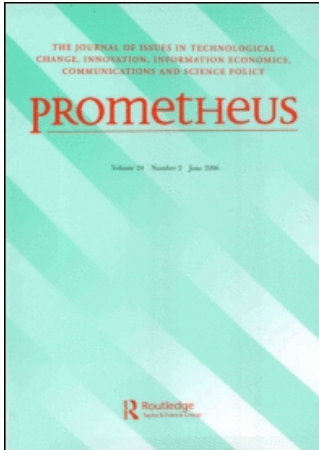


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## Beyond Knowledge to Wisdom in International Business Strategy

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BERNARD MCKENNA, DAVID ROONEY & PETER W. LIESCH

**ABSTRACT** *A wisdom approach is advanced as a means of breaking the mimesis of institutional isomorphism that is observed both in the practice and scholarship of orthodox business management. Nine principles of wisdom derived from the Aristotelian tradition and contemporary psychological research are provided. These are then tested in an international business case study. This analysis supports the case that, while rational judgment is necessary, wise management also requires a capacity for counter-intuition, vision, and humanity. It also shows that wisdom in management must ultimately be practical. When practised by wise managers, such wisdom can opportunistically circumvent the discursive limitations imposed by current orthodoxy in the turbulent, ephemeral conditions of international business and its management.*

**Keywords:** wisdom; isomorphism; discourse; counter-intuition; metaheuristic; visionary; virtuous; strategy; case study.

A paradox pervades contemporary organizational theory and practice. On the one hand, there are calls for a type of leadership that can help organizations flexibly adapt to the globalized competitive knowledge economy. On the other hand there is a strong tendency to risk avoidance, routinized behaviour, and corporate isomorphism. These contrary directions are natural in a diverse and complex world, but they do also suggest a sense of desperation about coping. In this paper, we advocate 'wise management' not as another management fad, but as a philosophical framework that will enhance an organization's capacity to act successfully in a complex environment. This wisdom approach is consistent with Bennis's claim that lack of technical competence, conceptual skill, or track record are rarely deficient in leaders. What is missing, he argues, is "the softer side" of people skills, taste, judgement and character'.<sup>1</sup> Of course, there is nothing new under the sun. Aristotle summed up these characteristics in his *Nicomachean Ethics*<sup>2</sup> over 2,000 years ago. His notion of *eudaimonia* characterized a harmonious state 'in which success in human affairs, moral goodness, and the ability to use rational thought at its highest level seem to co-exist'.<sup>3</sup>

Managerial wisdom, while cited in management and organization studies in accounts of good management practice, has remained little-researched as a possible explanation for superior organizational performance. Its use in the management literature as an explanatory construct has been perfunctory. However, as the significant role of knowledge and learning in organizations is increasingly understood, managerial wisdom deserves more attention as a possible explanation of good management practice, possibly exemplary practice. Exemplary performance demands that departures from the average be identified and that positive outlying behaviours be studied to reveal how managerial wisdom is applied.<sup>4</sup> However, recognizing what makes for managerial wisdom is a question not easily answered. For example, Bigelow<sup>5</sup> reported his search for scholarly works on managerial wisdom in the academic management journals, but 'came up empty-handed'. Nonetheless Bigelow's philosophical musings led to a model of wisdom development representing two types of changes in the person. At one level, the person's practical knowledge develops through common sense in the shorter term, and then at an intermediate level via metacognitive processes to develop higher levels of insight. At a second level, beyond these practical knowledges, is an elevated sense of values and an external orientation where the self becomes part of a superordinate system. He attributes wisdom to a process of 'being', rather than 'having' and argues that it is context specific.<sup>6</sup>

Kruger and Malan<sup>7</sup> appealed to management researchers to be more venture-some in seeking out 'invisible processes' through soft data, with a greater 'openness to wisdom'. Such research could produce a paradigm shift which 'admits to idealist or phenomenalist views' and the 'need to develop more tolerance for opposing worldviews and ways of exploring organizational issues'.<sup>8</sup> To this end, they speculate on a theory of variability in organizations, a theory of managerial wisdom where managers might be seen to be managerially wise because of their 'progressively finer discernment of variability in the range of data they perceive from their environments'.<sup>9</sup> They explore how various managerial characteristics, evident in leading CEOs, align with specific forms of variation that managers confront, and that characterize wisdom. It is in this vein that the present paper is offered to progress our understanding of managers being wise.

Aristotle's notion of wisdom provides the foundation of this paper for three reasons: it is directed to virtuous outcomes, it is boundedly rational, and it understands the contingency of knowledge. We will show that Aristotle's description of wisdom is strongly supported by empirical psychological studies, thereby providing a form of external validity for its claims. We will then apply these principles to an international business case study to show how wise practices can be used effectively by managers in a knowledge economy. We assert that this case shows that success in the complex and ephemeral arena of international business rests upon the ability to seize and act upon opportunities. Yet the agility and (counter-) intuition needed to act intelligently is often constrained by the power of mimetic institutions to create isomorphic behaviours, and to assume that increased data implies enhanced knowledge. The ability to break the power of those isomorphic constraints on thought and action, and to deal effectively and efficaciously with complexity and uncertainty comes from an under-valued source, wisdom.

