Varieties of Capitalism and Strategic Management: Managing Performance in Multinationals after the Global Financial Crisis

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This paper examines the varieties of capitalism thesis for its implications for strategy and strategic management. It considers the grounds for an integrated approach to strategic management, which will make firms less susceptible to sudden economic change in global markets. The paper is structured into four parts. In the first, the nature of the varieties of capitalism thesis is examined (Hall P. A. and Soskice D. (2001). ‘An introduction to varieties of capitalism’. In P. A. Hall and D. (eds), Varieties of Capitalism: The Institutional Foundations of Comparative Advantage, pp. 1–68. Oxford: Oxford University Press). In the second part, two distinct strands of theory and research in strategic management (the outside-in and inside-out views of strategy) are considered, and how these might condition thinking about strategy, management and organizational learning. The third part explores convergence in strategic management, and explicates a model from research at Nissan, which brings core competencies and dynamic capabilities to the strategic management of the large multinational firm. The fourth part concludes with a critical assessment of the varieties of capitalism and the likelihood of a convergent strategic management after the global financial crisis.

Introduction

The 2008 global financial crash and the following economic uncertainty have led some leading strategists to argue that firms should review their strategies (notably, Rumelt, 2008), and to advocate changes that favour a form of responsible capitalism which jettisons a short-term orientation in favour of a longer-term focus that serves all of a firm’s stakeholders rather than just shareholders (Barton, 2011). Capitalism is the prevailing economic system in which firms must operate, and it is characterized by the investment of private capital for profit and the accumulation of wealth. Its nature varies between national economies for numerous reasons, but especially because of a country’s national policies, infrastructure, social and institutional systems.

The terms ‘strategy’ and ‘strategic management’ are often used interchangeably to mean the field or the domain of study. In this paper, we take strategic management and define it as the management of a firm’s overall purpose, so that the firm is able to balance and sustain its present and future needs. This view incorporates the management of competitive strategy, including its formation, choice, planning, implementation, review and follow-up action.

The last twenty years or so have seen an unprecedented expansion of world trade, with the emergence of stronger economies in countries with large populations, such as China and India.

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During this time, a massive growth has taken place in financial services and banking, with the introduction of new national policies to deregulate business and international trade. The world has seen the development of new ground-breaking technologies, including biotechnology, micro-processing, computer-based information and telecommunications, and the Internet. These trends and changes have been collectively understood as globalization. The concept is controversial. We define globalization as a phenomenon of changing commonalities and differences between countries, which is associated with a worldwide perception that the world is becoming smaller and more interconnected. A number of authors have argued that it has brought about a new competitive equality, or a level playing field, for international firms, whatever their country of origin (e.g. Friedman, 2005). However, it is likely that the extent to which globalization has homogenizing effects must depend upon how national and regional economies respond and are reshaped.

There is a growing body of theory and research to suggest that international firms compete differently, since they are likely to practise management in ways that are isomorphic to their countries of origin. In other words, the nature of a firm’s strategic management is influenced by the type of capitalism in the country in which its headquarters is based (Albert, 1993; Ferner, 1997; Ferner, Quintanilla and Varul, 2001; Hall and Soskice, 2001; Whitley, 1999, 2007). While it is clear that some multinationals develop their domestic working practices as shared values among their overseas’ subsidiaries (Magee, 2007; Nohria and Ghoshal, 1994), it is less certain how the strategic management of a multinational is influenced by the national economy of its country of origin.

The aim of this paper is to examine the varieties of capitalism thesis for its implications for strategic management, in particular, to consider the grounds for a more holistic approach to strategic management. We think that it is possible that a more comprehensive style of executive management is likely to make firms, especially multinationals, less susceptible to sudden economic change in global markets. The paper is structured into four parts. In the first, the nature of the varieties of capitalism thesis and its implications are explained. In the second part, two distinct strands of theory and research in strategic management are considered for how these might condition thinking about strategy, management and organizational learning. The third part explores convergence in strategic management, and explicates a model from our research on Nissan that could potentially bring a welcome holistic approach to the strategic management of the large multinational firm. We conclude with a critical assessment of the varieties of capitalism thesis and the likelihood of a convergent strategic management after the global financial crisis.

**Varieties of capitalism**

In their influential essay about varieties of capitalism, economists Peter Hall and David Soskice make a distinction between two types of market economy, which are based on ‘five spheres in which firms must develop relationships to resolve coordination problems central to their core competencies’ (Hall and Soskice, 2001, pp. 6–7):

(i) Industrial relations: how to coordinate bargaining over wages and working conditions with the representatives of labour and other employers.

(ii) Vocational training and education: how to secure a workforce with suitable skills, and how workers must decide in which skills to invest.

(iii) Corporate governance: how to access finance, and reconcile the needs of investors about the returns on their investments.

(iv) Inter-firm relations: how to relate to other enterprises, especially customers and suppliers to secure a stable demand for products and services, and secure access to appropriate inputs and technology.

