**APPENDIX B: DATA, METHODS, AND DETAILED RESULTS**

**Geographic Setting**

We explored executive rationale in five geographic settings: Germany, Hong Kong, Japan, South Korea (hereafter ‘Korea’), and the United States. The US is the origin of most business and management research and theory, while Germany is the primary exponent of an alternative Western way of structuring an economy (cf. Hall & Soskice, 2001). The Asian contexts were chosen as representing the three major Asian business systems identified in prior research: Chinese private business, Japanese business, and Korean business (Whitley, 1992, 1999). Of these, the latter two are territorially bound, while the former spreads across East Asia. While we make no claim to present a representative picture of private Chinese business throughout Asia, prior evidence suggests a shared mindset among ethnic Chinese businesses in the region (Redding, 1990) exerting strong influence on private business in the People’s Republic (Ralston et al., 2006; Redding & Witt, 2007).

**Data Collection**

We collected our data through interviews of current or recently-retired senior management members of major local firms. The interviews took place in 2002 and 2003 in Asia and Germany and between 2004 and 2007 in the United States. We interviewed 74 executives in total: 17 in Germany, 10 in Hong Kong, 17 in Japan, 15 in South Korea, and 14 in the United States (Appendix A).

Access to interviewees was based on existing relationships and third-party introductions. As common for research in this vein, our sample is thus not random. We used multiple introductions from mutually-independent sources to minimize sampling bias, and our analytical method for identifying the main elements of rationale (described below) is robust against outlier opinions.

Our general approach followed Redding (1990), using semi-structured in-depth interviews. The interview schedule comprised a range of questions designed to elucidate views of why firms exist and what the ideal institutional structure of an economy might look like. This paper focuses on the former.

Except for four phone interviews of US executives, all interviews were conducted face-to-face. Average interview duration was slightly under one hour per executive in Asia, and 45 minutes in the US. All interviews in Germany were in German, and all interviews in Japan except one (by interviewee choice) were in Japanese. All other interviews were in English.

**Data Analysis**

Following Redding (1990) and Witt and Redding (2009), we determined the core elements of the rationales expressed, using exploratory content analysis. Working with verbatim transcriptions of the interviews in the respective original language, we identified all relevant propositions, i.e., statements of why the firm exists. Given the idiographic nature of this study, we did not base our analysis on pre-determined coding categories, but let interview contents define them (Altheide, 1987; Krippendorff, 2004; Redding, 1990).

To each meaningful statement thus identified, we assigned a value from -3 to +3, following the scheme summarized in Table 1. This enables us to obtain an overall measure of affect – support or rejection – of each category by calculating the mean across all statements thus coded.

\*\*\* Table 1 about here \*\*\*

We verified the reliability of coding with the help of referees and appropriate statistical tools. We gave research assistants without prior project involvement a list of coding categories and a one-hour explanation of the process and let them code randomly-chosen segments amounting to 5 percent of transcriptions for the given country. Their agreement with our coding was 90.0 percent for Hong Kong (expected by chance alone: 22.8 percent), 86.4 percent (8.0 percent) for Japan, 87.9 percent (20.8 percent) for Korea, and 90.5 percent (23.1 percent) for the US. Cohen’s kappa, a measure of intercoder agreement (Cohen, 1960), was 0.87 for Hong Kong, 0.85 for Japan, 0.85 for Korea, and 0.88 for the US, well above the strictest threshold (0.75 to 0.80) specified by methodologists (Banerjee, Capozzoli, McSweeney, & Sinha, 1999; Popping, 1988).

Our final analysis identified core elements of rationale by salience, measured by the number of interviewees discussing a given category. To ensure broader validity of results and exclude outlier opinions, a category must be mentioned by at least half of the interviewees (for odd-numbered sample sizes, (N-1)/2 of interviewees) to be included. We further explored outlier opinions for hints at emerging trends. Consistent with the research objective of capturing the dominant modes of thinking among the current dominant coalition of mainstream firms, we did not find any clear indications of emerging trends. However, we did find shadows of the past in the thinking of especially the older executives in the same, and where these are significant, we mention them in the findings below.

