

**CULTURAL DIMENSION OF THE FLIPPING COINS EFFECT: THE
PROMISING MODERATING EFFECT ON COMPETITION POLICY AND
STRATEGIC CHOICE OF FIRMS**

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ABSTRACT

Culture takes its crucial role in international business analysis for decades. However, it has not been much interested by policy studies. This study adopted Hofstede's cultural dimensions to analyze cultural moderating effects on competition law effectiveness and relationship between competitive market and firms' decision to implement strategy. These two related events are the consequences of so-called flipping two coins effect. Individualism dimension is selected as a representative of cultural dimensions that affect flipping two coins effect. This study eventually provides the predictions on the effects of culture which should be taken into account by both policy makers and practitioners.

Keywords: Flipping two coins effect, Individualism, Collectivism, Leniency program, Cartel

1. INTRODUCTION

As competitive market becomes a crucial creator of prosperity for both firms and customers, this can be seen through two choices available for firms, that is, market power/malpractice or strategic choice. Since, in reality, firms have no perfect foreseeing and possess imperfect information, they potentially see short run benefit of market power/malpractice as more prominent choice comparing to strategic implementation. However, the former choice's success depends on the market size of domestic market. If the domestic market is large enough (relative to the world market); firms may yield economies of scale and probably international performance. However, if domestic market is small (relative to the world market), there is nothing left for firms to exploit in order to overcome liability of foreignness. In the long run, globalization pressure becomes more intensive and national boundary becomes less meaningful (Ghemawat, 2003). This scenario is such that domestic and international performances are merged into global performance. This hence ruins validity of using market power, especially if domestic market is small.

Strategic choice by firm means the action of firms (as a decision maker) such that they choose to implement their competitive strategy instead of using market power. Furthermore, competitive strategy means any possible methods or choices that firms can make to compete among themselves fairly and contestably. Contestable competition stands for the situation where small firms can "challenge" larger firm through their competitive advantages developed through strategy implementation. On the other hand, fair competition stands for the situation where larger firms cannot purposively expel small firms out of market by using the tools where small firms cannot properly compete with, e.g., dumping. This definition applies to same-size firms in reciprocal sense, that is, they have to be both contestable and fair among themselves. Moreover, size of firm means the level of market share they have in given industry and market. This definition is a modified version of competitive strategy definition by Michael E. Porter in a broader perspective (Porter, 1985). In 'Competitive Advantage' book, briefly, competitive strategy consists of moves to attract customers, withstand competitive pressures and strengthen firm's market position. The objectives of these moves are in order to earn a competitive advantage.

All arguments above shall be incorporated with culture. Traditionally, cultural dimensions are widely adopted to explain many international business phenomena (Kogut & Singh, 1988) (Hill, Hwang, & Kim, 1990). However, the studies of policy and its effects have not included culture into their own analysis (Apesteguia, Dufwenberg, & Selten, 2007). In reality, culture significantly influences people including firms' behavior. Therefore, in order to analyse firms' behaviors and its changes toward policy implementation, incorporation of culture should be sensible. This study hence tries to propose the effect of culture on the case of cartel-related policy and on the firms' behavior which is the consequence of competitive market created by policy.

This study scope on the case of cartel and its specific policy called leniency program. The reason shall be elaborated in the following section as the definition of flipping two coins effect will be provided. Moreover, this study put an emphasis on an individualism cultural dimension of Hofstede. It will be served as the representative of culture as a whole.

2. FIRMS AS REACTIVE ENTITIES: AN ABSENCE OF SECRET INGREDIENTS

Thousand of ways are all possible to reach the goal of competitive advantage, as you can imagine of how the different routes can lead to the same destination. This implies an importance of dynamic and flexible adjustment among competitors. Therefore, the "secret ingredients" (as many scholars believe they exist in a successful firm) may not be equivalently effective in the others (Barney, 1991). Time, place, and person also become among the key factors to success (Dunning J. , 2003). This is why both empirical evidences and conceptual arguments are still conflict with each other (Foss & Knudsen, 2003) (Peteraf & Barney, 2003). For this reason, I propose that institution cannot be simply and ignorantly treated as moderator or mediator as usual (Ricart, Enright, Ghemawat, Hart, & Khanna, 2004); on the other hand, it should be treated as a fundamental foundation of any mechanism toward firm's growth.

