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Competitive Irrationality in Transitional Economies: Are Communist Managers Less Irrational?

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ABSTRACT. Why do marketing managers in the transitional economies of Eastern Europe and China often engage in competitively irrational behavior, choosing pricing strategies that damage competitors' profits, rather than choosing pricing strategies that improve their firm's profits? We propose one possible reason, the moral vacuum created by the collapse of communist ideology. We hypothesize and find that managers who experienced formal communist moral ideological indoctrination are less likely to be competitively irrational than the post-communist managers who did not. Implications are discussed.

KEY WORDS: competitive irrationality, morality, Marxism, Maoism, China, Slovakia

Introduction

Managers are considered to be competitively irrational when their primary focus is on damaging the profits of competitors, rather than on improving the profitability of their own firm (Arnett and Hunt, 2002). Managers displaying competitively irrational behavior can adversely affect business decision and firm performance (Armstrong and Collopy, 1996; Arnett and Hunt, 2002; Griffith and Rust, 1997). When competitors focus on mutual destruction, rather than on innovation and superior value, both consumers and businesses are likely to lose (Arnett and Hunt, 2002).

Previous studies (Armstrong and Collopy, 1996; Arnett and Hunt, 2002; Griffith and Rust, 1997) confine their examination of competitive irrationality (CI) to pricing decisions of U.S. managers. For instance, Armstrong and Collopy (1996) conducted several pricing studies and found that 40% of U.S. subjects were competitively irrational, sacrificing long-term and short-term profits to harm competitors. Griffith and Rust (1997) found that U.S. subjects were inclined to sacrifice profits in order to harm competitors. Arnett and Hunt (2002) offer an explanation for individuals' propensity to be competitively irrational; they identify individual difference factors that influence whether individuals are likely to make competitively irrational decisions. They found that U.S. subjects who are idealistic, high in deontological orientation and cognitive moral development, and low in relativism are less competitively irrational in their pricing decisions than those who are not.

In an attempt to better understand what creates a CI mindset, we examine competitive irrationality in an international marketing context. We focus on the transitional economies of China and Slovakia, two countries that have emerged from an era of Marxist–Maoist ideology.

As China and Slovakia transition to shareholder societies, we ask: will managers educated under a strong communist moral philosophy, which promoted social emancipation of the individual within a collective framework and endorsed humane ideals, continue to abide by this ethical philosophy (Al-Khatib et al., 2004), even as they accept the new order of the competitive marketplace? In this era of increasing emphasis placed on corporate social responsibility, are Marxist-educated managers less competitively irrational than managers educated in free-market economies? Are managers educated in post-communist transitional economies more competitively irrational than managers educated in free-market economies like the U.S.?

More specifically, we attempt to evaluate the extent to which the legacy of communism affects managers' competitive irrationality. We propose that: (1) managers schooled in the U.S. have had less formal exposure to moral dogma and, for that reason, may display dissolute impulses, frequently resulting in opportunistic and/or competitively irrational behavior (Armstrong and Collopy, 1996; Arnett and Hunt, 2002; Griffith and Rust, 1997); (2) communist education emphasized achieving mandated goals rather than competitiveness (Lukes, 1983; Merlyn, 2001); for this reason, managers schooled in Marxist–Maoist doctrine in their formative years are *less* likely than American managers to engage in opportunistic or competitively irrational behavior; and (3) because communism outlawed competing moral philosophies (such as religion) no moral philosophy emerged as the default dominant philosophy in post-communist China and the former Eastern Bloc (Ger and Belk, 1996; Marquand, 2006). As Marquand (2006, p. 1) remarks about China, "things have gone from all ideology and no materialism to all materialism and no ideology or values." Given the absence of a strong moral philosophy, we suggest that post-communist managers in the transitional economies are *more* likely than U.S. managers to display competitively irrational behavior.

Based on these propositions, we hypothesize that: (1) in transition economies, communist-educated (older) managers are much less likely to be competitively irrational than their post-communist (younger) counterparts or U.S. domestic managers; and (2) post-communist (younger) managers from transition economies are much more likely to be competitively irrational than communist-educated (older) managers or U.S. managers. We examine competitive irrationality in Slovakia and China, two countries that culturally, politically, and economically are very different, but that share a recent history of transitioning toward free market reforms.

