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What Makes Capitalisms and Corporate Strategies Differ?

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Abstract

This research paper presents and critically discusses on a theoretical level two approaches within comparative political economy that aim at explaining the contemporary diversity of capitalists systems and corporate strategies – the regulation approach, and the varieties of capitalism approach. It does so by comparing the role of institutions and how each theory deals with institutional creation, change and the diffusion of practices across space with new advances in neo-institutional theory.

The aim of the paper is to find a coherent combination of research approaches that successfully can combine micro-economic and extra-economic practices (in particular labour-management relations) at the level of the firm to macro-economic and political institutional forms at the level of the national political economy. It does so by pointing at the strengths and weaknesses of the two approaches and by suggesting ways in which to bring them together. Specific attention is given to how the relation between management and employees is strategically defined and implemented in practice.

The overall objective is to create a combined approach that can grasp under what conditions multinational corporations are more likely to incorporate, implement and diffuse extensive labour-management relations alongside economic strategies. The paper proposes that the extent to which this happens will depend on three inter-related processes: a) the internalisation of the institutional context into firm organisation, b) the diffusion, adaptation, and imitation of practices and c) through third party pressures.

In conclusion the paper raises a number of research questions that can form the basis of empirical research into the role of labour-management relations across and within political economies.

Countries: Developed economies
Subjects: Regulation approach, varieties of capitalism, neo-institutional theory, multinational corporations, labour-management relations, corporate strategies.

Introduction

How can we – in the time of globalisation and intense international competition – understand why and how distinctively different corporate strategies and nation states continue to coexist within developed economies? Following the logic of global markets, liberalization and free trade policies, one would expect to see capitalist systems and corporate strategies converge towards what the market forces would determine is the best and most optimal practice. However, within the economies of today's world, a variety of ways to achieve economic and social sustainability exist. Which theoretical disciplines can be used to explain this, how can the firm-level be linked to the national level hence combining corporate strategies with nation state developments, and how does change within existing capitalist systems and configurations come about?

Developed economies across the globe are experiencing profound changes. Technological developments coupled with liberalisation and deregulation policies have paved the way towards an integration of national economies into a global economic order. At the same time, and as a consequence of high-tech innovations, business practices are under transformation. New managerial practices, new forms of supplier-client relations, just-in-time production methods, quality control and team-based production strategies are adopted.

The developments within technology, communication and transportation costs conditioned the effect of liberal trade and deregulation thus vastly increasing the flows of capital and goods across national borders. One indicator of which is the sharp rise in foreign direct investment that has occurred since the mid 1980s. The net result of these changes has been intense global competition and new developments within the international division of labour.

Correspondingly, debates within political economy concerning the effect of these tendencies on national economic systems, national welfare policies and firm strategies abounded. The conventional view, which became prominent in the latter part of the 1980s and forward was that global competition – here globalization – would push nation states into what critiques called a 'race to the bottom'. As multinational companies competing on world markets would associate competitiveness with unit labour costs, production would be outsourced or off-shored to those locations where labour is cheapest. In addition, firms seeking cost effectiveness would chose to locate in countries with weak labour market regulation, low corporate taxes and freer market conditions. In response, nation states needing to both attract and withhold the important foreign direct investment and hence jobs, growth and development would be under increased pressure from business to lower domestic labour costs, reduce taxation and introduce further measures to open national markets via deregulation and liberalisation.

Inevitably, the result of such processes would be a change and adaptation in national economic and social institutions to correspond to the logic of the market and global competition. Hence the dominant hypotheses contained a strong 'convergence hypothesis' as developed economies across the globe would adapt to the new economic order. Although this hypothesis had, and has, certain real and observable effects, the proposed convergence is still far from being a reality within developed economies. National social and economic differences have remained as institutional and organisational practices have shown strong resistance to radical change. That said changes have occurred, and are occurring, at varying tempi, as institutions and the actors' actions that constitute them are never static nor beyond potential influence from others.

Several research agendas have sought to grasp the persistence of capitalist diversity. On the one hand, the Regulation Approach (RA) stands out as one that takes the relationship between capitalist accumulation and capitalist institutions seriously. Traditionally RA was concerned with analyzing how relatively stable periods of economic growth could occur within the capitalist system, which was seen as being inherently contradictious. In the wake of the collapse of Fordism however, regulationists became increasingly interested in the myriad of potential growth regimes that would follow Fordism, and hence in the coexistence of many forms of capitalism (Boyer 2005).