(v) Employees: how to have the requisite competencies, and abilities to cooperate with others, to advance the purpose of the firm.

Hall and Soskice (2001) do not define what they mean by core competencies. We assume that these are the firm-specific abilities employees have in order to work together to use knowledge and learning to manage strategic (firm-specific) resources in ways that create competitive advantage. The important point they make is that the nature of national capitalism depends on the strategic interactions and complementarities between institutions and firms in any one economy, as these form a prevailing mode of coordination of
resources that firms will use for their strategic management. Hall and Soskice (2001) identify two contrasting modes of market economy: (1) liberal market economies where the five spheres are coordinated through competitive market arrangements and hierarchies (following Williamson, 1985); and (2) coordinated market economies where the spheres are coordinated around collaborative institutional relations that reduce uncertainty on stakeholders’ longer-term purpose. These represent two opposite characterizations, and Hall and Soskice (2001) suggest that there will be variations within these extremes.

In a liberal market economy, the near-term needs of a firm’s financial stakeholders are primary. These are typically equity shareholders, when it is a priority for executives to maintain a level of dividend and a high share price that will protect the firm from a hostile takeover. A government policy emphasis is placed on the encouragement of free competition, and regulation may work to discourage inter-firm collaboration and those alliances that seem counter to free markets. In a coordinated market economy, stakeholders include institutions such as business and employer associations, strong trade unions and professional networks that involve cross-sharing of support and ideas. The regulatory systems in these economies work to facilitate a free movement of information and industry collaboration. A firm’s attractiveness as a collaborator may be dependent on its reputation as a consensual decision-taker, and its history as a developer of specific firm and industry skills, and other strategic resources.

Of the large OECD nations, Hall and Soskice (2001, pp. 19–21) suggest that there are six that are liberal market economies: namely the USA, UK, Australia, Canada, New Zealand and Ireland. Ten are identified as coordinated market economies: Germany, Japan, Switzerland, the Netherlands, Belgium, Sweden, Norway, Denmark, Finland and Austria. Another six economies are in ‘more ambiguous positions’, and these include France, Italy, Spain, Portugal, Greece and Turkey. Hall and Soskice (2001) point out how, for example, the economies of the US and the UK are characterized by a free market ethos, while the German economy is characterized by close cooperative relations between firms, banks, owners and employees. Similarly, in Japan, its economy functions as a closely coordinated partnership of professional societies, commercial, sometimes family, banking and industrial groups, and government agencies.

The importance of country of origin is not a mainstream subject within the more specialist studies of strategic management. Porter (1990) argues that a strong domestic or regional base is important to a nation’s competitive advantage overseas. His view may be one-sided, however, since he finds that a sustainable strategic performance depends upon a level of intense competition in the domestic market that is more characteristic of a liberal market rather than a market coordinated economy. One scholar, Richard Whittington (2001), has written that, for a period between 1960 and 1990, it was the coordinated market economies that were the most successful. This was an era of large-scale mass-production of cars, consumer electronics and chemicals, when economies were largely stable, and strategic planning was important. The core strategic concerns of this period were continuous improvement in quality, cost, delivery and employee development. This changed around 1990 and, until the onset of the global financial crisis in 2008, it was the liberal market economy countries that became more successful: ‘It looks like the fast-moving, flexible and sometimes ruthless strategizing of the Anglo-Saxon [the liberal market] economies is better suited to the emergent economic conditions of the twenty-first century than the careful instrumentalism of Germany and Japan’ (Whittington, 2001, p. 5).

Recently, the role of strategic planning has become less emphasized in strategic management textbooks, especially by those that use ‘strategy’ in their titles. This partly reflects the demise in practice of the type of long-term planning much criticized by Mintzberg (1994). However, strategic planning in a medium or mid-term form, called by Mintzberg ‘programmatic planning’, has remained over the last decade one of the management tools most widely used by international firms (Rigby and Bilodeau, 2007). It is perhaps the ‘careful’ side of planning that is more out of fashion, because the larger firm has become leaner and faster in what it does.

The fast-moving agile firm has been described by the sociologist Richard Sennett as a new form.

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1 Of course, this looks at the success of an economy and not at how successful a particular variety of capitalism firm has been in another overseas economy.
of capitalism (Sennett, 2006). Explaining its culture, he describes how cutting-edge firms want employees who are able to learn new general skills rather than cling to old competencies. Sennett writes about how the new dynamic firm emphasizes the firm’s ability to process and interpret changing information and practices. This is consistent with the Hall and Soskice characterization of a liberal market economy: an employee as a human resource consists in how capable he or she is in moving from problem to problem, subject to subject. This is a general rather than a firm-specific resource, and as such it facilitates the transfer of resources and production from high cost areas to countries with abundant labour and easy access to new markets. In these terms, multinational firms from liberal market economies have had a global competitive advantage.