For ease of presentation, we prepared graphical representations of our findings (introduced below). In these, circle size expresses salience, and circle shading, affect. The bigger the circle, the higher the salience, and the lighter the shading, the more positive the affect. For each element, we indicated the numerical values of salience as a percentage of the total sample as well as that of average affect. Lines between elements denote conceptual linkages drawn by the interviewees. Where several related elements are linked, we have encompassed them in thick ovals to reduce clutter. A line between an individual element outside an oval to an individual element inside it suggests a connection between these two elements only. A line between an individual element outside an oval and the oval itself, by contrast, indicates a connection between the outside element and all elements inside the oval. We follow standard ethnographic practice and retain expression as close to the original as possible, regardless of grammatical or stylistic correctness (cf. Witt & Redding, 2009).

**Germany**

Key elements in German rationale were shareholders, production, employees, society, and profits (Figure 1).

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

Most German executives tended to regard productive functions as the firm's key reason for existence. Indeed, 53 percent of interviewees began with reference to production. The most proximate beneficiary of the provision of goods and services was seen society at large, with some intersection with the notion of providing for customers’ needs. Accordingly, a common theme across all industries was the meeting of basic societal needs and market demand:

‘Our firm is an undertaking that has dedicated itself to the provision of basic needs’.

Executives from finance and other industries providing fundamental goods or services particularly stressed their firms' contribution to enabling economic activity. Other executives, especially those from other industries, emphasized facilitating life as we know it and propelling social progress through innovation.

Inherent in many propositions with this theme was a sense that firm activities and survival were not discretionary, but ‘a duty to provide to the market’.

About one-third of interviewees began by discussing benefits for the firm's various stakeholders. While the productionist view noted earlier stresses the provision of goods and services, the stakeholder view focuses on who shares the economic surplus created by the firm. The complementary nature of these views is evident in the fact that most interviewees opening with one theme subsequently referred to the other as well. For example, having emphasized the importance of his firm in providing services to society, one executive continued:

‘For whom does [the firm] do this? It does this for its shareholders, it does this for its employees, I have already talked about the customers, and in that it at the same time fulfills a social task’.

Both themes thus coexisted in the minds of most interviewees, though variation in the order in which executives evoke them suggests a difference in salience for unknown reasons.

Shareholders were both the most salient and least loved stakeholder. No executives favored pursuing shareholder value. Most never mentioned it, and when the topic was discussed, interviewees were typically diffident:

‘I consider an exclusive focus on shareholder value, however one defines it, highly questionable’.

The rejection of shareholder value does not imply that shareholders did not matter. Most recognized shareholders’ right to a return:

‘We have [a large number of] shareholders, and they are the owners of the firm, and we have to generate a decentreturn for them’.

What rejecting shareholder priority *does* imply is that the interests of financial capital did not supersede those of other stakeholders.

Eighty-two percent of executives mentioned employees. Their emphasis was on the firm's role in creating and maintaining employment, seen as a dual obligation toward society and employees:

‘We have of course at the same time the duty, and we also understand it that way, accordingly to employ people in a reasonable environment’.

In addition to providing employees with a livelihood, some suggested a desire to help employees pursue personal fulfillment and self-development.

Seventy-one percent identified society as a stakeholder. No dominant themes emerged, with the discussion ranging from topics such as corporate citizenship and sustainability to philanthropy, taxes, and employment provision. To the extent that they offered a stakeholder rank order, none put society first – though accepted as primary beneficiary of the provision of goods and services, society seemed to be a subordinate beneficiary *vis-a-vis* the distribution of surplus.

There was widespread recognition among interviewees of the legitimate claims of all stakeholders as well as of complex interdependencies:

‘If you have no employees, you have no firm’.

‘People are not the abstract capital of the dividend. They are supposed to serve their firm so that people in the firm flourish, and in order for them to flourish, capital has to increase to the maximum extent and has to be served properly, just as I cannot kill my suppliers’.

Not only did most executives avoid ranking stakeholders, some rejected even the possibility of a ranking, arguing that ‘prioritization actually leads into an intellectual dead-end.’ Those who did refer to rank order offered views that varied across interviewees, some even changing their rankings during interview.