Firstly, we will describe a predominant characteristic of contemporary organizations that limits the potential for wise practice, institutional isomorphism. We will then explain how this reason-based organizational orthodoxy is discursively transmitted in organizational culture. After outlining a set of wisdom principles for

management, we will use an international management case-study to test these principles. The paper will conclude by considering how wisdom principles can become integrated into the discourse of wise international management practice.

### **Organizational Isomorphism**

Organizational isomorphism occurs because populations of organizations develop historically in a shared environment, facing similar challenges.<sup>10</sup> Unsurprisingly, because many within a population of organizations make similar decisions about how to deal with the constraints and opportunities facing them, the result is a homogeneity across their structures, cultures and output. This is what Kanter<sup>11</sup> very memorably called the 'homosexual reproduction of management'.

These coercive, mimetic and normative forces largely determine the functionality of formal and informal organizations, according to institutionalists. This is similarly so in the international management literature where Newman and Nollen,<sup>12</sup> for example, are concerned with isomorphism between various national cultures and individual firms, and the extent to which isomorphic fit between the firm and national culture facilitates or hinders business performance. Dacin<sup>13</sup> has made similar observations about Scandinavian newspaper publishers, for example, reacting to tensions between Finnish and Swedish national cultures in deciding what language to publish their papers in. Relevant also to international business management is the institutional literature that examines the links between institutions and change.<sup>14</sup> At issue in this literature are concerns about how to do change management, and in particular how to deal with resistance to change, and reduced adaptive capacity of firms in the face of changing environments.

We contend that the institutional theory-based research effort is uneven in its treatment of the coercive, mimetic and normative aspects of institutions in organizational research as Mizruchi and Fein<sup>15</sup> claim. Furthermore, they argue that the coercive (power relations) aspects of the institutional framework are consistently underestimated. When viewed from a discourse paradigm, these deep institutional structures can be seen as discursive structures that significantly contribute to shaping organizational discourses.<sup>16</sup> A discourse approach to research on institutional isomorphism renders transparent the opaque epistemic bases and relations of power into transparency.<sup>17</sup> In a positive sense, we seek to identify the dynamics of business leaders who think, talk, and act in ways that are counter-intuitive or non-isomorphic, especially where the potential exists to exploit market imperfections and uncertainties in the complex international business environment.

### **Discourse and Organizational Isomorphism**

Institutional isomorphism, we argue, derives from tacit and explicit epistemic structures, or valorized knowledge, and the behaviour of organizational actors acting 'appropriately' in routinized processes. In other words, a discursive governmentality regulates institutional behaviour.<sup>18</sup> These 'technologies of domination' are able to operate because the 'microphysics of power' are maintained in discourse.<sup>19</sup> Further, these forms of governmentality are predicated on stasis rather than dynamism. This tendency arises naturally as humans organize to create 'certainty out of uncertainty. It is a continuous reality-constituting and reality maintaining activity'.<sup>20</sup> Organizations attempt 'to order the intrinsic flux of human action, to channel it towards certain ends, to give it particular shape, through generalizing and

institutionalizing particular meanings and rules'.<sup>21</sup> These organized activities provide 'actors with a given set of cognitive categories and a typology of actions'.<sup>22</sup> Thus, as Bergson explained in his 1913 book, *Introduction to Metaphysics*,

Our instinctive vocabulary is one of taxonomies, hierarchies, systems, states, and structures. These are conceptual structures which intrinsically deny the primacy of movement, change, and transformation. Our conditional reliance on such deeply ingrained habits of thought has meant that the dynamic and precariously complex nature of everyday reality frequently escapes attention.<sup>23</sup>

Discourse, seen primarily as processes of communication, is fundamental to this process of human organization. This is because discourse is both constitutive and constituting.<sup>24</sup> It constructs social identities and subject positions, social relationships between people, and systems of knowledge and belief.<sup>25</sup> Discourse is constitutive in the sense that it 'contributes to reproducing society (social identities, social relationships, systems of knowledge and belief) as it is, yet also contributes to transforming society'.<sup>26</sup> In other words, discourse shapes the culture of the organization by creating epistemic structures. It is created and maintained not only in 'conversation', but also through 'process and structure ... collective action as joint accomplishment, ... dialogue between partners, ... features of the context, and ... micro and macro processes'.<sup>27</sup> Thus, organizational members achieve 'co-orientation ... through some common object of concern'.<sup>28</sup>