Each firm creates and accomplishes its unique competences. Different tacit knowledge, technological advancement, innovation or cost leadership can be actively adapted to respond to any stimulus to the firm. By this fundamental fact, it might be claimed that the nature of firms is simply about competitive market which directly affects firm's decisions to adopt effective and efficient business strategies. Therefore, a simple reason is that firms are required to be incentivized to react in desirable way. Institutional Perspective would be in a large flaw

if it considers firms as passive entities instead of reactive and proactive entities. Moreover, even though resources and capabilities of firms are derived or created within firms through their own processes and they are able to exploit these resources and capabilities as their competitive advantages, firms are still necessary to interact interdependently to continue and sustain their businesses across periods.

First Coin: Numbers Can Tell or Are Illusive?

First of all, I put my attention to the most lucid cue of anti-competition behavior which is a number of firms within industry. It shall be analogized as two-sided coin. On one hand, it could potentially be a good indicator of contestable and fair market because number can, at least, provides general cue on degree of competition within industry. The more number of firms in the market, the more intensive degree of competition can be expected. On the other hand, within this seemingly promising numbers of firms, it can also be unreal. “Cartel” could be invisibly formed and becomes a possibly undetectable violence. Across periods of time, this messes up the system of competitive market.

Second Coin: Cartel Is Evil or Promising

Another analogized coin of cartel is reviewed next. The widely accepted reason of cartel forming is to avoid the potential rivalry within the firms. Moreover, these firms are logically categorized in about the same level of competency. Consequently, one promising competitive arena is expected to be gradually eliminated because competition is not normally required in the situation. On the others, if the cartel is detected and discontinued. It implies a consequence which capable firms have to compete amongst themselves. It means dynamically competitive market would be triggered almost suddenly (no matter in time or other dimensional spans). According to this fundamental fact, we could look at the cartel as two-way possibilities, egregious or promising. Thereby, coin can be flipped independently due to firms’ mind and judgment. At the end of the day, this mechanism will lead firms to create their own capabilities, e.g. by innovation and absorption. Consequently, competitiveness of firms through this mechanism will lead to the competitiveness of nation as a whole.

3. FLIPPING TWO COINS THROUGH LENIENCY PROGRAM IMPLEMENTATION

The Thailand Fair Trade Commission has been founded since 1999. Up to now, it still has zero number of cartel cases in process. This phenomenon discredits the possibility that competitive market will be established in the near future. In addition, it can be reflected the failure of authority to detect the cartel behavior in the system, since, cartel is a potential behavior of firm where there is no control, as Adam Smith was mentioned. “People of the same trade seldom meet together, even for merriment and diversion, but the conversation ends in a conspiracy against the public, or in some contrivance to raise prices,” (Smith, 1776).

Cartel also holds some significant characteristics which they tend to keep dynamic relationship, and, most importantly, other members’ secret information. Leniency program was created and developed over period of time aiming to solve this problem. With the simple principle to offer the captured wrongdoers a lenient treatment, in exchange for cartel information, this policy will increase the net cost of cartel forming to exceed its net economic benefits. Eventually, deterrence effect will be occurred, and the “prisoner’s dilemma” scenario among the cartelists will also be created. I shall elaborate the mechanism of leniency program on dealing with cartel problem in the following section.

In conclusion, by flipping two coins effect, I mean the consequence starting from domestic competition policy (law) toward international competitiveness of firms. In the next part, cultural effect on this effect will be examined.

4. CULTURAL EFFECTS ON FLIPPING-TWO-COINS EFFECT

Kluckhohn (1981) defined the well-known definition of culture among anthropologists as the patterned way of thinking, feeling and reacting which is distinctive in each human group (Kluckhohn, 1951). Value plays it important role in almost all cultural dimensions categorization proposed by leading scholars. Kluckhohn and Strodtbeck (1961) defined his culture as the value orientation. Similarly, Trompenaars (1993, 1998) defined his culture in the sense of value and personal relationship where the later one was emphasized in the work by Hall (1981, 1990). Hofstede (1980, 2001), which I referred to as my main reference, also define

culture in similar fashion as follow. “The collective programming of the mind that distinguishes the members of one group or category of people from another” (Hofstede, 2001). Using values as the core of culture, practices is treated as the cover of the chunk of culture which can be separated into symbols (exclusively meaningful things in specific culture), heroes (exclusively model for behavior in specific culture), and, rituals (exclusively important activities in specific culture).

5. HOFSTEDE’S CULTURAL DIMENSIONS

One main reason of using Hofsted’s cultural dimension is because of its emphasis on national level. Even though, as Hofsted himself mentioned, the word culture is generally reserved for societies level, it could be applied to any human collectivity or category e.g. organization, a profession, or a family. Culture can be analyzed in variety of aspects e.g. its origins and sustainability. However, I put my emphasis on its ‘consequence’, as the main question of interest of this paper is on the transition process from competition policy toward more strategy implementation and its effect from culture.