In a liberal market economy, the generality of strategic resources make them more easy to switch between firms than the more specific and sticky strategic resources of a firm and its industry in a coordinated market economy. It is easier to assemble, break up and reassemble project teams, and chop and change structure. In liberal markets, companies may be acquired and divested speedily by firms through equity markets, and venture capital is available to entrepreneurial scientists and engineers to start up new enterprises. A concentration of strategic decision-making in a few hands at the top of a firm, allows business leaders to implement decisions very quickly and any consequential reorganization is relatively straightforward to implement (for example, see Lehrer (2001) for an account of change among European airlines).

A rare study from the strategic management literature of how a home country’s institutional environment causes differences in strategy, contrasts the ten largest manufacturing industries in the USA, Germany and Japan (Thomas and Waring, 1999). This found profound differences between the USA and the others. For example, in the semiconductor industry, Japanese firms had out-invested their American counterparts in the semiconductor memory chip market. In Japan, the long-term commitments from labour and suppliers and the internal incorporation of science had strongly facilitated a focus on improving process technology that enabled the low-cost production necessary for strategic success. Investment was driven by close and coordinated relations with banks, labour, suppliers and government. In the logical chip market, notably microprocessing, the fluidity and speed of diffusion in the USA in markets for capital, labour, equipment and basic science helped to facilitate a focus on product innovation. Commitment and a long-term view were important in Japan, while the speed and dynamism of shareholder firms were important in the USA.

Hall and Soskice (2001) suggest that the institutional frameworks of liberal market economies provide firms with better capacities for radical innovation, whereas coordinated market economies may provide superior capabilities for incremental innovation. The important factor for coordinated market economies is that firms and institutions influence each other as idiosyncratic agents that have their own path-dependent trajectories. Under these conditions, change is more of a longer-term and adaptive evolutionary process (Winter, 2005). Hall and Soskice (2001, Figure 1.5) compare firms in Germany and the USA in terms of patent specialization for two periods in the 1980s and 1990s, to show how the two countries are mirror images of each other. Firms in Germany have been more active innovators in

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2Studies of differences in national cultures (rather than national capitalism) and how they influence workforces have a long pedigree in the business and management literature. These typically contrast differences between a shorter-term controlling view of how to manage in American and UK firms, and more long-termist and adaptive approaches in German and Japanese firms (Hofstede, 1980; Schneider and Barsoux, 2003). Stephan and Uhlaner (2010) distinguish between performance-based and socially supportive cultures to assess their effects on entrepreneurship. They find German firms to have a performance based culture, but Anglo-Saxon firms to have both, while firms with Confucian Asian cultures are more socially supportive. How the influences of national economies and national cultures work together to influence strategic management is largely unexplored.

3The Japanese were good at bringing down process costs and at raising quality. This suggested they were using hybrid generic strategies. Porter (1996) argued that the Japanese were using operational effectiveness and not real strategy. This meant that the Japanese advantage could be benchmarked and copied by rivals. While this has happened to some extent, Porter seems to ignore the importance of firm-specific strategic resources and the integrative nature of Japanese strategic management (Witcher, 1995).
fields characterized by incremental innovation, including mechanical engineering, product handling, transport, consumer durables and machine tools; while in the USA radical innovation is important in fields such as medical engineering, biotechnology, semiconductors and telecommunications. There is evidence from elsewhere that industrial relations in West Germany encouraged investment in training and collaboration with unions, which led to the country’s high-quality and diversified car production (Streeck, 1992). Similar differences in managing competencies appear to have conditioned the nature of entrepreneurial strategies in Germany, Sweden and the UK, in the biotechnology and Internet software industries (Casper and Whitley, 2004).

Hall and Soskice (2001) argue that the varieties of capitalism thesis predicts there will be systematic differences for corporate strategy across nations and claim that this is one of its most important implications. In other words, differences in the overarching institutional structures of political economies condition the structure of firms within which corporate strategy must form and be managed. To the extent that the nature of an economy influences firm structure, this runs counter to a classical view in strategic thinking that a firm’s structure should follow strategy (Chandler, 1962). In fact, there are two main traditions that dominate thinking in strategic management. One of these is focused around the importance of the direction of external influence on making strategic choices, and the other is focused on the importance of internal influence.

**Outside-in and inside-out approaches to strategic management**

In this Journal, Charles Baden-Fuller made a distinction between what he called the outside-in and inside-out strands of thinking about strategic management (Baden-Fuller, 1995). He argued that theory and research in these two fields had been constructed and carried out in relative isolation from each other. This divide is consistent with the varieties of capitalism thesis: the outside-in strand corresponds to thinking about strategy in a liberal market economy, while inside-out corresponds to thinking about strategy in a coordinated market economy. The former is more about the management of a firm’s strategic competitive position within markets and industries, while the latter is about a firm’s management of internal change.