This theory of discourse requires a dynamic view of culture, which Soderberg and Holden<sup>29</sup> see 'as based on shared or partly shared patterns of meaning and interpretation'. This implies a social constructionist approach to culture, as is evident in Gergen's<sup>30</sup> conclusion that 'all sensible propositions about persons are lodged within the broader systems of meaning' and that 'the intelligibility of any proposition is derived from its placement within this system as opposed to its referential relationship to non-linguistic occurrences'.<sup>31</sup> Of importance in both the theory of discourse and a social constructionist view of culture is the role of language and relationships in constructing the reality of people in various situations, including organizations. That is, managers are 'dynamic interpreters of their environments ... [and] are both an integral part of information processing and the constructors of meaning on which they act'.<sup>32</sup> According to Taylor and van Every,<sup>33</sup> this is how sensemaking occurs: 'a way station on the road to a consensually constructed, coordinated system of action'. Sensemaking, they say, is transient, subtle, swift, and instrumental, arising from the 'interplay of action and interpretation'.<sup>34</sup> Consistent with Chia's understanding of sensemaking as the 'regularizing and routinization of the intractable or obdurate into a form that is more amenable to functional deployment',<sup>35</sup> Taylor and van Every<sup>36</sup> see sensemaking as a process of 'labelling and categorizing in order to stabilize the streaming of experience'.

The natural tendency of organizational discourse and practice is to create static ontologies and normative control.<sup>37</sup> However, the reality of business practice, particularly international business practice, is that it is complex, turbulent and ambiguous.<sup>38</sup> Furthermore, the fluid, subtle, dynamic understanding of organizational members' sensemaking is at odds with fixed categories and stasis. As a result, certain managerial and organizational theorists<sup>39</sup> have argued for reflexive, responsive, and phenomenological managerial and organizational practices.<sup>40</sup> Thus discourse theory helps us to consider how such isomorphic practices create and maintain epistemic structures (with their inherent ontologies) and sets of power

relations and practices. The problem, then, for any significant paradigmatic change such as we are proposing is that the dominant discursive formation (in this instance isomorphic organizations) be recognized:

... between a number of statements, such a system of dispersion ... between objects, types of statement, concepts, or thematic choices, one can define a regularity (an order, correlations, positions, functionings, transformations) we will say ... that we are dealing with a discursive formation.<sup>41</sup>

Consistent with this, Taylor and Van Every's<sup>42</sup> theory of discourse in organization, which draws from Weick, Giddens, and Latour, sees communication-as-coorientation through distributed cognition. Thus the theory of discourse that we have proposed has the robustness required to understand organizations as complex structures whose ontological structures, knowledges, relationships, and appropriate actions occur through the imbrication of communication with organizational practice.

### **Wisdom Principles for Management**

The following principles of wise management have been drawn from a study of Western philosophy on wisdom and its consonance with contemporary psychological studies.<sup>43</sup> We have then modified these principles to incorporate the work of Kriger and Malan,<sup>44</sup> Malan and Kriger,<sup>45</sup> and Bigelow<sup>46</sup> on managerial and organizational wisdom, Eflin,<sup>47</sup> and Rooney and McKenna.<sup>48</sup> The nine principles identify wisdom as being based on reason but specifically incorporate the non-rational; a humane and virtuous teleology; practical action; and articulate communication. The nine principles are:

#### *Based on reason*

1. It evaluates the salience and truth-value of logical propositions when applying reason to decision-making. Doing this requires clear understandings of ontological categories that describe substance, process and quality to demonstrate, through logical argument, correct conclusions.

#### *Allows for the non-rational*

2. It acknowledges the sensory and visceral as important components of decision-making.
3. Wisdom has a metaphysical, even spiritual, quality that does not bind it absolutely to the rules of reason.
4. It respects and draws upon experience and tradition as a means of apprehending who and what we are.
5. Because wisdom understands the contingency of life and circumstance, and the constructedness of phenomena in a spatio-temporal location, it is not reducible to method.
6. Wisdom is visionary and cognizant of the long-term.

#### *Is directed to humane and virtuous outcomes*

7. Wisdom is humane and so is virtuous and tolerant.



*Is practical and articulate*

8. It is prudent and practical, displaying a sensible worldliness.
9. It is able to clearly articulate judgments in an aesthetically pleasing way.

The first principle recognizes the important role of reason in wisdom. Wise people must be able to formulate and understand logical arguments based on sound propositions. However, more than this, wise people are epistemologically sceptical. Wisdom is 'more than just cognitive skills' as it involves an attitude toward the knowledge inherent in propositions: 'a form of fluid intelligence'.<sup>49</sup> In practical terms, it means that a wise person needs, from time to time, to be sceptical of the given 'facts', and of orthodoxy, tradition, majority view, or 'common sense'. Furthermore, the wise person may need to evaluate the salience (i.e. relevance and strength) of facts in a given situation. One of the five core aspects of Aristotle's epistemic virtues, says Eflin,<sup>50</sup> is the ability to focus at the right level and define what is salient. The relevance to managerial practice is clear in Malan and Kriger's assertion that a major executive challenge is 'to filter and interpret the noise from within their own organizations and determine the salient points on which to act'.<sup>51</sup>