“A better understanding of invisible cultural differences is one of the main contributions the social sciences can make to practical policy makers in governments organizations, and institutions—and to ordinary citizens.” (Hofstede, 2001). I selectively use the cultural dimension created by Geert H. Hofstede since it is claimed to be the dominant dimensions which affect human; as well as organizations and institutions; thinking, feeling and acting (Hofstede, 1984).

Individualism and Collectivism

“Individualism stands for a spciety in which the ties between individuals are loose: Everyone is expected to look after him/herself and her/his immediate family only. Collectivism stands for a societyin which people from birth onwards are intergrated into strong, cohesive in-groups, which throughout people’s lifetime continue to protect them in exchange for unquestioning loyalty.” (Hofstede, 2001).

Bierbrauer (1994) has related individualism and collectivism to legal cultures. He based this on extensive in-depth interviews with recent Kurdish-Turkish and Lebanese immigrants in Germany (collectivist) versus and edicationall matched group of Germans (individualist). His

main conclusion was that interviewees from the two collectivist groups ‘had a greater preference for abiding by the norms of tradition and religion and were less willing to let state law regulate in-group disputes.’ German, more individualist, interviewees ‘showed a clear preference for formal procedures and guidelines’. So legal norms are not universal, which means that appeals to legality in international or intercultural disputes are of limited value. (Bierbrauer, 1994)

Individualism/collectivism differences operate also within countries. Orpen (1982) reported a comparison of 90 black and 93 white clerks in South Africa. Peer and leader support were much more important for the blacks than for the whites; for the blacks this support moderated and satisfaction, but not for the whites. In countries with a dominant individualist middle-class culture, regional rural subcultures have sometimes retained strongly collectivist elements. The same applies to the migrant worker minorities that form majorities among the workforce in some industries in some individualist countries. Such cases risk a culture mismatch between mainstream managers and regional or minority workers. (Orpen, 1982)

Paradoxically, I can potentially interpret all dimensions with the behavior of firm in forming cartel and choosing to implement strategy. However, parsimoniously, I select one of the most obvious and hit-to-the-point dimension as the cultural dimension that potentially affects firms behavior of question (Peng, Peterson, & Shyi, 1991). I hence select collectivism-individualism as my main concern cultural dimension and the representative of cultural effects. Interesting, it has been confirmed by time-series study of Hofstede himself that there is no convergence between countries’ “mental programs” (Hofstede & Bond, 1984).

The main characteristics of cartel are the formation of firms and ruled by their agreement. Strength of bonds among cartel members, therefore, is very important for cartel sustainability and could potentially affect strategic choice of firms (Spagnolo, 2006). Culturally, “Collectivism-Individualism” is one of the well-recognized cultural dimensions in the world (Hofstede, 1980) (Nardon & Steers, 2009). Many leading scholars in cultural field take this dimension into their accounts e.g. Hofstede (1980, 2000), Trompenaars (1993), Triandis (1994) and GLOBE (2004). Regardless of other factors, *ceteris paribus*, Collectivism should be expected to increase the strength of cartel. Individualism-Collectivism describes the relationship between individual and the collectivity which prevail in a given society (Hofstede, 1984). Another reason of choosing this specific cultural dimension is because of clarity in the relationship between culture and my research questions. Even though, actually, almost all

cultural dimensions by many scholars (e.g. Triandis, Trompenaars, Schwarz, Hofstede, etc.) can be related to competition policy effectiveness and strategic choice somehow, I specifically choose the clearest possible one and exploit it as a representative of other cultural effects, that is, collectivism-individualism. Moreover, this is going to make the study becomes more parsimonious and effective (Sagan, 1995). An expansive and extensive research on culture on these variables can also be conducted, but insurmountable resources and possibilities make this partial selection become more sensible (Friedman & Sunder, 1994).

Interestingly, individualism (i.e. low collectivism) is proven to be significantly related to many economic indicators e.g. GNP per capita. This shall be linked to the idea of micro-foundation mentioned later on in this study i.e. Porter (1990). Coherently, I consider this idea as a core argument that firms' incentive to implement strategies should eventually lead to competitiveness in national level (Porter, 1990). In particular, its consequences could be drawn on two main levels of analysis a la Hofstede (1984). In societal level, it can affect either the way people live together or the way people are linked to societal norms. Ideological conversion could reflect this dimension of culture well; hence forming cartel will be easier if initial group of firms starts their cartel formation.