A final element in German executive rationale was profits. There was wide consensus that for a firm to serve its various stakeholders, it must generate profits:

‘Jobs and everything need to be paid for. That is, the firm needs to be profitable. And that is something that this firm owes to society: to deliver money’.

Intriguingly, most of this discussion occurred without reference to customers, to whom only 7 (41%) executives referred.

**Hong Kong**

Key elements in Hong Kong rationale were family wealth and charity, shareholders and society, and employees and status (Figure 2).

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

Central was the creation of family wealth, emerging as both an initial driving force for starting a business as well as a continuing motivation through the generations:

‘[For] most of the business enterprises in the society, creating wealth for themselves… their family members would probably be the initial driving force’.

Family wealth, in turn, was conceptually linked to shareholders. Sixty percent of the executives referred to this element, a surprisingly small number given the recent prominence of shareholders and shareholder value in international corporate discourse. Some statements were consistent with a focus on shareholders or at least their acceptance as a key stakeholder:

‘Very simple, [the rationale is to] create shareholder value’.

Some shareholders – specifically, families holding a controlling stake – seem to matter more than others:

‘Hong Kong families, many of them, they don’t treat minority shareholders that well… Some of these, you know, even very big companies’ stocks never performed because of that in Hong Kong. They do business with their own family companies’.

Closely connected with the generation of family wealth was social status. Queried about forces driving him to generate wealth, one owner quipped:

‘My incentive is very simple: I have an expensive wife’.

While this may seem a joke, the ability to sustain a wife with expensive spending habits – a ‘taitai’ (‘madam’) – is a public signal of financial success and thus a status symbol, similar to the Western ‘trophy wife’. Other interviewees made the linkage between family wealth and status more directly:

‘Rich without recognition in the Chinese sense is less desirable’.

Status was further linked to being a *controlling* shareholder:

‘control is recognition, equals recognition. So if you walk down the street and your name is affiliated with a successful firm, Chinese in fact will say, oh, here is the boss. You know, doesn’t matter whether you are physically operating the business or not. Right? Here’s the boss. You know, and everybody will call you by the name boss’.

The same executive continued to explain that many families refused to cede control over their businesses because it was ‘very, very important for [the owner] to walk around in his business and everyone calls him boss. You see. So I don’t [think] they would ever sell the business’. This suggests that one function of employees is to provide status.

Further linked to family wealth was charity, seen as a noble but subordinate objective to be pursued once wealth had been attained:

‘The firm is to invest the minimum and make a lot of money. After I make a lot of money, then I think social work is one of the ways I spend my money’.

Accordingly, charitable engagement was described as being in its early days in Hong Kong.

Inherent in charity is a notion of social contribution, a linkage evident in statements like this:

‘The possibility to use wealth, to use the creation of wealth to engage in philanthropy, not only to have it for one’s own purposes or to work toward family goals, but also to try to have sufficient savings and income that makes it possible to support society’.

There seemed to be a threshold effect linking societal concern to attainment of family wealth:

‘Once they reach to a certain stage, probably they will be begin to think beyond creating wealth or to the stage that wealth is sufficient enough that they don’t have to worry about then they will cross to the next level of… contributing back to the society’.

In addition, social contributions were seen as a means toward attaining status.

Half the executives mentioned employees, with the lowest affect of all elements. Though identified as a stakeholder, employees were neither well integrated into the mental landscape nor discussed in depth. The linkage with society was evident in statements such as the following:

‘In social responsibility, I think that the companies in Hong Kong, this company anyway, is responsible to its employees’.

Accordingly, a number of executives emphasized the importance of employees, one referring to them as ‘most important to us’ and others mentioning them as a key stakeholder alongside shareholders. At the same time, comments suggested relatively limited interdependence between corporate leaders and employees. For instance, one executive pointed out the importance of giving employees bonuses and further incentives because ‘in our business, normally our professionals, they always move from one company to another’. Another suggested that the reason Hong Kong firms preferred labor-intensive to capital-intensive activities was that it was easier to lay off staff than to sell equipment.