Theory and Hypotheses

Approaches to market-oriented reform and privatization differ between the new democracies of Eastern Europe and China. The countries of the former Eastern Bloc underwent "shock therapy," where rapid privatization, price liberalization, and political reforms were introduced simultaneously; in contrast, China is experiencing a more calculated transformation, for the most part foregoing immediate privatization or significant democratization (Batjargal, 2003; Buck et al., 2000; Hitt et al., 2004; Naughton, 1996; Skidelsky, 1995). In China, the development of a market-based economy is being driven by the measured privatization of state owned enterprises, the creation of limited credit mechanisms like home mortgages, increases in foreign investment and international joint ventures, as well as the creation of Special Economic Zones of free enterprise (Batjargal, 2003; Buck et al., 2000; Hitt et al., 2004; Woodbine, 2004; Woodbine and Taylor, 2006). The Eastern European shock therapy resulted in an immediate change from "five year plans" to a piecemeal short-term approach to economic development; in China, change has been managed with the focus on maintaining steady but rapid growth, stable currencies, trade surpluses and strategic resource acquisition that promotes long-term economic performance and increases profits (Grachev, 2003; Hitt et al., 2004).

Similarities as well as differences exist between the new Eastern European democracies and China. Both represent new and important markets and investment opportunities for multinational enterprises (Buck et al., 2000). Each region is also characterized by environmental turbulence – attributed to transition: China and the new Eastern European democracies are often referred to individually and collectively as the "wild, wild East" (Kasparov, 2005; Opdyke and Santini, 2005).

Especially important is the notion that Eastern Europe and China are former "second world" countries. They are transitioning from having similar Marxist–Maoist economic and political ideologies, with a common emphasis on collectivist policies, Communist Party control, heavy industry, high defense budgets, large industrial enterprises, heavy bureaucratic and tariff protection against manufactured imports, and subsidized public services (Buck et al., 2000; Smith and Peterson, 2005; Smith et al., 1996). Has this transition affected ethical behaviors?

The transition from a communist to a shareholder society appears to have affected ethical beliefs and behaviors in China and Eastern Europe. Skepticism dominates regarding the role of ethics in evolving market-based business practice: managers have little inclination to personally avoid potentially unethical business behavior (Ahmed et al., 2003). Scholarly literature and the popular press amply document opportunities created by the transition process in Eastern Europe for segments of the old communist elite to enrich themselves, living lavishly above the law, seeking to strip assets, to illegally privatize state property, to remove control of the enterprise from other shareholders – workers in particular, – and embezzle enterprise revenues, to swindle the population through voucher privatization, and even openly engage in more traditional criminal business endeavors such as commercial extortion, gambling, racketeering, and narcotics, among others (Rosefielde, 1999). Marketing managers in the two transitional economies face high levels of bureaucratic corruption, incidences of Mafia ''protection'', and appear to have little faith in the court system (Johnson et al., 2000).

Even more disturbing is that the outlook remains bleak, with corruption and bribery out of control even in countries considered to have experienced a successful transition. A study conducted by the European Bank of Reconstruction and Development in countries deemed as transition success stories, found that 31.3% of companies in Hungary and 32.7% in Poland perceive that firms in their country bribe ''frequently or more,'' compared to the past; the study also found that private-sector companies pay a larger share of their revenue in bribes than do state companies (Reed and Portanger, 1999). Moreover, prospective Eastern European managers – currently business students – appear to have a much more negative attitude toward ethical behavior than older managers (Jaffe and Tsimerman, 2005).

In China, corruption also appears to be running rampant, even among the members of the Communist Party. In 2005 alone, the Communist Party's Central Discipline Inspection Commission disciplined 115,000 party members for corruption (Yardley, 2006).