On the other hand, a newer approach has evolved that puts firms and modes of corporate organisation in the centre of the analysis. The Varieties of Capitalism Approach (VOC) - as advocated by Peter Hall and David Soskice – discusses how firms originating and/or operating in either liberal market economies or coordinated market economies, will show distinctively different modes of organisation and strategies. Hence, their point is that firms' competition strategies are closely linked to the kind of capitalist society in which they operate. Furthermore, critical to the firms' success in pursuing profit, product development and therefore continued growth, is the type of internal and external relationships they are able to establish. Internal relations are with the firm's employees, external with suppliers, clients, collaborators, stakeholders, trade unions, business associations and governments. Hence, if the continued success of firms is conditioned by *relations* with other actors, firms necessarily face a range of coordination problems that need to be resolved. According to the VOC approach, institutions, organizations and culture enter the analysis because of the support they provide for firms to overcome such coordination problems.

The interesting link between RA and VOC is in their mutual understanding that particular modes of production are intrinsically linked to particular institutional forms of capitalism, and that there exist different types of capitalist systems. Or put differently that micro-level (firm level) organisational and productive models are conditioned by, and conversely condition, macro-level institutions and organisations, and hence the overall economic and social policies. Furthermore, despite ontological and epistemological differences, both approaches stress that the diversity of capitalist systems is co-conditioned by institutions and institutional complementarities in and across space and time. By combining the RA and VOC to neo-institutional theory, which can be said to be the foundation on which the other two approaches partially rest, we should end up in a position to discuss what it is that makes capitalisms and corporate strategies differ.

The paper is part of a PhD project, which will analyse selected Danish multinational corporations, their personnel policy and their practices and experiences with diffusing institutional practices across borders. The aim is to explain the persistence of divergent corporate strategies in a time of global competition, and to see how these strategies can be an economic competitive advantage in themselves.

Putting labour-management relations into the equation

In addition to the fact that national social and economic practices remain diverse across developed economies, research also shows that corporate strategies differ too[1] (Aaron 1998; Delios and Beamish 1999; Edwards 2002; Ferner 2000, Lansbury *et al.* 2003). Even *within* national political-economies there exists a range of different corporate strategies that reflect the overall institutional context, but also introduce somewhat novel practices. Amongst other things, the differences can be due to sector, mode of production, age, size and whether the corporation is multinational, domestic and/or import or export driven. The specific interest in the paper will be on two interrelated factors: Firstly, the institutional foundation on which actions take place, are governed and enabled, and secondly how individual firms that operate in these institutional contexts define and implement their labour-management relations. The emphasis in the following will be put on multinational corporations since they cut across many different national spaces and thus have strategies that are pursued on a range of interpersonal, inter-organisational, inter-institutional and/or inter-systemic levels.

Corporate strategies *in toto* are aimed at securing the success of the firm. However, the means through which to secure this success can differ according to both endogenous as well as exogenous factors. For example, strategies can differ depending on whether the firm operates with a short-term or a long-term horizon. Depending on ownership forms the strategies can relate to stock market practices, private investor relations, family values etc. In addition, economic strategies can be shaped more or less by extra-economic priorities *within* firms, such as social and environmental policies.

It is the hypotheses throughout this paper that the degree to which multinational corporations incorporate extra-economic strategies along side economic strategies, has to do with three interrelated processes. First the *institutional context* in which the parent company originates. This context will influence what corporate managers and owners normatively regard as ‘good or best practice’. In other words strategies will reflect the *norms, values* and *expectations* that the corporation has internalised through the – and because of the - overall institutional context they were founded in. The second process relates to the *diffusion adaptation and imitation* of practices. Diffusion and adaptation can occur through two pressures. External pressures that derive from competitive forces might pressure the corporation into changing or modifying their economic and

[1] Firm strategies constituted by *economic* and *extra-economic* factors. The extra-economic strategies are fundamentally the social and environmental policies that govern firm strategy.

extra-economic strategies. Or corporations that are either bought by others or buy others, will to varying extents be the receiver of, or sender of, new practices. The third processes relates to the influence *third party organisations, policies and practices* exert on corporations and how they can lead to changes, adaptations or new practices within the corporation. For instance, ILO, global unions, public sentiments are all in the potential position to change what is normatively and cognitively acceptable. Changes of this kind can be local, national and/or global in scope and, depending on their nature, can ultimately change how corporations formulate their strategies.

It goes without saying that in the end of the day corporate managers and owners are – at least to a certain extent - free to adopt what strategies they wish. However, the point here is that some practices can be so alien to particular institutional contexts that the pressures exerted on the corporation either make them leave, change or at least engage in some kind of collaboration or relationship with the external parties. Other practices can lie on the borderline of what can be accepted or legitimised in giving contexts. In such cases the implementation of corporate strategies will be contested or accepted gradually and through trial and error experimentations. In other circumstances a corporate strategy can be novel, alien or plain different from 'normal practice' in the wider field, but can be easier legitimised and accepted by affected parties. And finally a strategy can blend into – or even be shaped by – the overall institutional context and thus from the off-set be implemented without further ado.

