted from Li (2014b) with permission.

across the world tend to be more sustainable than most public corporations (e.g., Jaskiewicz, Combs, & Rau, 2015).

Third, in the context of Greater China, the Hong Kong model differs from all other four models in the area of employee participation. This may have something to do with the extremely long historical tradition of China as an extremely hierarchical society with centralized power at the very top by the emperor and his family, which was made possible by an elaborate and super-stable bureaucratic system. This prolonged pattern of political and social traditions in the historical context of China may help explain the Chinese model of executive rationale, especially in terms of the style of paternalistic leadership (Redding, 1990). More indigenous research is needed to explore the possible link between the historical pattern of China and contemporary business practices in China today among both state-owned and private family-owned firms (Li, Leung, Chen, & Luo, 2012).

Fourth, it is a pity that the model of executive rationale derived from the executives in Mainland China is missing in this article. I expect some salient distinctions between the Hong Kong model and the potential China model. This is largely due to the distinctive trajectories in the development of economic and institutional systems in the contemporary history between Hong Kong and Mainland China, even long before the establishment of the People's Republic of China in 1949. Hence, it is interesting to compare the subtle distinctions in the executive models between Hong Kong and Mainland China, and also the distinctions between the four Chinese-dominated societies of Hong Kong, Singapore, Mainland China, and Taiwan to tease out the specific effects of various contextual elements across a long period of varied historical evolutions.

Finally, it is also worth noting that the Chinese philosophical traditions bear critical implications not only for indigenous research in the local context, but also for the universal research across the entire world. As the authors of this article suggest, 'it is entirely possible that a meta feature exists' (197), and I would argue that the Chinese cognitive system of *yin-yang balancing* has the potential to provide such a 'meta feature' by interconnecting all diverse perspectives into a unified system as a holistic and dynamic unity-in-diversity because it is the only cognitive system that can embrace and appreciate paradoxical opposites as partially overlapped with a mix of partial tension and partial harmony (Li, 2012a, 2014a). For instance, the authors maintain that 'economic and societal growth has required a balanced coincidence of the ideal and the material' (195). This balance can be readily accomplished by reframing the ideal and the material as partially overlapped (rather than treating them as fully separable). Further, the authors posit that business-specific executive rationale and society-generic 'meaning system' are reciprocal with mutual influence. This reciprocity can be readily examined by reframing sense-making and sense-giving as partially overlapped (see Table 1; cf. Weick, 1995). Finally, I frame agent and institution as a duality in line with the perspective of structuration (Giddens, 1984) and also the view of balanced (not over- or under-) embeddedness (Granovetter, 1985), rather than treating them as a dualism as fully separable.

In conclusion, this perspective article has taken a critical step in the right direction with the notion of executive rationale and the typology of its key dimensions. This step has the potential to help accelerate the process of indigenous theory-building, but we still have a long way to go to build up solid indigenous theories. For that purpose, we should highlight the salience of qualitative methods, as exemplified by this perspective article, as equally legitimate as quantitative methods (Li, 2012b; also see Eisenhardt, 1989).

## REFERENCES

- Bettis, R. A., & Prahalad, C. K. 1995. The dominant logic: Retrospective and extension. *Strategic Management Journal*, 16: 5–14.
- Eisenhardt, K. M. 1989. Building theories from case study research. *Academy of Management Review*, 14: 532–550.
- Franke, T., & zu Knyphausen-Aufsess, D. 2014. On dominant logic: Review and synthesis. *Journal of Business Economics*, 84: 27–70.
- Giddens, A. 1984. *The constitution of society: Outline of the theory of structuration*. Cambridge: Polity Press.
- Granovetter, M. 1985. Economic action and social structure: The problem of embeddedness. *American Journal of Sociology*, 91: 481–510.
- Helmke, G., & Levitsky, S. 2004. Informal institutions and comparative politics: A research agenda. *Perspectives on Politics*, 2: 725–740.
- Jaskiewicz, P., Combs, J. G. & Rau, S.B. 2015. Entrepreneurial legacy: Toward a theory of how some family firms nurture transgenerational entrepreneurship. *Journal of Business Venturing*, 30(1): 29–49.
- Li, P. P. 1998. Toward a geocentric framework of organizational form: A holistic, dynamic and paradoxical approach. *Organization Studies*, 19: 829–861.
- Li, P. P. 2005. The puzzle of China's township-village enterprises: The paradox of local corporatism in a dual-track economic transition. *Management and Organization Review*, 1(2): 197–224.
- Li, P. P. 2008. Toward a geocentric framework of trust: An application to organizational trust. *Management and Organization Review*, 4(1): 413–439.
- Li, P. P. 2012a. Toward an integrative framework of indigenous research: The geocentric implications of Yin-Yang Balance. *Asia Pacific Journal of Management*, 29: 849–872.
- Li, P. P. 2012b. Toward research-practice balancing in management: The Yin-Yang Method for open-ended and open-minded research. In C.L. Wang, D.J. Ketchen & D.D. Bergh (eds.), *Research methodology in strategy and management* (Vol. 8), Emerald, Chapter 4, 91–141.
- Li, P. P. 2014a. The unique value of Yin-Yang Balancing: A critical response. *Management and Organizational Review*, 10(3): 321–332.
- Li, P. P. 2014b. A tentative typology of context for trust research and beyond. *Journal of Trust Research*, 4(2): 83–89.
- Li, P. P., Leung, K., Chen, C. C., & Luo, J. D. 2012. Indigenous research on Chinese management: What and how. *Management and Organizational Review*, 8(1): 7–24.
- Redding, G., & Witt, M. Advancing indigenous management theory: Executive rationale as an institutional logic. *Management and Organization Review*, 11(2): 179–203.
- Redding, S. G. 1990. *The spirit of capitalism*. Berlin: Walter de Gruyter.
- Thornton, P. H., & Ocasio, W. 2008. Institutional logics. In R. Greenwood, C. Oliver, K. Sahlin-Andersson & R. Suddaby (Eds.), *The sage handbook of organizational institutionalism*: 99–129. London: Sage.
- Weick, K. E. 1995. *Sensemaking in organizations*. Thousand Oaks, CA: Sage.
- Whitley, R. 1999. *Divergent capitalisms: The social structuring and change of business systems*. Oxford, UK: Oxford University Press.
- Whitley, R. 2007. Business systems and organizational capabilities: The institutional structuring of competitive competences. Oxford, UK: Oxford University Press.