**Japan**

Key elements of Japanese rationale were society, employees, shareholders, profits, customers, production and stakeholders (Figure 3). Society, employees, shareholders, customers and stakeholders are inter-linked and thus enclosed within a large oval.

\*\*\* Insert Figure 3 about here \*\*\*

Most Japanese executives regarded stakeholder value as the key rationale. Indeed, half used the word ‘stakeholders’ explicitly, making Japan the only economy here to include stakeholders in their totality as a category. Executives tended to underline that all stakeholders were important:

‘I think in a way that the [the firm exists] for the purpose of all stakeholders’.

This emphasis on all stakeholders was a repudiation of pressure to focus on shareholder interests. In the words of an executive from a major manufacturer:

‘Not like that American-style “shareholder only”, not that way of doing things, but managers have after all a responsibility toward all stakeholders’.

In terms of specific stakeholder categories, executives tended to stress the importance of society, employees, shareholders, and customers.

Most salient among stakeholders was society at large. Validating the firm's activities in the eyes of society was perceived as more important than business success:

‘For a manager, the most important thing is not to improve the business results during one’s time. Rather, I think it is extremely important that when one passes [things] on to the next manager, to what extent the firm is one whose shape is accepted by society and that one can ensure the permanence of the firm’.

Executives tended to attach similar salience and affect to their employees, with 82 percent of interviewees identifying employees’ well-being as an objective. A focus of attention in terms of firms’ contribution to employees was remuneration, with attendant benefits for living standards and family stability:

‘I think when you pay the employee, the standard of living of the employee goes up … first you have to distribute the part that the worker leads a life in which he can to some extent be content’.

In addition, several executives touched on the theme of the firm as a place of self-fulfillment, where employees could find ‘self-satisfaction’ and develop their personalities and interests. The emphasis on existing employees contrasted with a limited stress on the creation of employment. Executives perceived a sense of duty towards existing employees, less so to creating new jobs.

Shareholders were less enthusiastically included as stakeholders, seen apparently as a necessary evil. For instance, having emphasized the importance of employees, one executive continued:

‘However, if you make light of shareholders and the firm as a consequence goes under, that is it. That is why we pay dividends to shareholders, within tolerable bounds. After all, this is the shareholder era’.

To the extent executives discussed shareholder value, they tended to denounce it:

‘Shareholder value, well, doing things like increase performance at that time, and that the managers should get more, well, I believe that this is rather dangerous’.

There was also no sense that shareholders have the right to determine company fate. One executive used the analogy of the relationship between parents (shareholders) and children (companies). While parents had a right to expect gratitude (dividends) from their children, they had no right to control how their children led their lives.

Customers constituted the least salient group of stakeholders, with 59 percent of executives referring to them with high positive affect. Providing value and even enjoyment through goods and services emerged as central theme in this category:

‘It is our basic spirit to do work that is useful for the customer by making perfect products’.

Implied, and in most cases expressed, was a positive view of production and service provision in themselves (represented in the figure as ‘production’), though executives did not elaborate further.

While executives saw clear linkage between customers and profits, they tended to emphasize that customers had priority over profits. In this view, profits follow naturally if firms serve customers well:

‘You do not start with [the idea of] making profits, you offer the customer the best product’.

Some executives also identified the delivery of good products to customers as one way of serving society.

A majority of interviewees regarded profits as important, though not as an end in itself, but as an enabler of firm survival and the pursuit of benefits for stakeholders, as previously discussed:

‘We offer a useful [product] to society and the customer. In return, we make a profit. Because there is a profit, we can employ our employees, and we can offer various useful [products] to society’.

However, there were important qualifications. One, as already mentioned, was that customer satisfaction came before profits. In addition, while affirming the importance of profit as such, they tended to reject profit as main or sole objective:

‘Well, contribution to society is also our work. If we just do [business] saying all is fine as long as we make money, things get strange’.

Similarly, a number of executives spoke out against a focus on short-term profits and maintained that firms should resist the temptation of taking ‘easy profits’ without providing genuine value to customers.