Given this first principle, the next cluster of five principles (2–6: allowing for the non-rational) should not be misunderstood as anti-rationalist given that this characterization of wisdom has deep roots in Aristotelian philosophy. The second characteristic is commonly understood as 'gut instinct', meaning that sensory and visceral responses can be important and valid components of decision-making. The empirical evidence in brain science and consciousness studies, as well as emotional intelligence literatures,<sup>52</sup> supports the proposition that 'gut' level intuition can be valuable in making judgments. As well, folk-psychological approaches to wisdom manifest a 'coordinated and balanced interplay of intellectual, affective, and motivational aspects of human functioning', according to Baltes and Staudinger.<sup>53</sup> This 'balance' view brings into discussion the art of seeing beyond that which is familiarly known, and to assess the feasibility of the new vision, if it is feasible to move toward it, and, if so, what is an appropriate way to move. In organizations, say Kriger and Malan,

[b]ecause much of what people experience and attempt to direct in organizations is invisible (i.e. thoughts, feelings, imagining, volitions), we ought to study and find ways to articulate and to dialogue about the soft data that are invisible and extremely relevant to the understanding of organizations and management.<sup>54</sup>

Such soft data might include 'the ability to interpret and decode meaning (symbolism, intentional myths, constructed images, culture) and mental maps of organizational members'.<sup>55</sup>

The third principle assumes that a metaphysical quality should complement reason so that wisdom is not bound only by the rules of reason. The psychologists, Baltes and Staudinger,<sup>56</sup> use the concept of a 'metaheuristic' instead of metaphysics to describe this feature. Good judgment, they say, often requires that a person is not bound completely by the rules of reason. Metaheuristics is really a combination of two heuristics: one that 'organizes, at a high level of aggregation, the pool (ensemble) of bodies of knowledge'; and another at a more explicit or detailed level used by 'individuals in planning, managing and evaluating issues surrounding

the fundamental pragmatics of life'.<sup>57</sup> More specifically, these pragmatics include 'insight into the social nature and incompleteness of human existence, the variability of life goals, knowledge about oneself and the limits of one's knowledge, and insight into how knowledge is translated into behaviour'.<sup>58</sup> Similarly, Sternberg's<sup>59</sup> 'progressive style' that 'implies moving beyond existing rules and being tolerant of ambiguous situations' is one of the most salient predictors of wisdom.<sup>60</sup> It is also important to understand that this characteristic of wisdom has been associated with imagination and creativity such that it enables its possessors to 'see' beyond those normally held assumptions about reality. Having seen beyond, wise people also have the belief and faith to garner the courage of conviction to move forward with their ideas. Malan and Kriger<sup>61</sup> refer to this as a 'sixth sense or ... well-developed intuitive powers'.

The fourth characteristic of a wise person is that they respect experience and tradition, and use this resource appropriately. Although individuals are only weak carriers of wisdom,<sup>62</sup> we are all able to draw upon wisdom traditions by reflexively considering issues from our cultural-historical perspective.

The fifth characteristic of wise management is the capacity to manage uncertainty. Wise people are aware that life is contingent, constructed from various perspectives, ontogenetic, and historically situated.<sup>63</sup> These characteristics in wise people allow them to recognize and manage uncertainty because they are aware of the limits of knowing.<sup>64</sup> Both Baltes and Staudinger<sup>65</sup> and Sternberg<sup>66</sup> assert that wise people realize the limits of human information processing and that the future cannot be predicted through technical applications.<sup>67</sup> At an organizational level, this manifests as the ability 'to detect the changing patterns in organizations over time ... [and] perceive rates of change occurring in the internal and external environments of the organization'.<sup>68</sup> At an interpersonal level, this capability refers to wise people's 'ability to grasp and reconcile the paradoxes, changes, and contradictions of human nature'.<sup>69</sup> The combination of these three characteristics is 'the ability to capture the meaning of several, often contradictory signals and stimuli, to interpret them in a holistic and integrative manner, to learn from them, and to act on them in an appropriate time scale'.<sup>70</sup>

The sixth characteristic asserts that wise leadership is characterized by visioning of leaders and perspective-taking capacity that clearly distinguishes between long-range goals.<sup>71</sup> In other words, it is the capacity, where appropriate, to overcome and transcend the quotidian and ephemeral features of any judgement and to see the effect of alternative actions in the longer term. This is clearly uncharacteristic in a postmodern age in which significant levels of international transactions are founded on short term speculative gains in non-goods and services markets such as foreign exchange, futures markets, and derivatives,<sup>72</sup> and when rejecting short-term gratification in favour of longer-term strategies.<sup>73</sup> In allowing for the non-rational, then, a wise person will have a synoptic grasp of disparate domains.<sup>74</sup> This results from three other skills or virtues: having backgrounds of domain-specific knowledge, focusing at the right level, and making unusual associations. Included in a synoptic grasp is the ability to abstract the presuppositions that are particular to a domain and the presuppositions that domains share.

The seventh characteristic is absolutely fundamental because wisdom for Aristotle arose from and contributed to virtue.<sup>75</sup> This ancient commitment to values and ethics is consistent with recent psychological theory.<sup>76</sup> For example, integral to Sternberg's three-part Balance Theory of Wisdom is virtue, or socially valued behaviour: the 'balance' that he speaks of 'all hinges on values. Values, therefore,



are an integral part of wise thinking'.<sup>77</sup> It manifests as concern for others, being thoughtful and fair, admitting mistakes, and also learning from them.<sup>78</sup> The importance of this characteristic must not be underestimated in the international business context where cross-cultural management means, necessarily, managing across different value systems.