In both Eastern Europe and China, the problem is partly attributed to inadequacies in the legal system, imperfect laws, and improper enforcement of laws (Harvey, 1999). We suggest that it may also be due to a ''moral vacuum'' created by the collapse of communism. In China, an extreme manifestation and confirmation of this vacuity is former president Jiang Zemin's invitation to private businessmen to join the Communist Party – viewed widely as permitting well-connected officials to enrich themselves with public property at the expense of the poor (Khan, 2006).

Corruption is rampant in China partly because of weak institutional safeguards (Khatri et al., 2006; Sun, 2001; Yao, 2002). Attempts at reform, such as a Maoist-style ideological campaign, entitled *bao xian* (preserving the progressiveness) directed at the party's rank-and-file members, pale in comparison to the rampant corruption that exists among party members (Yardley, 2006), labor abuses, and land seizures that offer daily reminders of the extent to which China had strayed from its ideology (Khan, 2006).

Competitive irrationality

Individuals' moral philosophies influence their ethical norms, and consequently their decisions, especially when faced with ethical dilemmas (Allen and Davis, 1993; Arnett and Hunt, 2002; Cyriac and Dharmaraj, 1994; Ferrell et al., 1989; Gibson, 2000; Hunt and Vitell, 1986, 1993; Trevino, 1986). Competitive irrationality poses important ethical questions to business practice, as managers who are irrationally competitive focus on damaging the profits of competitors, rather on improving their own profit performance (Arnett and Hunt, 2002).

Studies (Arnett and Hunt, 2002; Armstrong and Collopy, 1996; Griffith and Rust, 1997) have shown that a large minority of U.S. subjects – as many as 40% – tend to sacrifice their own firm's profits to harm a competitor, even if they are specifically instructed to maximize profits. Competitive irrationality has potentially negative outcomes: managers tend to over-compete, over-valuing relative performance against competitors, and under-valuing actual firm performance (Griffith and Rust, 1997).

Moreover, competitive irrationality may result in lost profits for the firm, it may have a negative impact on consumers or on brand image, and/or it may be viewed by the government as predatory (Armstrong and Collopy, 1996; Arnett and Hunt, 2002). The transition economies of Eastern Europe and Asia boast numerous manifestations of competitive irrationality. To begin with, mutual trust is in very short supply: except for their family and close friends, people tend to view one another as enemies (Pipes, 2006). A pervasive legend in much of Eastern Europe vividly illustrates the concept: when asked by a genie to make a wish, a peasant replies: ''My neighbor has a goat and I don't, so please kill my neighbor's goat'' (Goldman, 1998). Had it not been for CI, the peasant would have likely asked for a goat or two, rather than wishing for the death of the neighbor's goat. Other examples of competitively irrational behavior that exist in Eastern Europe and China include: physically threatening distributors to prevent them from doing business with competitors, which, potentially, could harm the firm by inviting district police scrutiny and intervention; and various attempts to sabotage competitors' products and falsely reporting that competitors were engaged in illegal behavior, which would, invariably, bring about similar retaliatory action. Each of these actions ultimately hurts the firm more that its competitors.

Hypotheses

Based on the above discussion, we propose that, in China and Slovakia, decision-making processes of individuals who have experienced communism and have been heavily indoctrinated in its moral philosophy in their formative years will adhere to moral philosophies that allow them to question the irrationality of strategies that harm competitors and their own firm when other, more profitable, options exist. We posit that managers who have been indoctrinated in communist ideology in China and Slovakia in their formative years are less likely to be competitively irrational than U.S. managers and prospective managers who have experienced a capitalist mindset in their formative years.

U.S. managers are typically exposed to some degree of religious education. The Pew Research Center, in a study of 44 countries, found that 59% of individuals in the U.S. felt that religion played a very important role in their lives (*Pew Global Attitudes Project*, 2002). In addition to their exposure to religion and religious education, U.S. managers are also exposed to managerial ethics training that is religion-based, and that emphasizes that moral behavior leads to positive outcomes in work and life (Orwig, 2002). Thus, while not as tenaciously and actively indoctrinated as managers who have been exposed to Marxist–Maoist ideology during their formative years, it appears that U.S. managers are exposed to some degree of moral training.