This can be empirically seen through the case of Chinese face theory¹. In an organizational level, in regards to societal level, the individualism-collectivism will affect the relationship among people and organizations similarly. For example, innovation of western firms has been

¹ Another dimension of culture that could affect firms' behaviors (especially, entrepreneurs) is "face theory"**Invalid source specified..** Since, face theory, especially social status, makes managers in oriental zone care more on relationship than western countries **Invalid source specified..** This cultural dimension would affect objective function of players in deterrence effect of leniency program.

$$E(\Pi^c) - E(A^c) \leq E(\Pi^d) - E(A^d)$$

It would increase loss from being defected by other members $E(A^d)$ because firms care more about their reputation (face), so being disclosed their behavior is not desired compare to western situation. Meanwhile, the profitability of getting benefit from defect by the first-comer (s) ($E(\Pi^d)$) would be less because she (they) would loss reputation, and, this makes the right-hand-side of equation ultimately less. Even though I can expect also that the second term of left-hand-side term would be higher because of face loss from being detected, this amount would not comparable to through leniency program. Therefore, we could expect less effectiveness of policy in eastern countries, if we take face theory into account in our analysis. However, this lead to the policy that would stimulate expected gain from defecting, that is, benefit from defecting is maximize, and cost of being defected is minimize. This leads to the case of US system, where the first comer yield full immunity, and take no possibility of being disclosed by other members. So, US system would clearly minimize the latter case, and, consequently, increase net benefit of being defected after cartel forming (right-hand-side term). There are also articles discussed about guilt versus shame **Invalid source specified. Invalid source specified. Invalid source specified..** In shame-based countries (e.g. South East Asian Countries **Invalid source specified.**), people follow community norms, seek to blend into the group. In guilt-based Anglo cultures, people are urged to heed their personal consciences, seek independence and standing out from the crowd. Therefore, this also unavoidably affects decision to come forward by cartel member. The higher level of collectivism leads to a higher level of difficulty for cartel member to come forward. Consequently, a higher level of incentive is required.

proven that it relates to the individualistic characteristics of people in the organization e.g. managers and workers (Triandis, 1973). Moreover, it does affect the inward technological transfer in the same way which is related to the potential of inward technological transfer success (Stinchcombe, 1965). The following table exhibits the consequences of different level of individualism index which is adapted from the original version of Hofstede’s work (Hofstede, 1984).

Low Individualism Index	High Individualism Index
(a) Societal Level Consequences	
1.1) Community-based social order.	1.2) Societal-bases social order.
2.1) For wealthy economy, low IDV (Individualism index) helps economic growth.	2.2) Diminishing economic growth.
3.1) Unbalanced political power system.	3.2) Balanced political power system.
4.1) Less occupational mobility.	4.2) Greater occupational mobility.
5.1) Income inequality between sectors in economy.	5.2) Income equality between sectors in economy.
6.1) Less press freedom.	6.2) More press freedom.
7.1) Repression potential.	7.2) Protest potential.
8.1) Labor movement more united.	8.2) Labor movement more atomized.
9.1) Labor unions more interested in sharing management responsibility; appeal of worker self-management.	9.2) Labor unions less interested in sharing management responsibility.
10.1) More road accidents.	11.1) Safer driving.
(b) Consequences for Religious Life and Psychological and Ideological Thinking	
1.1) Collective conversions.	1.2) Individual conversions.
2.1) Jen philosophy of man.	2.2) Personality philosophy of man.
3.1) Stress on identity and roots.	3.2) Worship of the independent actor.
4.1) Traditionalist ethic.	4.2) Protestant (modernist) ethic.
(c) Consequences for Organizations	
1.1) Involvement of individuals with organizations primarily moral.	1.2) Involvement of individuals with organizations primarily calculative.
2.1) Employees expect organizations to look after them like a family—and can become very alienated if organization dissatisfies them.	2.2) Organizations are not expected to look after employees from the cradle to the grave.
3.1) Organization has great influence on members’ well-being.	3.2) Organizations had moderate influence on members’ well-being.
4.1) Employees expect organization to defend their interests.	4.2) Employees are expected to defend their own interests.
5.1) Policies and practices based on loyalty and sense of study.	5.2) Policies and practices should allow for individual initiative.
6.1) Promotion from inside and on seniority. (Localism).	6.2) Promotion from inside and outside and on market value (Cosmopolitanism).
7.1) Less concern with fashion in management idea.	7.2) Managers try to be up-to-date and endorse modern management ideas.
8.1) Policies and practices vary according to relations (Particularism)	8.2) Policies and practices apply to all (Universalism)