Wisdom is essentially practical and a wise person can articulate the principles leading to their judgment. Wisdom is not, as some might characterize it, the luxury of unworldly sages. Instead, a wise person has rich factual, or declarative, knowledge about 'the fundamental pragmatics of life' (see first characteristic above). This grasp of declarative knowledge provides the basis of prudence. For Aristotle, a prudent person is 'one who is able to deliberate well concerning what is good and expedient for himself ... which are good and expedient for living well [in general]'.<sup>79</sup> Thus prudence dictates a degree of worldliness that enables people to live well materially. Finally, wise people can also articulate their reasoning to others. Baltes and Smith<sup>80</sup> claim that wise people provide good judgment and advice about important but uncertain matters of life. However, Malan and Kriger<sup>81</sup> remind us of another attribute of the wise manager, which is their ability to 'interact with people all the time and continually pick up clues and meaning from these interactions'.

To sum then, wisdom is essential because we are not just conscious deciders but conscientious deciders who use active cognitive processes rather than simply habitual patterns of thought. Moreover, 'The greater an enquirer's ability to move fluidly between producing alternatives and evaluating them and to operate at both levels simultaneously, the better she will be at finding valuable discoveries'.<sup>82</sup> This agile evaluative capacity is central to Aristotle's sense of how to judge. Indeed, Eflin<sup>83</sup> argues that; 'The central epistemic virtues Aristotle considers are ingenuity (which includes intellectual creativity), perceptual creativity, acuity of inference, a sound sense of relevance, and an active ability to determine the relative importance of heterogeneous and sometimes incommensurable ends'.<sup>84</sup>

### **Applied Wisdom Principles: The INCAT Case**

To demonstrate how key characteristics of wisdom enable international business managers to break the mimetic power of institutional isomorphism and enable decision makers to capitalize on marketplace imperfections, we now provide a case study in applied wisdom. We do not claim that the owner-manager involved represents the archetypal wise manager: indeed, we would argue that a manager displaying all nine characteristics would be a rare person indeed. Instead we have chosen this case because the company, INCAT, was a successful small player in a complex and highly competitive international market. INCAT was a relatively new company with little heritage, no advisory board, and no branch offices. Although lacking the strength of a large corporation, it had the agility of a small, intelligent, and vigorous competitor.

### **INCAT Background<sup>85</sup>**

The company, INCAT, arose from an opportunity in January 1975 when a span of the Tasman Bridge crossing the Derwent River in Hobart, the smallest and most isolated state capital city in Australia, was destroyed by a colliding ship. The managing director, whose family had been involved in boat-building, quickly set up a ferry

service to provide alternative transport across the river while the bridge was rebuilt. He capitalized on this market by selling liquor legally to commuters, which proved remarkably successful. With this financial windfall, in 1978 he then launched a medium-sized, owner-managed company, INCAT, maintaining its base in Hobart. Initially selling more conventional ferries, INCAT then used its own cutting-edge R&D to design and manufacture high-speed, wave piercing catamaran car- and passenger-carrying ferries that are exported globally. So advanced are the ferries designed and produced by INCAT that they have broken long distance sea voyage world records.<sup>86</sup>

In 1982, in a bid to meet demand that exceeded its capacity to satisfy, INCAT licensed ship builders in Australia, New Zealand, Hong Kong, Singapore, the United States and the United Kingdom to build its boats. From 1983 to 1986 INCAT entered into an intensive R&D programme to significantly improve the performance of their ferries. It was during this period that INCAT conceptualized, prototyped, and began building the wave-piercing catamaran. This successful R&D effort resulted in significant new IP in the boat itself and the technology required to design, build, and service the vessels. This considerable bundle of knowledge had the potential to yield market advantages world-wide. It was estimated that in 1999 INCAT had built approximately 50% of the world's currently operating high-speed car- and passenger-carrying ferries, and at the present, the US Navy leases two INCAT vessels.

In 1996 INCAT entered into a joint venture, licensing AFAI, a Chinese ship builder, to build the smaller, k-class version of the catamaran for INCAT sales in China. This venture required INCAT to transfer all of the technology and knowledge embodied in its k-class vessels to AFAI who contracted to acquire a labour force and provide its facilities to construct these boats under INCAT managerial and technical supervision. This move was done in the absence of the formal IP protection that one would normally expect given orthodox assumptions about the need for patent and registered design protection. At the time China was a country often poorly regarded in the western world as having a predatory and disrespectful attitude to IP rights and as being one of the world's chief perpetrators of IP piracy of all sorts.<sup>87</sup> Given this, the specific methods of informal IP management used by INCAT with its Chinese partner (AFAI) are instructive. A long-term *guanxi*-based (trusting, reciprocity and mutual obligation) relationship had been developed since setting up a licensing arrangement with them in 1982 (based on an unsigned contract).