**Korea**

Key elements of Korean rationale were profits, employees, shareholders, charity, society/community, and development (Figure 4).

\*\*\* Figure 4 about here \*\*\*

Central was the generation of profits, emphasized by 80 percent of executives with statements that tended to be short and categorical:

‘I think the most important thing, of course, is to make money. Otherwise there is no need. A firm losing money is kind of crime and mak[ing] money [is] very important, firms must be going concern[s]’.

This emphasis on profits seems linked to the 1997/8 Asian financial crisis, during which a number of large Korean companies went bankrupt; a highly salient two-thirds of executives referred to this experience.

The centrality of profit naturally leads to the question, for whose benefit? Eleven executives suggested shareholders. Some endorsed shareholder value, likewise a reaction to experience of the financial crisis, but most seemed to espouse a form of stakeholder-value view in which shareholders’ interests were just one, and not necessarily the most important, component:

‘Obviously first and foremost objective is to try to generate profit for the stakeholders, not only for the shareholders, but also all the employees, stakeholders’.

Underlying this ambivalence seemed to be a sense that the relentless pursuit of shareholder value was self-limiting and thus in need of balancing:

‘if you really minimize expense, then shareholder value is maximized. But can you do that continuously? So in order to maximize shareholder value continuously in the long run we have to be balanced’.

Accordingly, several executives expressed the desire to run their business in the ‘spirit of a family’ and as one ‘combining incentives and all the hard driving factors that drive a typical company in the West [i.e., the United States]’ with ‘more feel to it so that the employees feel like they are in a very friendly organization’.

This perceived need for balance provided a conceptual linkage to a second stakeholder group, employees. Some saw employee relations in instrumental terms, such as shareholders’ interests:

‘As our employees work hard, they make more profit and as a result more dividend and we can pay more tax. Our priority should be the closest one to us, which is our employees’.

However, a majority stressed the importance of employees as an end in their own right for whose benefit profit is made, rather than as a means toward generating shareholder returns:

‘[The rationale is] the pursuit of happiness by giving satisfaction to a) employees, executives and all working for the company, b) customers and other stakeholders’.

Society emerged as a third major stakeholder in the Korean executive mindscape, with 67 percent touching on this topic. Some merely identified a generic obligation to be a good corporate citizen – ‘industry must be a good citizen for society’. Others were more specific, identifying various means of meeting their felt obligations to society:

‘We have to return the profit, some of the profit back to society’.

‘We have to leave something in society. So we created a big foundation’.

These statements imply two connections with other elements in Korean rationale: of profits as enablers and of charity as a means of societal contribution.

Seventy-three percent of executives discussed charity. The general consensus was on making donations to good causes:

‘So once the corporation makes money, they try to contribute to society. Like the welfare foundation. They support the cultural activity, the music, dance, performance, live performance, and the social activity, the health care center, the hospital’.

In addition, contributing to national development emerged as a further aspect of societal contribution. A major theme in this discussion was that firms exist not only to generate wealth, but also to promote national interests by aiding Korean economic development:

 ‘I always wanted to see Korea is maintaining the leading edge of industry’.

‘Still we are low level of income and concerning the international standard, or some investors’, so we are still eager to focus on the economic growth, development’.

With one exception, interviewees emphasizing this category tended to be older, suggesting that this perception of rationale will disappear over time.

**United States**

Key elements of US rationale were shareholders, employees, customers, society/community, production, and employment (Figure 5). Society, employees, and customers are stakeholders that are mutually linked; we thus enclosed them within a large oval. The shareholder category could in principle also be included in this oval, but given its dominance over the other stakeholder categories and the tendency of US executives to juxtapose shareholders with other stakeholders, we left it standing alone .

\*\*\* Insert Figure 5 about here \*\*\*

Shareholders were by far the most salient element in US rationale, affirmed by numerous short unambiguous statements:

‘[The reason for the existence of the firm] is to create value for the investors, for the shareholders of the company’.

‘[The reason,] it’s shareholder return’.