In post-communist Eastern Europe and China, religion plays a much less important role. For instance, fewer than 15% of Russians, Bulgarians, and Czechs consider religion very important. In Slovakia, one of three countries examined in this study, only 29% state that religion is very important (*Pew Global Attitudes Project*, 2002). In the case of post-Maoist China, the World Values Survey (1996) found that only 4.9% of Chinese are religious, while 51.3% consider themselves as non-religious, and 43.8% consider themselves atheist. These findings support the general observation that, in China, one is confronted everywhere with talk of a spiritual vacuum, where Mao's aphorisms are replaced with Deng Xiaoping's immortal slogan, ''To get rich is glorious'' (Florcruz et al., 1999).

Based on the above discussion, it appears that communist-educated managers who were indoctrinated in Marxist–Maoist ideology during their formative years had the most moral indoctrination, U.S. managers typically have some moral indoctrination (although not as much as communist-educated managers), whereas, post-communist managers have little to no formal moral training. Based on this hierarchy of moral instruction, we propose that communist-educated managers are the least likely of the three groups to be competitively irrational. We also propose that U.S. managers are less likely to be competitively irrational than post-communist Slovakian and Chinese managers, whose moral philosophies stem from experiencing a secular, materialistic, capitalist mindset in their formative years, rather than being indoctrinated in a particular moral philosophy.

Thus, we hypothesize that: (1) in transition economies, communist-educated (older) managers are much less likely to be competitively irrational than their post-communist (younger) counterparts or U.S. domestic managers; and (2) post-communist (younger) managers from transition economies are much more likely to be competitively irrational than communist-educated (older) managers or U.S. managers.

H1: In transition economies, communist educated (older) managers are less likely to be competitively irrational than post-communist (younger) managers or than U.S. managers.

H2: Post-communist (younger) managers from transition economies are more likely to be competitively irrational than U.S. managers or communist educated (older) transition-economy managers.

Methods

We tested our hypotheses using measures established in the literature. We used t-tests to specifically test our hypotheses. Subsequently, we used ANCOVA to confirm that the findings still held when controlling for a number of other variables previous studies found to be related to our dependent variable of interest.

Sample and measures

Our total sample consists of sub-samples of marketing managers from China (n = 159), Slovakia (n = 64), and the United States (n = 151). Slovakia was selected as representative of the Eastern European transition economies in their different stages of transition – in close historical and cultural association with the most rapidly transitioning Czech Republic, but at the economic level of the second-speed Eastern European transition country group (Lascu et al., 1996). China was selected as a dominant Asian economy in transition to a free-market system.

The Chinese sample consisted of managers across China enrolled in a top executive MBA program in Shanghai, China. The language for their program of study was English and required full mastery of the language. The managers ranged from 25- to 65-years old. Participation was voluntary and respondents were guaranteed anonymity; the response rate was 100%.

The Slovak sample consisted of undergraduate and post graduate business students pursuing marketing courses in English in Bratislava, Slovakia's capital city, and a sample of mid-level managers in Bratislava who were also fluent in English. The post-graduate students were employed full-time in the private sector. Participation was voluntary and respondents were guaranteed anonymity; the response rate was 100%. For the Slovak mid-level managers, questionnaires were sent via e-mail to Slovak businesses registered with the Slovak Export Register of the Ministry of Economy of the Slovak Republic. Recipients were asked to contact a mid-level manager in the firm who was fluent in English and request, on our behalf, to complete the questionnaire and submit it to us via e-mail. Respondents were guaranteed anonymity. When managers responded, they were asked for referrals to other local firms that conducted business in English and could further administer the questionnaire for us to a mid-level marketing manager who was fluent in English. The response rate for the managerial group was 17%. The combined Slovak sample ranged from 20 to 55 years of age.

The U.S. sample consists of MBA students and Executive MBA students. The graduate students in the sample completed the questionnaires at the end of a course module. Participation was voluntary and respondents were guaranteed anonymity; the response rate was 100%. The U.S. sample ranged from 21 to 56 years of age.