Outside-in thinking’s most influential theorist to impact strategic management since the 1980s is Michael Porter (Porter, 1980, 1985). The order in thinking starts with a firm’s external environment, the determination of the industry’s attractiveness, the formulation of a strategy to position the firm to sustain a competitive advantage within the industry, and the use of a value chain to optimize and coordinate a firm’s activities so that they are consistent with its chosen strategy.4 The direction of influence is shown on the left-hand side of Figure 1. Porter’s thinking applies most strongly at a single business and industry level. However, at the corporate level, when a multinational firm is strategically managing several diversified subsidiaries, each subsidiary may have its own distinctive business-level generic strategy.

Classically, the strategic management of a diversified group of subsidiaries follows a portfolio analysis approach, after the style of such strategic frameworks as the Boston Consulting Group’s growth–share matrix and the General Electric/McKinsey matrix (Witcher and Chau, 2010). In cases where a group of unrelated diversified subsidiaries may have little direct relation to each other, a portfolio approach facilitates merger and acquisition activity and the disposal of subsidiaries without any synergistic dysfunctional consequences for the group as a whole. This is a corporate parenting style that is primarily financial and performance based (Goold, Campbell and Alexander, 1994), and its popularity in liberal market economies is associated with the rise in the hierarchies of large multinationals of financially oriented personnel (Fligstein, 1987, 1990).

Inside-out thinking is based around the resource-based view of strategy, which is focused on the strategic management of internal characteristics and capabilities at the level of the individual firm. The way an individual firm specifically combines and uses its abilities and capabilities constitutes a strategic approach to

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4Many strategic management textbooks incorporate Porter’s value chain as a framework for identifying firm-specific strategic resources, but the value chain’s primary purpose is to coordinate and optimize activities across a firm’s functional areas to support a chosen generic strategy.
sustaining its competitive advantage. These combined abilities and capabilities are strategic resources, which may be too intangible and difficult for rivals to copy or purchase (Barney, 1997; Wernerfelt, 1984). The direction of thinking about strategy follows in the order of an analysis of a firm’s internal environment, the determination of its strategic resources, the specification of core processes and competencies, and the design of a dynamic capability to manage and sustain competitive advantage (as shown on the right-hand side of Figure 1).

Core processes are those critical areas of the business that are vital to the creation of stakeholder value. Core competencies are those firm-specific abilities that employees develop, to work together collectively, to use knowledge and learning to manage the core areas of the firm that create value and competitive advantage (Witcher, Chau and Harding, 2008). The ability of an executive to develop, reconfigure and manage core competencies, constitutes a dynamic capability for the strategic management of a firm’s competitive advantage, so that it remains congruent with the changing external environment (Teece, Pisano and Shuen, 1997). Dynamic capabilities have been defined more generally to include any cross-functional process relevant to competitive advantage (Eisenhardt and Martin, 2000), and Teece (2007) and others (Helfat et al., 2007) have also widened its application.

We prefer the original formulation as a more meaningful description of strategic management in practice, following the resource-based view of strategy. At a corporate level, the resource-based view favours a synergist and related diversified portfolio approach in keeping with a more involved corporation’s executive in understanding how the corporate subsidiaries are managing strategy. This approach is likely to call for interactive and iterative forms of strategic management, especially for strategic control (Simons, 1995), and a strategic planning style of parenting (Goold, Campbell and Alexander, 1994); this can involve the development of organization-wide core competencies that are supported by formal statements of corporate values (Prahalad and Hamel, 1990).

Strategy and strategic management textbooks struggle to reconcile the two outside-in and inside-out strands. It is conventional wisdom to argue they must be considered equally for the evaluation of a firm’s strategy. However, outside-in thinking is more representative of strategic theories and research in liberal market economies, and these make up most of the illustrative examples in the textbooks. The internal management of change and resources has traditionally been focused on a strategy first, followed by an implementation second style of thinking, which has tended to marginalize inside-out thinking as an operational or functional concern, rather than a strategic and
holistic one. Of course, the experience and functional background of an executive team is likely to predispose it to favour either an outside-in or inside-out view and, over time, the changing membership of the team is likely to produce its own series of varieties of leadership. In a historical study of Royal Dutch Shell, Kwee, Van Den Bosch and Volberda (2011) argue that the orientation of the multinational’s top managers towards either a liberal or a coordinated market economy has influenced its strategic renewal process to make fundamental changes in its strategy.

However, in western thinking and practice, a theoretical divide seems to be present, which divides the roles of the management of large firms between a top level that formulates strategy, and a middle one that implements it at an operational level. This goes back to at least the seminal work of Anthony (1965), and it has been developed along the way since then to an idea that leadership and managerial skills are different (Bennis and Nanus, 1985). The rise of the business school and the MBA, along with the use of English as a business language, has spread ideas that leadership is visionary and stirring, while the task of management is controlling and boring (Stern, 2008). The mobility of leaders as professional managers who can manage any type of firm and a lack of deep (or domain) knowledge and understanding on the part of leaders about their industries may have been a contributory cause of the failure of banks in 2008 (Hopper and Hopper, 2009).