To protect its IP, INCAT depended on a cluster of 'resources' in the form of continual innovation (rendering pre-existing know-how obsolete and the fact of a competitor copying it less important than it would otherwise be); a deep commitment to its clients (forming a strong trusting relationship that privileged social rather than legal obligations); and a deserved reputation for safety to provide it with a competitive advantage. Importantly, much of the critical know-how needed to build one of its vessels (as it is for most high technology manufacturers) is held in the form of tacit knowledge and cannot easily be appropriated and diffused. Having said that much of their knowledge is difficult to diffuse, INCAT is nevertheless motivated to make its knowledge of its vessels available to every owner of its vessels to provide exceptionally high customer service levels. This allows owners to carry out maintenance and solve any technical and maintenance problems they may encounter. INCAT also keeps computer models of each vessel it has constructed that enable the company to test how those vessels will perform in a

range of adverse conditions. It can update and distribute these models to owners as new and previously unforeseen circumstances come to light, thus assisting owners to respond to new safety concerns before accidents happen.

This means that INCAT informally protects IP by uniquely assembling its capacities for innovation and customer service. Paradoxically, it diffuses much of its knowledge and know-how to its customers through its knowledge embedded services. This case highlights the importance of the acumen of key decision-makers with their long and deep business and general experience; the ability to analyse situations to construct important knowledge and understanding; to imagine alternative ways of doing things; and the social skills needed to operate in a *guanxi* framework. As one of INCAT's major suppliers commented about INCAT's Managing Director:

Fast ferry builders are placing a lot of emphasis on weight reductions—the lighter they make these things, the faster they go and the less fuel they burn ... [The managing director] has always been very, very weight conscious which has probably put him ahead of the pack in a lot of ways. And now, a lot of his opposition builders are just really waking up to the fact that they do have to save weight to make these things work ... He's extremely innovative and he's a pioneer in the industry.<sup>88</sup>

It is this unique arrangement that we focus on to illustrate the efficacy of the wisdom approach for understanding the characteristics needed for international firms to exploit uncertainties in international contexts. Few issues are as important as IP within knowledge-intensive internationalized firms. The dominant discourse in knowledge-related international policy<sup>89</sup> and business discourse<sup>90</sup> assumes that formal IP protection of intellectual property is essential for a business to adequately capitalize on its knowledge. However, INCAT did not protect its IP with legal contracts. It ignored or rejected the legalistic and security-conscious dominant discourse.

### **INCAT'S Wise Practice**

The INCAT case invites analysis as a particularly appropriate wisdom case study in international business management because of the unconventional way that it handles its intellectual property. INCAT did this not by protecting it with the traditional and formal institutions of patent and design protection. Instead, it displayed considerable imagination, intuition, and insight to protect its IP through informal logistical and socially constructed protections. It was able to use considerable communication and marketing skill to convince stakeholders that the approach would work. Ultimately, to have successfully carried out such a manoeuvre must be considered to be a feat of excellent judgment and character. We claim these are key characteristics of wisdom. To support this claim we now consider the case study in light of the wisdom characteristics set out above. In doing so, we demonstrate how using a wisdom analytical framework has advantages in developing important understandings and insights about the intellectual components of strategic and other aspects of decision making by leaders doing business internationally.

#### *Principle 1*

This principle is to do with controlled rationality and insightful observation of reality. This is the ability to bring more to the thought processes used in decision-making

than hard data and rational method. Ontological insight and acuity that take one beyond taken-for-granted assumptions and beliefs is critical here. We argue that INCAT's senior managers operated at this level of rationality; otherwise they would not have had the strength of conviction to make such a bold international joint venture arrangement that was outside the scope of normally accepted structures. While a formal joint venture agreement was negotiated and documented, it was never signed because, according to INCAT's Managing Director, 'we were more or less trusting (AFAI) to do their half of the bargain'. The AFAI Managing Director concurred saying, 'This is where you need to approach a different way of thinking ... Often if you want to honor an agreement, you will not sign the contract. The person who would not honor it probably would sign it'.<sup>91</sup>

In terms of evaluating the salience and truth-value of logical propositions when applying reason to decision-making, most people would regard it as logical to use standard IP protection, and illogical, even culpable, not to. It is certain that INCAT executives understood arguments in favour of formal IP protection. However, they determined through a deep and reflexive understanding of the particular circumstances of this joint venture that it was not axiomatic and automatic that an orthodox IP arrangement was the best course. There is a deliberateness and consciousness about working through these kinds of evaluations. In other words, INCAT executives no doubt evaluated the salience of the orthodox 'truth' about legally safeguarding IP, one of the supreme manifestations of rational, scientific management; however, they then balanced that against the alternatives to arrive at a counter-intuitive plan of action.