Dependent variable

Competitive irrationality, our dependent variable, was measured based on a pricing scenario used by Arnett and Hunt (2002) and Armstrong and Collopy (1996). Respondents were asked to read a short scenario and assume they were owners of a fictitious company. Their task was to set the price for a new product. According to the scenario, the higher the price, the more money both the respondent's firm and its competitor would make. The lower the price, the more the respondent's firm's profits would decrease, but the competitor would suffer even greater losses. Subjects were asked to choose between four price points: low, medium-low, medium-high, and high. It should be noted that respondents were offered no rational grounds for choosing the lower price, and, thus, selecting the lower price indicated competitive irrationality motivated by the desire to harm competitors (Arnett and Hunt, 2002). The variable was then coded such that higher scores indicated higher competitive irrationality.

In a subsequent validation of the competitive irrationality measure, respondents from the U.S. and Slovak sample were asked to offer the rationale for their choice. In the Slovak sample, all respondents who chose to price the product low justified it as a means to harm their competitor. Of those who chose to price the product high, 94% chose this strategy in order to ensure the largest profit for their firm. In the U.S. sample, 77% of respondents who chose to price the product low indicated that their intention was to harm their competitor, whereas 93% of respondents who priced their product high indicated that they intended to gain the highest possible profit for their firm. In China, open ended questions were not allowed. However, based on the other two countries is appears that those subjects who focused on harming competition chose low price as their strategy.

Independent variables

The independent variables were *age* and *economy type*. Age was measured in years of the respondent. Subjects were coded as 1 if they were from a market economy (U.S. sample) or 0 if they were from a transition economy (Slovak and Chinese sample). In order to test the hypotheses the data was classified into four groups – economy type by younger and older age (with age dichotomized at the median).

Control variables

Control variables were introduced in a secondary analysis to test the robustness of the findings. Control variables included *gender*, *experience*, *idealism*, *relativism*, and *deontological orientation*. *Gender* was coded as 1 for female respondents and 0 for male respondents. Females are only minimally represented in the sample, reflecting the make-up of business in China and in Slovakia. The Chinese sample contained 15 females and 144 males. The Slovak sample had 17 females and 47 males. The U.S. sample had 47 females and 104 males. Gender is included as a control variable because numerous studies suggest that women are less likely to be overly competitive compared to men (Risman, 1998).

Experience – the number of years of work experience – is included as a control variable. Past studies found experience to be positively related to competitive irrationality (Arnett and Hunt, 2002). Business experience affects strategic choice, is directly related to business skills, and inversely related to decision errors (Arnett and Hunt, 2002; Hitt and Barr, 1989; Sparks and Hunt, 1998; Spence and Brooks, 1997). Consequently, prior studies found business experience to be inversely related to competitive irrationality (Arnett and Hunt, 2002).

Idealism indicates an individual's concern for the welfare of others. Idealism is included as a control variable because it was found to be related to competitive irrationality (Arnett and Hunt, 2002). Idealism was measured it with Forsyth's (1980) ten item, 7-point idealism scale. The scale is coded such that higher scores indicate greater levels of idealism. The Cronbach's alpha of this ten-item scale in the sample is 0.84.

Relativism refers to the belief that moral standards are relative to the culture in which they take place (Schlenker and Forsyth, 1977). Relativism is the degree to which individuals reject universal moral rules when making ethical judgments, believing that moral rules are circumstantial, and time-, place-, and culture-bound (Arendt, 1978; Forsyth, 1980, 1992). Relativism is included as a control variable because it was found to be related to competitive irrationality (Arnett and Hunt, 2002). It was measured with Forsyth's (1980) ten item, 7-point relativism scale which asks respondents to rate their agreement with a series of belief statements. The scale is coded such that higher scores indicate greater levels of relativism. The Cronbach's alpha of this ten-item scale in the sample is 0.85.

Deontological orientation indicates an individual's concern for doing no harm to others, a proscription of many moral codes emphasizing deontological ethics. Specifically, deontology focuses on the inherent rightness of the action, on whether that action is consistent with deontological norms (Hunt, 1997). Moral codes that are deontologically oriented will likely sensitize managers to the ethical implications of harming competitors. Consequently, a deontological orientation is negatively related to competitive irrationality (Arnett and Hunt, 2002; Sparks and Hunt, 1998).