According to the very influential Henry Mintzberg, it is the lack of understanding by leaders generally about how their firms work that accounts for a widespread failure of top management’s grand strategies and their implementation at operational levels (de Holan, 2004). Inside-out thinking requires closing the planning–implementation gap.

Baden-Fuller (1995) argued that, for successful innovation and corporate entrepreneurship, the outside-in and inside-out views should be fully integrated in strategic management. This is likely to require a closer marriage of breakthrough change and its strategic management in the routines of daily management. In evolutionary economics, a distinction is made between routine and innovative behaviour (Nelson and Winter, 1982). The first includes repetitive and predictable activities that are visibly the same and continue over time for producing products and services. The second concerns changes in these activities that will be necessary to develop new technologies and new markets. Firm-specific tacit knowledge, alongside formal and explicit knowledge, is exercised through the regular and constant routine actions of daily management. Without understanding routines, innovative behaviour cannot be understood, and strategic change or the drivers of the big events may never be properly managed and desired change delivered (Barber, 2008).

The relationship between routines and the incremental change that takes place there, and the investigation and management of more radical innovation, is explained by March (1991) in terms of exploration and exploitation in organizational learning. Exploration covers search, unfamiliar variation, risk taking, play, flexibility, discovery and innovation. Its essence is experimentation with new alternatives when the returns are uncertain, distant and often negative. Exploitation is concerned with refinement, production, efficiency, selection, implementation and execution. Its essence is the refinement and extension of existing competencies, technologies and paradigms when the returns are proximate and predictable. Expressed succinctly, exploration is the pursuit of new knowledge of things that might come to be known, while exploitation is the use and development of things already known (Dosi and Malerba, 1996).

To the extent that inside-out enablers are drivers for responding to endogenous change through incremental change, and outside-in ones are drivers for exogenous change and more radical innovation, there is a danger, according to March (1991), of a trade-off in favour of substituting the more certain exploitation of known alternatives for the exploration of the more unknown areas (see also Stieglitz and Heine, 2007). The innovation produced by exploration is likely to be longer term, while incremental change from exploitation is shorter term. The shorter-term propensity of a liberal market corporate governance orientation is more likely to influence executives to exploit current profit-maximizing opportunities, rather than explore the possibilities for longer-term investment (Kwee, Van Den Bosch and Volberda, 2011).

This view that exploitative activities are associated with a liberal market economy is based perhaps too much on outside-in thinking and a market-in view of organizational learning and innovation. We prefer to turn it on its head, and
argue that sustainable radical innovation is built up collaboratively through periods of incremental change that, for longer-term success, requires much time and experimentation. This is different from, say, those radical changes brought about by business process re-engineering and other similar top-down led initiatives, which exploit opportunities in the shorter term and are more likely to be found in a liberal market economy. The learning process for radical innovation in a liberal market economy is likely to favour exploratory learning that is externally focused on opportunities and change in industries and markets, rather than exploitative learning that is based on the experience of existing organizational routines, competencies and trajectories, where an emphasis is placed on continuous improvement and incremental change (Fiol and Lyles, 1985).

Of course, existing competencies and market niches can be impediments to change in times of market and industry dynamism. Benner and Tushman (2003) suggest that firms will do better to use exploratory learning if their industry environments are unstable, while the use of exploitative learning is preferable for stable conditions. Indeed, the dynamism of globalization up to 2008 may have favoured firms from liberal market economies and the use of exploratory learning. If so, and if the world economy is now back to lower growth and quieter times, global environments may come to favour exploitative learning and firms from coordinated market economies.

It seems doubtful, though, if large multinational firms will willingly favour one approach at the expense of the other if this means less effective strategic management. The natures of outside-in and inside-out are different, but they should be managed holistically as a coherent and joined-up set of activities for crafting strategy and developing plans. In our research of multinationals, it seems in practice that firms are attempting to balance their strategic management no matter what their country of origin is, and there are indications that multinational firms are to some extent converging in terms of their strategic management.

Convergence: hoshin kanri

The strength of direction of influence on strategic management from country of origin is likely to be mitigated as large multinationals grow. National locations of subsidiaries are likely to multiply, so that localization is likely to have a stronger influence on headquarter policies than hitherto, and influences between the scattered subsidiaries themselves are likely to become stronger as they share practice and transfer best practice (Meyer, Mudambi and Narula, 2011; Pudelko and Harzing, 2008). In his influential book *Capitalism against Capitalism*, Michel Albert (Albert, 1993) compares the differences between an Anglo-Saxon model (the name he uses for approaches taken by firms from liberal market economies), and what he calls the Rhine model (European firms from countries with coordinated market characteristics). In this he argues that large multinational firms are in themselves a distinct variety of capitalism. Large international firms need substantial international finance. While this would seem to support a convergence towards the liberal market economy firm (Davis and Useem, 2002), Albert argues otherwise, perhaps optimistically, that the sheer size of multinationals makes them too big to fear hostile takeovers and, because of their complexity, they are more oriented to forms of industrial planning that are driven by the longer-term needs of modern technological or commercial innovation.