### *Principles 2, 3 and 5*

These principles admit the non-rational into wise judgment. One aspect of non-rational judgment is to acknowledge the sensory and visceral as important components of decision-making. Although 'gut' instinct has no place in rational, scientific management, studies in tacit knowledge tell us that much valuable business knowledge is based on unarticulated reflexive experience.<sup>92</sup> INCAT's Managing Director and owner operated instinctively, rather than with orthodoxy to produce an outstanding success. His reputation for innovation in this competitive industry sees him as an industry leader. INCAT produces its vessels customized to the buyer's needs (no two boats are exactly the same). While vessel design and engineering specification are critically important, as small deviations from exactitude result in excessive fuel consumption and platform instability, INCAT folklore has it that the Managing Director can accurately specify a buyer's demands for vessel configuration and performance 'on the back of an envelope'. It is said in INCAT that formal engineering and scientific work on these designs consistently confirms his scribbles; his instincts as to what makes for an efficient, highly performing vessel that meets customized needs is legendary. With no formal education in this industry, he could not have used formal academic engineering knowledge. So it might be reasonable to infer not only that wise people can use transcendent cognitive modes, but also that they do so in the belief that such modes are reliable, valid, and valuable. In other words, wise people fully accept the indispensable role of transcendent modes of cognition in all levels and types of human endeavour.

Another feature of non-rational wisdom is a wise person's understanding of the contingency of life and circumstance, which cannot be reduced to method. An understanding of the contingencies of life naturally resists one-size-fits-all solutions

in favour of cognitive flexibility. While not an argument for Postmodern ontological or ethical relativism, it does mean in a business sense that a wise person recognizes that a vast array of variables, many of them unforeseen or unmeasurable, create currents that push or pull phenomena in certain ways. Furthermore, it means that the same phenomena in different contexts produced by these currents can acquire different meanings and implications. It is the ability to read these currents that reduces contingency in the way that a surf board rider reads the winds and beach patterns to choose a surfing spot. Inferentially, we deduce that INCAT's senior managers did understand the contingencies that arise from cross-cultural joint ventures in the era of globalization. In addition, and throughout the lifetime of this owner-managed medium-sized firm, market vagaries (such as 9/11 that impacted severely on investments in large vessels) and financial exigencies have affected INCAT's viability and sustainability. However, this firm's management has consistently resisted commercial options that would have seen it forego its independence and its unique complexion. In fact, the manner in which this firm manages its IP and its commercial exploits generally characterize the very nature of this firm and render replication by rivals unlikely and problematic.<sup>93</sup>

In these ways, we claim, INCAT operated at a metaphysical level that refused to bind their action to the rules of reason. That is, there is clearly a strongly scientific basis to the catamaran design that is understood even if not in a formal way by the designer. They are also bound by the logic of the market, as it were, which demands that they be competitive. There are also complex legal requirements that must be met. Nonetheless, the INCAT managerial team was able to think 'outside the square', to creatively devise a design and a business strategy that worked.

#### *Principle 6*

INCAT clearly took a long-term perspective in building their business. With their opportunistically-earned capital, the Managing Director chose to embark on a much more sophisticated and risky type of production. The vision of designing and producing high quality products was grounded in a strong, practical belief that they possessed the ability to do it. Furthermore, the company remained privately-owned, and based in Hobart, Tasmania, despite the apparent strategic disadvantages related to its small size and geographical location. Then, in building relationships with their clients, they took the long-term perspective of maintaining ongoing relationships by retaining a small equity interest in each vessel sold, rather than ending those relationships at the point of sale. Such a perspective is often not evident in the corporate world where the emphasis is much more on the short-term, particularly in the stock market, which tends to punish those firms that forego high dividends in the earlier stages in order to build up for the longer term. Furthermore, in deciding to remain an unlisted company, INCAT was probably in a better position to be able to do as they thought fit. Thus, in not dissipating ownership (which would entail compromises with varied stakeholder interests and possible collapse into isomorphic tendencies with other similar ship-builders), INCAT, once again, demonstrated long-term and non-isomorphic vision and action.

#### *Principle 7*

To be ethical, knowledge, which is the root of all social and economic power, must always be used well. Although it is difficult to make a proper judgment about

INCAT's ethical motives, it seems reasonable from a utilitarian perspective to say that INCAT acted virtuously in this case because it provided high levels of service to its customers and it showed high levels of concern for safety. While we cannot conclusively say that these concerns were driven by ethical virtues rather than more instrumental commercial and legal concerns, it would be too cynical to summarily dismiss a role for the moral convictions of INCAT's managers in these concerns. It would appear that INCAT acted above the economic and legal factors that influence commercial behaviour. INCAT retains an equity interest in each vessel it produces. While there are commercial reasons for doing so, INCAT is demonstrating to its market (its prospective market, and its rivals) that it will go beyond the normal legal vendor-vendee expectations of good business practice to establish the foundations of an ongoing deeper exchange relationship. As an alternative to a conventional arm's length sale, and its closing, this on-going association should augur well for the buyer's confidence in the purchase and trust in a life-time of support. Prospective buyers of INCAT vessels can look to a heightened confidence in the bona fides of this firm and its vessels.