Table 1: Consequences of Difference in Level of Individualism

By analyzing Table 1 (according to a.2.1 and a.2.2.), developing countries will be able to gain advantages from being more individualism, since it helps improving the economic growth at the low level of economic wealth. In Consequences for Religious Life and Psychological and Ideological thinking, due to b.1.1 and b.1.2, this characteristic potentially affects both competition policies effectiveness and strategic choice of firms. In the former, collectivism make cartel becomes even more sustainable by adjusting terms in “deterrence identity” which will be extensively explained later on (Spagnolo, 2006). In the latter, individualism should lead to not only less sustainable cartel formation but also more strategic choice due to firms’ readiness to change themselves either by innovation or absorption (Triandis, 1973). Finally, in Consequences for Organizations, we shall analyze c.1.1 and c.1.2 and since cartel deterrence by either antitrust or leniency program requires a certain level of rationale by cartelists, individuals especially those who make a decision should be calculatively involved in the process in order to correctly calculate their consequences and payoffs. In c.7.1 and c.7.2, the decision to implement a strategy should happen more frequently in the place where managers are active, that is, they try to be up-to-date and adjust to the environment. Therefore, I expect the higher level of strategizing from firms that are more individualistic.

In order to analyse the effect of differences in individualism index on cartel sustainability, I will exhibit by analyzing “Deterrence Identity” of cartel proposed by Spagnolo (2006) as follow.

Given that,

- $E(\Pi^c)$ is expected payoff from participating
- $E(A^c)$ is expected antitrust consequences
- $E(\Pi^d)$ is expected gain from participating and then defecting
- $E(A^d)$ is expected antitrust cost when defecting

For Participation constraint, cartel would be deterred if net profit of forming cartel negative.

$$E(\Pi^c) - E(A^c) \leq 0$$

For incentive compatibility or self-enforcing constraint, cartel would be deterred if net profit of forming cartel is lower than net profit of defection after forming cartel.

$$E(\Pi^c) - E(A^c) \leq E(\Pi^d) - E(A^d)$$

Term in deterrence identity	E_{Π^c}	Π^c	E_{A^c}	A^c	E_{Π^d}	Π^d	E_{A^d}	A^d
Collectivism (viz. Individualism)	+	+	-	?	-	-	+	+

Table 2 Analysis of cultural dimension on competition policy effectiveness

Collectivism is the culture where group interests generally take precedence over individual interests (Nardon & Steers, 2009). It hence should magnify the expected gain of forming cartel (E_{Π^c}) and the gain of forming cartel (Π^c) itself. Moreover, the need of being in group makes their expected loss of forming cartel (E_{A^c}) becomes less significant, given the level of punishment (A^c) existed. Leniency program will be reduced its own effectiveness both from a reduction of expected profit from defection ($E(\Pi^d)$) and increase of expected loss from defection ($E(A^d)$). Therefore, degree of collectivism is expected to be positively related to the sustainability of cartel, that is, the higher degree of collectivism, the lower effectiveness of competition policy.

Proposition 1: Degree of collectivism is negatively related to the effect of leniency program on firms' decision to implement the strategy.

Proposition 2: Degree of collectivism is negatively related to effectiveness of leniency program.

CONCLUSION AND DISCUSSION

Cultural effects on policy and firms decision should be seriously taken into account. In this study, I propose a fundamental mechanism so-called flipping-two-coins effect which potentially leads to competitiveness of firms internationally. This argument particularly emphasizes on developing economies where market power in domestic market is not applicable to international market. However, this process cannot stand on its own without considering about culture. Individualism has been exploited as the representative of cultural dimensions to analyse its effects on flipping-two-coins effect. There are two steps within this analysis. In the first step, individualism has an effect on the effectiveness of leniency program and the expected negative moderating effect on the relationship between leniency program and competitive market has been proposed. In the second step, individualism's effect on the relationship between competitive market and decision to implement strategy of firms was analysed. Similarly, individualism is expected to negatively moderate a relationship between competitive market and decision to implement strategy of firms or strategic choice of firms.

Empirical research should be studied to confirm the propositions being proposed in this study. I shall recommend the appropriate methodology to confirm all the transition process where policy (leniency program) does not exist as a laboratory experiment. Laboratory experiment gains its advantages since it can simulate unrealistic circumstance and investigate the causes and effects of variables (Friedman & Sunder, 1994).

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