In effect this is a hybrid variety of capitalism or perhaps a middle way along the Hall and Soskice (2001) spectrum. This straddling position may not be without its own risks if it means compromises in corporate quality and competitive advantage, as Toyota found out when it proved difficult to control quality at firms in its supply chain located in liberal market economies (Kang, 2010). Because multinational firms face particular challenges in transferring management philosophies and business methodologies across borders and in applying them in different local contexts, they place a premium on management diversity. However, because they recruit managers from

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Kwee, Van Den Bosch and Volberda (2011) define the Rhine model to include Germanic countries, such as Germany, and also the Netherlands, Switzerland, and Austria. They also describe a Latin model, to include Italy, Spain, France and Belgium (after Moerland, 1995). It is also possible to add other countries to the Hall and Soskice typology. Adam, Kristan and Tomsic (2009) find that Estonia follows a liberal market characterization, while Slovenia corresponds to a coordinated market economy profile.
different national cultural backgrounds, they have to provide a standard and a consistent corporate and global-wide learning framework for the management of local routines and change. This involves the development of key employees through attractive career structures, and in this respect Albert suggests that multinationals are more closely related to a German model than an Anglo-Saxon one.

Over the years, at least up to 2008, many scholars discern a degree of convergence between large multinational firms. So, for example, Japanese firms may have come closer to American ones in response to merger and acquisition activity (Dore, 2008; Lechevalier, 2007), and there has been a continuing trend for western firms to adopt versions of Japanese business methodologies and management philosophies (Liker, Fruin and Adler, 1999). In Germany, there is also some evidence of convergence in management ideas and tools (Carr, 2005). Although how deeply this goes may be open to question. For instance, Vitols (2001), in comparing British with German firms, notes that both have responded to the internationalization of capital markets by paying more attention to institutional investors and focusing on areas of core competencies. However, he makes a point that British firms define their core competencies in terms of developing new and often radically innovative markets, while German ones define competencies in terms of more traditional markets and incremental change.

The importance of reconciling the original values that have made a firm successful, with the adoption of new practices for successful international growth in the future, is a major strategic concern for many multinationals. This may give cause for them to want to distance themselves from a style of management which in the past has been associated with their country of origin. For example, the Doosan Group did not want to be understood as a Korean company, nor did it wish to apply a Korean working culture, especially in its foreign subsidiaries, but instead it has sought a corporate culture, which in its view is typically found in most successful global conglomerates regardless of national origin (Barton and Deutsch, 2008). Doosan may be right to downplay the importance of national culture, as there are indications from research carried out in the Asia Pacific area suggesting that it may have only a limited relevance to strategy (Singh, 2007). Certainly if a firm requires its employees, especially its senior managers, to communicate fully and confidently, this would seem to call for ways of common working that are independent of national cultures (Ohmae, 1990).

The responsibility for a multinational’s strategic management rests primarily with top management. This should involve an understanding of a threefold conceptualization of corporate purpose that clearly distinguishes between strategic change, the core routines defining an existing business model, and a corporate-wide organizational culture (see Figure 2). Vision is a statement of a desired future position. Mission is a statement of the core areas of the business, or the business model as it presently exists. Values are a statement of a firm’s way of managing, including those core competencies required to manage vision and mission.

Visionary purpose concerns strategic change that is radically innovative and is primarily associated with exploration. It is transformational and focused on an overall strategy for moving the firm forward and which is likely to change its existing business model. Missionary purpose involves incremental improvement and is primarily associated with the exploitation of knowledge of existing routines that are presently central to the delivery of the customer value that sustains competitive advantage. Values relate to the required business methodologies and management philosophies that an organization’s people need as core competencies to manage vision and mission together as an integrated strategic management system. To illustrate how the three can fit together, a hoshin kanri approach is used below.

Hoshin kanri has been used by large Japanese firms since the 1960s, but today it is used by many multinational firms regardless of country of origin. It goes under a variety of names, including its direct translation, policy management (Witcher and Butterworth, 1999, 2000, 2001). It is a firm-wide strategic management system for the deployment and incorporation of strategic priorities in daily management; the priorities are typically ones designed to move a firm forward to achieve a strategic vision (Witcher and Chau, 2007). The critical success factors are identified and evaluated for their urgency and breakthrough potentials and form a basis for setting ‘hoshins’ (the priorities). These are designed as a handful (no more than a half-dozen) of briefly stated

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objectives, which the rest of the firm takes as its annual priorities to align functional and other objectives and supporting management systems (including budgets, appraisals, other review systems) in annual planning, and to agree the bottom-up strategies and means to make an effective contribution over the coming year.