Deontological orientation was included as a control variable because it was found to be related to competitive irrationality (Arnett and Hunt, 2002). It was measured using an established scenario developed by Frank et al. (1993), asking respondents to read a short ethical problem that involves finding an envelope containing $100 bearing the owner's name and address. In the first scenario, respondents were asked to imagine that they were the owner of the lost envelope and to estimate the likelihood, ranging from "0–1 %" to "99–100%," that a stranger would return it. In the second scenario, they were asked to assume that the roles were reversed and to indicate the likelihood that they themselves would return the envelope. The variable was coded such that higher scores indicated a greater deontological orientation.

Analysis

We used simple t-tests to specifically test the hypotheses. We then used ANCOVA to show the robustness of the findings when including covariates.

Results

Table I reports the characteristics of the sample by country. In the Chinese sample, the average age is 39 years, and the average number of years of experience is 16.9. In the Slovak sample, the average age is lower, 33.8 years, and the average number of years of experience is 11.8. In the U.S. sample, the average age is 38 years, and the average number of years of experience is 15.7. Women represent 9% of the total respondents in the Chinese sample, 27% in the Slovak sample, and 31% of the U.S. sample. These percentages mirror women's minority status in managerial positions and in managerial training programs in China (Cooke, 2005) and in Eastern Europe (Metcalfe and Afanassieva, 2005; Finlay et al., 2003).

Table II reports means, standard deviations and correlations of the variables. *Competitive irrationality* is significantly related to *experience* ($r = -0.14$, $p < .01$), *age* ($r = -0.09$, $p < .05$), *idealism* ($r = -0.14$, $p < .01$), and *relativism* ($r = -0.09$, $p < .05$). The market economy subjects are more likely to be female ($r = 0.20$, $p < .01$). This finding reflects the business environment in the United States, as compared to the business environment in China and Slovakia: women are under-represented in managerial positions and in management programs in the Asian and Eastern European transition economies (Cooke, 2005; Finlay et al., 2003; Metcalfe and Afanassieva, 2005), whereas, in the United States, women have a comparatively greater presence in management. The market economy subjects are also less relativistic ($r = -0.32$, $p < .01$), less idealistic ($r = -0.28$, $p < .01$, and have a greater deontological orientation

TABLE I

Description of the sample by country

Country variables	Mean	Std. Dev.	Minimum	Maximum
China (n = 159)				
Age	39.0	5.8	25.0	65.0
Experience	16.9	6.4	4.0	32.0
Gender	0.09	0.29	0.0	1.0
Slovakia (n = 64)				
Age	33.8	11.3	20.0	55.0
Experience	11.8	10.2	0.0	31.0
Gender	0.27	0.45	0.0	1.0
United States (n = 151)				
Age	38.0	7.1	21.0	56.0
Experience	15.7	6.4	1.0	35.0
Gender	0.31	0.46	0.0	1.0

TABLE II

Means, standard deviations, and correlations of variables

	Mean	Std. Dev.	Comp. Irrat.	Age	Market	Gender	Exper.	Idealism	Relat.
Competitive irrationality	2.85	1.20	1.00						
Age	38.2	7.2	−0.09*	1.00					
Market economy[a]	0.40	0.49	0.07	0.03	1.00				
Gender[b]	0.21	0.41	−0.06	−0.04	0.20**	1.00			
Experience	15.6	7.32	−0.14**	0.88**	0.02	−0.02	1.00		
Idealism	4.63	1.04	−0.14**	−0.03	−0.28**	0.12*	0.02	1.00	
Relativism	4.40	1.16	−0.09*	−0.10*	−0.32**	−0.05	−0.09*	0.11*	1.00
Deontologic. Orientation	8.78	2.98	0.00	0.19**	0.30**	0.11*	0.19**	0.03	−0.27**

[a]Coded as U.S. sample = 1; Slovak & Chinese Sample = 0.
[b]Coded as Female = 1; Male = 0.
*$p < .05$; **$p < .01$; $n = 371$.