Executives accordingly tended to regard other stakeholder interests as secondary, usually in relation to their instrumental value toward creating shareholder value:

‘The primary objective being a shareholder objective, leads some secondary objectives which are all about, you know, satisfying products, happy customers, a community that use them as a reasonable participant in the community’.

Slightly more than half the interviewees referred to production of goods and services. Most saw production as a means toward the end of serving shareholders. As one executive summarized,

‘The number-one objective, I believe, is to serve the group of people who have bought into the idea of “let’s have a company to provide these kinds of products in order to have a financial gain for us the shareholders”’.

However, several executives, while acknowledging the importance of shareholders as a constituency, considered productive activity their core mission: e.g., ‘to provide an essential product or service that is either needed or desired by the population, the customer base to be served’. Executives emphasizing the production of goods and services tended to be relatively senior, and perhaps more reflective of US rationale before shareholder capitalism gained dominance in the 1980s (cf. Fligstein, 2001).

Conceptually, production, with concomitant innovation, was regarded as a social benefit:

‘Society at large will be benefited by new things, or new services, new luxuries being provided, or existing things being provided at a lower price’.

Next to shareholders, interviewees identified three salient groups of stakeholders: employees, society/community, and customers. There was a clear sense that employees are a less important constituency than shareholders:

‘If you really had to put a rank on them, you would put the community and the employees at a lower but important priority’.

While ‘historically, the firm also existed for the benefit of our employees,’ our interviewees seemed to view employees primarily as means towards other ends, as well as a potential constraint:

‘You can’t just do anything in order to increase shareholder value, if it’s sort of hurting your employees. Because ultimately if you are hurting your employees, or at the expense of your employees, you are not going to create a lot of shareholder value’.

In order to secure the requisite degree of cooperation from employees, ‘companies need to make sure their employees are being appropriately paid’.

Seventy-one percent of executives mentioned society/community. Some saw society/community as a beneficiary of firm activity, claiming that ‘by all that profit-seeking, we end up with something much better for society’ or pointing to the social value of providing goods and services. Most, however, identified society/community as a constituency ‘to be very conscious of, as long as there is some benefit to the bottom line’ and thus a check on the primary objective of the firm, shareholder value:

‘You want to be a good citizen in the community, but not because good citizenship is good, but because if you are not a good citizen, you will be punished and you will not be able to make a profit for your shareholders’.

Half the executives cited employment provision as a contribution:

‘I mean you are generating jobs. I mean, if you think of it, maybe the biggest contribution at the end of the day, other than the products themselves, is generating jobs’.

Corporate social responsibility (CSR), by contrast, was mentioned by only 14 percent of US executives.

Executives further recognized customers as stakeholders. As already evident from earlier quotations, most asserted that shareholder interests supersede those of customers, who seemed to be a means toward profits:

‘You certainly want to satisfy your customers. But I don’t believe you want to satisfy your customers in and of itself, you want to satisfy your customers because that is what you have to do to make a profit from your customers’.

In this context, profits took precedence over customers; otherwise, ‘new owners will come in and they will say, we will give less to the customers, because you are giving stuff to the customers that isn’t getting paid for’.

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Table 1. Coding scheme for affect

|  |  |  |
| --- | --- | --- |
| **Value** | **Meaning** | **Example** |
| +3 | affirmation through action | ‘We have increased our shareholder value by 50%’ |
| +2 | affirmation | ‘Shareholder value is important’ |
| +1 | tentative affirmation | ‘It seems to me that shareholder value is important’ |
| 0 | neither affirmation nor rejection | ‘I have no opinion on shareholder value’ |
| -1 | tentative rejection | ‘It seems to me that shareholder value is dangerous’ |
| -2 | rejection | ‘Shareholder value destroys the firm’ |
| -3 | rejection through action | ‘We have trained our staff not to think about shareholder value’ |

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Figure 1. Executive rationale, Germany

**Figure 1. Executive Rationale, Germany**

**Figure 2. Executive Rationale, Hong Kong**



**Figure 3. Executive Rationale, Japan**



**Figure 4. Executive Rationale, South Korea**



**Figure 5. Executive Rationale, USA**