In Figure 3, a matrix is used to represent the relation of the functional areas of a firm (shown at the top of the figure) to cross-functional concerns (shown on the left-hand side of the figure). Cross-functional management is linked directly to the current strategic needs of a firm’s vision; this takes account of the four areas shown in the boxes on the figure’s left-hand side. These correspond to the perspectives that are used to group strategic objectives and measures on a balanced scorecard (Kaplan and Norton, 1996). In fact, the grouping of strategic objectives in hoshin kanri predates the balanced scorecard, which was developed from hoshin kanri practice in the early 1990s. The nature of hoshins, or strategic priorities, is that they are based on those strategic objectives that require urgent breakthroughs in shorter-term performance that are organization-wide. To achieve these, the routines of daily management have to be aligned in planning to ensure that firm-wide objectives and organizational learning are driven both by outside-in and inside-out influences.

This is done at the beginning of a planning cycle, when a senior management team identifies the functional and cross-functional areas that are critical in relation to the current status of a medium-term plan, typically of three years’ duration. Functional objectives are reviewed inside-out for their continuing impact on the mission of the firm, and cross-functional objectives are reviewed outside-in for their impact on moving the firm to a new substantial strategic change based on vision. The senior management team decides the hoshins, which are designed to change existing routines. The team’s members play a proactive role in carrying out strategic reviews and implementing follow-up actions on the progress of the hoshins throughout the year.

The team also oversees the more numerous incremental objectives, or the key performance indicators of continuous improvement, which are used diagnostically by senior managers to check the health of the firm in its key value-adding processes. A senior level only becomes involved in these directly by exception. It is important to clarify and specify those core business areas (in Figure 3 these are indicated by a value chain), which are important to the delivery of value and a firm’s competitive strategy. Without this, the nature of a firm’s requirements of its firm-wide competencies will be difficult to understand (for a scholarly appreciation of this implication, see Chau and Witcher (2005)).

For example, our research of hoshin kanri practice at Nissan found that the group uses a corporate business model consisting of 13 core business areas or cross-functional capabilities (one of these

Figure 2. Three dimensions of corporate purpose
is its hoshin kanri process itself) (Witcher, Chau and Harding, 2008). Nissan also specifies seven corporate-wide core competencies, which are: daily control, the determination of hoshins, the coordination of hoshin development and deployment, the establishment of control items (that is, functional-based incremental objectives), analytical and problem-solving abilities, check and action taken, and leadership and participation by high-ranking personnel. This last one is important, as it defines a form of leadership that involves understanding the organization in a way that is not micro-management, but aims to understand how strategy is implemented and executed.

Nissan’s corporate headquarters uses a top executive audit of its subsidiaries to understand and influence how managers and other employees are developing and using their core competencies in the 13 core business areas. This requires that the seven core competencies are used annually as audit items, so that they can be appraised for the level of practice and learning in each of the 13 capabilities. After the audit, a two-page summary is issued across the corporate group as a whole, to compare how different subsidiaries score in terms of the level of development they have reached in each of the core competencies. Thus the auditing activity is visible in a way that acts to confirm a top-level commitment to the Nissan Way – a set of published cross-functional values that underpin the core competencies of the Group as a whole.⁶

The use by top management of a firm-wide audit to configure, develop and sustain core competencies is a classic example of a dynamic

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⁶In 1999, Renault and Nissan entered an alliance and, while they maintain their separate identities, both firms make use of the same management philosophies and business methodologies, including hoshin kanri.
capability as articulated by Teece, Pisano and Shuen (1997). They suggest that a dynamic capability is necessarily a high-order one, which acts to influence lower-level capabilities and competencies. As such, it is possible to imagine a firm as a hierarchical nest of dynamic capabilities inserted into each other like a set of Russian dolls. Winter (2003), in relating the notion of capabilities to the broader concept of organizational routines, suggests that dynamic capabilities are high-level routines that contrast with ordinary (or operational) capabilities by being concerned with change, and that their nature governs the rate of change of ordinary capabilities. Ambrosini, Bowman and Collier (2009) take the idea further by proposing levels of dynamic capabilities. The first level is concerned with the continuous improvement of strategic resources, the second with renewing them, and a third level is associated with the regenerative dynamic capabilities that are used to bring changes to the other two levels. Following this conceptual scheme, level one at Nissan is the management of its core business areas or capabilities. Level two is the use of the top executive audit of core competencies. Level three is the determination of hoshins to make breakthrough changes in the core business areas and core competencies.

The degree of corporate involvement associated with hoshin kanri was originally embedded in Japanese firms as a country of origin characteristic. At the time when the Japanese were first introducing centrally coordinated cross-functional structure during the 1960s, western firms were moving away from management by committee towards devolved and divisional forms of corporate control (Jantsch, 1967). However, there is evidence that multinationals are focusing centrally much more now on firm-wide strategic objectives, in ways to allow them to align subsidiaries around a common strategic vision, which the centre links to a centralized performance management system (HayGroup, 2006). This type of involvement by corporate headquarters in their subsidiaries’ management practices is noted in the international human resource management literature as a primary mechanism for exogenously driven innovation (Ferner, Quintanilla and Varul, 2011); in other words, as an outside-in dynamic capability for exploration in organizational learning. The nature of corporate involvement by Nissan to influence how its people manage the core areas of the business in the firm’s subsidiaries rests less on a formal approach to performance control, as a potential for what Ferner, Quintanilla and Varul term social control, for ‘networking and the resulting acculturation of managers into the cognitive perspectives of higher levels of the multinational company’ (Ferner, Quintanilla and Varul, 2011, p. 503).