($r = 0.30$, $p < .01$) than the transitional economy subjects.

Table III shows the means by age and economy type. Using t-tests to look at cell differences showed that age has a powerful effect on competitive irrationality for the transition economy sample. Older managers from the transition economies showed much less ($t = -5.8$, $p < .001$) competitive irrationality (score = 2.35) than younger managers from the transition economies (score = 3.24) and much less competitive irrationality ($t = 4.03$, $p < 0.001$) than managers from a market economy (score = 2.95), supporting Hypothesis 1: *In transition economies, communist educated (older) managers are less likely to be competitively irrational than post-communist (younger) managers or than U.S. managers.*

As in Griffith and Rust (1997) we found no significant differences in competitive irrationality between older and younger U.S. managers. For the U.S. sample, older subjects averaged 2.95, and younger subjects averaged 2.94 ($t = 0.05$, $p < .0.96$). Table III also shows that younger managers from transition economies (score = 3.24) are more likely ($t = 5.8$, $p < .001$) to be competitively irrational than older transition-economy managers (score = 2.35) and more likely ($t = 2.14$, $p < .05$) to be competitively irrational than market economy managers (score = 2.95), supporting Hypothesis 2: *Post-communist (younger) managers from transition economies are more likely to be competitively irrational than U.S. managers or communist educated (older) transition-economy managers.*

Thus, we find an interaction between age and economy type on competitive irrationality as hypothesized: managers who were actively indoctrinated in Marxist–Maoist ideology and were exposed to its moral dictates were found to be less competitively irrational than managers and prospective managers in the new free-market economies who have not been so indoctrinated. Further, older transition-economy managers are less competitively irrational than U.S. managers, while younger transition-economy managers are more competitively irrational than U.S. managers.

In order to test the robustness of the findings when including control variables, we used ANCOVA. We chose to use ANCOVA rather than hierarchical regression because of ANCOVA's greater power in detecting interactions. Table IV reports the results of the ANCOVA, with competitive irrationality as the dependent variable, age and economy type as the independent factors, and deontological orientation, idealism, relativism, gender, and experience as covariates. The table shows that the model is highly significant ($F = 5.7$, $p < .001$), with an R^2 of 0.112 (adjusted = 0.093). Of the covariates, only *idealism* is a significant predictor of competitive irrationality ($F = 3.6$, $p < .05$). As suspected, the interaction between age and economy type is highly significant ($F = 13.5$, $p < .001$), providing evidence that the hypothesized relationships hold even when controlling for other variables previous scholarship has linked to competitive irrationality.

TABLE III

Means of competitive irrationality by economy and age

Age	Economy type	
	Transition	Market
Older	2.35 (1.25) n = 114	2.95 (1.10) n = 63
Younger	3.24 (1.00) n = 108	2.94 (1.19) n = 88

Discussion and limitations

Previous studies (Arnett and Hunt, 2002) identified individual difference factors, such as high relativism, low idealism, and a deontological orientation that result in a propensity for competitively irrational behavior. Studying managers in former communist countries allowed us to identify an additional individual difference factor: moral indoctrination. Comparing older managers, schooled in the Marxist–Maoist doctrine in their formative years, with younger managers, who have not been exposed to moral indoctrination and who have experienced only minimal moral teaching, allows us to gain additional insights into competitive irrationality.

Communist countries outlawed formal religious education and practice, the conventional conveyer of moral and cultural values, and replaced it with Marxist-Maoist ideology. When Communism "collapsed" in the former "second world," a moral vacuum was created; the only remaining ideology was secular materialism (Ger and Belk, 1996; Ger et al., 1993). Recent scholarship suggests that this moral vacuum has been filled by a fairly ruthless and competitive form of capitalism, one in which intangible assets such copyrights and patents are not protected, where investors have little legal protection, where customers are routinely subjected to fraudulent business behavior, and where corruption is pervasive (Johnson et al., 2000; Li, 2005; Zukowski, 2005).