As well as being virtuous, wise practice is tolerant and humane. Having a sense of humanity is not calculated, but is instinctively incorporated into decision making. In this instance, clearly both INCAT and AFAI showed mutual tolerance in their ability to easily, as it were, 'meet each other halfway' in terms of respecting cultural differences. The high priority that INCAT placed on safety also indicates this humane concern. The data do not indicate if this was borne out of a natural affection for humanity or more instrumental reasons, but it is reasonable to assume that INCAT's two most senior people held at least some natural empathy for humanity and that it informed their business actions. In the face of enticing commercial opportunities to relocate the INCAT enterprise to other locations interstate in Australia, and possibly sell out to interests in the United States to acquire Defense approvals to sell his vessels to the US Navy (who lease INCAT boats because they cannot purchase them from suppliers outside the US), the Managing Director and owner has remained steadfast in his commitment to remain with his enterprise in his hometown of Hobart to the benefit of his employees and the Tasmanian economy. This is despite Hobart being about as far from INCAT markets as any manufacturing enterprise location could be, with not insignificant delivery costs for his vessels to their primary markets.

### *Principle 8*

Aristotelian wisdom is by definition practical and worldly. This characteristic has two elements. Firstly, it assumes that wisdom must be enacted in everyday life, not cloistered in a monastery or academy (though these institutions are useful sites of contemplation). Secondly, it assumes a sort of cautious practicality. To be wisely cautious rather than to simply try to avoid all risk is probably characteristic of most businesses. However, it may be a rarer quality in new ventures where market hype and speculation can tarnish business activity. In the context of this case study, the significance of worldly and practical prudence when making a rather bold and counter-intuitive move is heightened. While it may seem oxymoronic to talk of prudence when implementing radical strategy, it is not. The cautious, practical implementation of radical ideas can be entirely wise. It is necessary to take risks in business and it is axiomatic that larger risks generally yield greater returns. The real questions are about how to enter into risky



ventures. INCAT has displayed a high degree of prudence, practicality and worldliness. Given the fact that in the shipbuilding industry much detailed information has to be provided to the owner and others for regulatory reasons, that China may not respect IP rights anyway, and that the critical knowledge needed to build their catamarans is tacit, it was prudent, practical and worldly for INCAT to adopt their strategy even if most other business people (constrained by the isomorphic power of institutions) may have read the conditions differently and acted in more orthodox ways.

This case study has not dealt with two of the characteristics: viz

4. It respects and draws upon experience and tradition as a means of apprehending who and what we are.
9. It is able to clearly articulate judgments in an aesthetically pleasing way.

This is largely because drawing inferences from the available evidence would stretch credibility. However, the fourth characteristic might be evident in any number of traditions that the Managing Director drew on. For example, he drew upon maritime and family traditions to help him frame his understanding of vessel design and operation. He had been a seafaring person of long-standing, in a community of like-minded associations.

To summarize, we would argue that the INCAT case has provided practical examples of applied wisdom in an international business context.

### **Integrating Wisdom Principles into Wise Management Discourse**

Our proposition is that wise management is needed if organizations, particularly those in highly complex and competitive environments, such as international business management, want to improve the likelihood of succeeding. A social constructionist understanding of organizational cognition, consistent with neo-Foucaultian discourse and sensemaking theories, provides an appropriate theoretical orientation to organizations operating in complex and rapidly changing business environments because such an approach rejects the tendency to fixed ontological categories within static circumstances implicit in isomorphic institutions and theorizing. By understanding ontological categories as fluid, wise managers may act counter-intuitively, or even be guided by gut instinct to ethically exploit market imperfections. To do so, managers need to break free of the discursive and cultural constraints of managerial orthodoxy. From the INCAT case study we might reasonably infer that at least six of the nine principles of wisdom that we have espoused provide sound guiding principles for managers. As a result of such applications, when organizational rationality is moderated by non-rational, humane, virtuous, and practical management principles then the outcomes of such bounded rationality can be very profitable.

From this we conclude that management wisdom is more than a cognitive attribute: it also demands social, ethical, and discursive competence. More specifically, we can conclude that wise action, although reasoned, may require that sometimes we act and think outside the bounds of rationality and outside the orthodox knowledge base. However, we acknowledge that wisdom is not an absolute term; it is analogic, sometimes inconsistently applied, sometimes serendipitous, often irregular. In other words, no one is unboundedly wise. This limitation is evident, for example, in a less well known aspect of the INCAT case, namely management's inability to establish and maintain good industrial relations.<sup>94</sup>

The ability to apply international business management wisdom is determined to a large extent by relations of power. We contend that the ability to think, talk and act counter-intuitively is primarily institutionally and discursively curtailed in organizations and in academic debate so that existing relations and valorized knowledge advantage one group over another for whatever reason (status, income, or control). For managers to act wisely, they must possess a degree of agency so that they can act wisely if they choose and have the power to overcome entrenched interests and habits that wisdom provides. Of course, with this freedom comes an equivalent level of moral, legal, and organizational responsibility. However, agency, especially in organizations, is bounded, often for good reasons such as ensuring corporate legal obligations or ensuring consistent responses to maintain equity. Nonetheless, wise people know when to remain bound by such obligations and when it is prudent and ethical not to. It is through these kinds of capacities that they can efficaciously make excellent counter-intuitive decisions. It is reasonable to conclude, then, that wisdom-based practice is well suited in worldly day-to-day activity where contingency and uncertainty predominate.

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