In this paper, we argue for more convergence in the strategic management of the large multinational firm and, as an example, use hoshin kanri at Nissan as an approach that can be used as a dynamic capability for managing core competencies so that employees across the firm can manage bottom-up those top-down strategic priorities of the corporate centre. The word ‘hoshin’ in its original linguistic context translates rather fancifully as the bright light reflecting from a silver needle of a compass to show the way to go forward. The central strategic principle is that a multinational parent acts to show the way forward, or a vision, as a guiding point of reference to enable its different subsidiaries to make their own decisions on how to contribute to direction. Good strategic management requires both top-down direction to achieve a firm’s overall purpose, and bottom-up decisions on the means for achieving this purpose. The extent to which top-down is driven by exploration and bottom-up is driven by exploitation in organizational learning depends ultimately upon the judgement of those who are managing a firm’s strategic management. Neither should come first so that one is favoured at the expense of the other, but both should be managed in ways that will achieve the purpose of the firm.

Much of the international business literature is about the degree of central direction and its part in the control of overseas subsidiaries. The globalized and transnational forms7 of international firms discussed by Bartlett and Ghoshal (1989) and Rugman, Verbeke and Yuan (2011), for example, are highly organized and collaborative, which compares with the arm’s-length management by a parent of its subsidiaries for the multi-domestic firm. From an institutionalist

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7A global structure is associated with a global product and service that can be offered in the same way for different countries; while a transnational structure is associated with making variations of a global product and service to offer them differently in different countries.
and business system perspective, Whitley (2001) points out that it is the commonality across and within subsidiaries that is important. Hoshin kanri is about using a participative and shared commonality of direction, rather than command and control. The emphasis is on everybody managing strategically.

The global firm and responsible management

This paper has considered the varieties of capitalism thesis of Hall and Soskice (2001) for what it implies for the general approaches used by firms in their strategic management. The structural break produced by the financial global crisis of 2008 is a fundamental event in the general environment of the firm, which is likely to require firms to rethink their purpose and strategic management (Rumelt, 2008). During the years leading up to 2008, firms with headquarters in liberal market economies may have performed relatively better than those based in coordinated market economies. If since then, however, world trading conditions have slowed down or altered, this may change. Firms in a coordinated market economy may be favoured. There is also the possibility of new emergent firms from other economies with new varieties of capitalism. This paper has focused on the older capitalism economies of the West and Japan, but the continuing development of Brazil, Russia, India and China (the so-called BRIC countries: see Wilson and Purushothaman (2003)) is likely to involve and evolve different varieties of capitalism and new types of multinational firm.

What hope is there then for convergence in varieties of capitalism, and what form of strategic management is best? Of course, variations in national capitalism will continue, but so will globalization and the growth of multinational firms. Large firms are likely to continue to transmit managerial and technological accomplishments to their subsidiaries and also among themselves. In doing this, as business history shows, they will also transfer norms and what they perceive to be the best ways of doing business (Wilkins, 2010). It is certain that no single best way for strategic management exists. Approaches consistent with those firms associated with either a liberal market economy or a more coordinated one will suit different times and places. However, it is likely that, regardless of everything else, management matters, and for the ever growing larger multinational, its need to embrace a diversity of national cultures and languages means that it must take a balance of an inside-out view of its strategic management as much as it does an outside-in one.

Is the present economic recession really a structural break that will speed up the need for more balanced forms of integrated strategic management in multinationals? It is very possible, especially if it encourages countries such as China and India not to converge too much in the direction of a liberal market economy. Periodic crisis is inherent in market capitalism, as all growing markets become over-heated and sooner or later crash back to realistic levels. However, this present one may be different and longer-lasting. In the view of McKinsey’s global managing director, Dominic Barton, the financial crash was much more a result of how firms are run than it was an economic phenomenon (Caulkin, 2011). This line of thinking goes beyond questioning western modes of corporate governance to how executives actually understand and strategically manage their firms. Management is not taught much in business schools—they teach business. But in dealing with the financial crisis and its aftermath, this is what responsible management is all about, knowing how to manage properly.

The varieties of capitalism thesis is simplistic, perhaps overly simplistic (Herrigel and Zeitlin, 2010). However, the important question about any level of the degree of abstraction from what is an overarching, complex and dynamic reality, is why such a typology is used and to what useful effect. We think that the study of the multinational firm from the viewpoint of its country of origin casts a new light on how strategic thinking and practice might differ for large multinational firms in a dynamic global context. In the end, it is how people and leaders see the world, which has consequences for how firms manage strategically, especially how firms do this at a daily management level.

References


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