We used the context of competitive irrationality to provide an initial glimpse at managerial ethics in former "second world" transitional economies, comparing communist-educated (older) managers to post-communist (younger) managers and U.S. managers. We hypothesized and found that the least competitively irrational managers were the communist-educated (older) managers.

The study is conducted in the People's Republic of China, which, in spite of the vast economic changes, remains a totalitarian society that denies broad freedom of expression, and in Slovakia, which has created a market economy that is presently characterized by

TABLE IV

ANCOVA of the effects of age, economy type, and their interaction on competitive irrationality

	Competitive irrationality (n = 371)		
	Sum of squares (Type III)	F (df)	Significance
Variables			
Gender	2.3	1.8 (1, 370)	0.093
Experience	1.1	0.9 (1, 370)	0.174
Idealism	4.7	3.6 (1, 370)	0.029
Relativism	1.8	1.4 (1, 370)	0.120
Deontological orientation	0.2	0.1 (1, 370)	0.362
Age	14.1	10.9 (1, 370)	0.001
Economy type	0.1	0.1 (1, 370)	0.768
Age & Economy type interaction	17.5	13.5 (1, 370)	0.000
Model	59.2	5.7 (8, 370)	0.000
R^2	0.112		
Adjusted R^2	0.093		

$^{*}p < .05$; $^{**}p < .01$.

intense nationalism. In that sense, a limitation of this study is that we were unable to control for the full impact of the environment on the pricing choice. Also, in both China and Slovakia, we administered the questionnaires to individuals who are fluent in English, and who are pursuing or possess business degrees. These individuals are clearly different in that, especially in China, they are very likely considered part of the business and political elite and their social, cultural – and moral – experiences are likely to differ from those of the population as a whole, and from those of marketing managers or prospective managers elsewhere in the rest of the country. In the case of China, for example, in its more-developed areas, such as the coastal provinces, the economy has been more market-driven and the government plays a diminished role (Su et al., 2007); future studies may shed further light on the phenomenon of competitive irrationality by exploring rural-urban differences on this dimension.

Finally, while management education is relatively similar in the U.S., Slovakia, and China (in Slovakia and China, they follow a U.S. model of management education), their formal ethical education is likely to be different, and there may be additional partial explanations for the choice behavior that are not accounted for in the present study.

In spite of these limitations, our findings are noteworthy in that they provide initial empirical evidence for the notion that communist ideological indoctrination created managers who competed "fairly", in a manner that enhances the well-being of the firm, the industry and perhaps society as well. We also hypothesized and found that younger managers in the transitional markets of the former command economies, who were not schooled in Marxist–Maoist ideology, appeared to embrace secular materialism and, on average, exhibited higher levels of competitive irrationality than U.S. managers or their older counterparts who had been indoctrinated in Marxist-Maoist dogma.

Our results allow us to speculate why, in former "second world" countries, such as China or Slovakia, consumers are suspicious of business and have negative attitudes toward it (Chang and Cui, 2004; Hisrich and Grachev, 1995). We speculate that personal values that allow managers to engage in competitively irrational behavior may also deepen former "second world" consumer mistrust of business and backlashes against free markets by workers and opportunistic politicians.

We conclude with a caution: the older managers who are less competitively irrational because of Communist ideological indoctrination also tend to hold hostile attitudes toward business in China (Chang and Cui, 2004; Crellin, 1998) and in Eastern Europe (Goldman, 1998). Although older managers in China and Eastern Europe may be less likely to actively operate against their firm's best interests, they also tend to perceive profits and private initiatives as anti-social pursuits (Goldman, 1998). For that reason, older managers also may not value pursuing profit maximizing strategies.

Thus it appears that formerly communist countries have two choices for managers: (1) seasoned former communists whose training may not lead to efficiency but who are rational within their belief system; and (2) young, secular, ruthless managers who may damage their business by pursuing policies which punish their competitors at the expense of profit maximization. Neither option seems very desirable. Future research efforts may wish to confirm the verity of our findings. If true, future studies may wish to concentrate on developing/testing strategies to deal with this dilemma.

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