What this is sum implies is that corporate strategies and the overall institutional context, in which they operate, mutually influence each other. Since national political economies are (partially) made up of the institutional architecture, corporate strategies and national - yet also international – political economies are therefore interrelated. The aim of this paper is to present and discuss neo-institutional theory as the foundation on which the RA and VOC approach build, and to combine them so they can analyse the link between economic and extra-economic corporate strategies and national political economies. Furthermore the paper will discuss how this understanding can be used to empirically evaluate the role and development of institutions and institutional practices in determining the competitive position of multinational corporations. Specific attention will be given to labour-management relations broadly understood and how they are strategically defined and implemented in practice.

The paper is organised as follows. Firstly the foundation for understanding what institutions are, how they develop and in what ways they are diffused and translated will be presented in section one. From there the focus in section two will be on the regulation approach, and how the fundamental elements of this theory(ies) can be applied to understand the interrelation between capitalisms and corporate strategies. In section three, the framework of the varieties of capital approach will be presented in an attempt to put further focus on firm strategies. In both of the theoretical approaches particular attention will be given to how individual firms coordinate with the wider institutional context. These sections will therefore continuously link back to specific concepts in institutional analysis as they have been presented in section one. Finally, section four ties the presented theories together, and will discuss the theoretical problems, strengths and weaknesses of combining them. Do they in fact provide additional insights into understanding why and how capitalisms and corporate strategies differ across nations? Can they provide a theoretical framework to analyse how extra-economic corporate strategies (here amongst labour-management relations) can influence corporate competitiveness? And ultimately, what can be learned from this overtly theoretical exercise?

Section 1: Defining institutions

Having established that both the regulation approach and the varieties of capitalism approach put – albeit in different ways – institutions and institutional forms into the centre of the analysis, it is time to define precisely what these institutions are[2]. The descriptions and concepts that will be provided throughout this section form an integral part of the presentation and analysis of the RA and VOC in sections 2 and 3. In the following the take is that institutions are both formal and informal, they *constrain* human action and *structure* the incentives in human exchange, whether political, social or economic (North 1990; Thelen & Steinmo 1992; Campbell 2004). In addition, institutions are dynamic entities, constructed and reconstructed by human action[3]. Quoting John Campbell; "They [institutions] are formal and informal rules, monitoring and enforcement mechanisms, and systems of meaning that define the context within which individuals, corporations, labour unions, nation states and other organizations operate and interact" (Campbell 2004:1).

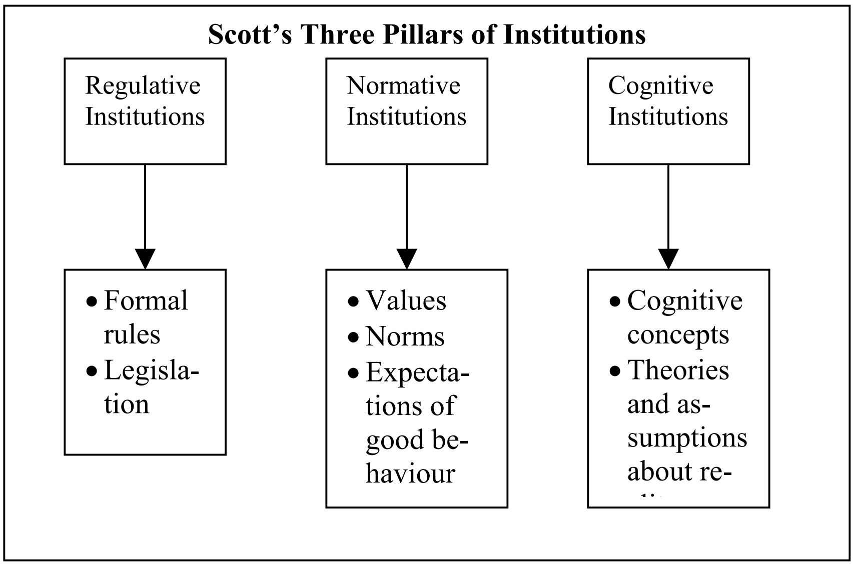
Campbell's definition of institutions has strong ties to Scott's three pillars of institutions (Scott 2001:48-69). According to Scott's theory, institutions can be divided into three main categories: 1) regulative institutions (i.e. formal rules, legislation); 2) normative institutions (values, norms, expectation of good behaviour); and 3) cognitive institutions (cognitive concepts, theories and assumptions about reality). (see figure below)

Before entering into a description of each of the three pillars, it is firstly important to remember that institutions exist only as long as actors make use of them, and secondly that institutions are multidimensional and that each critical dimension of the institution must be carefully addressed.

It is, furthermore, important to clearly specify the critical *dimensions* of the institution in question and furthermore the *causal mechanisms* involved in institutional change.

[2] Amongst the varying schools of neo-institutionalism there is some quibble about the precise definitions of institutions. For overviews see, Campbell 2004: 10-27, Steinmo ,Thelen & Longstreth 1998: 3-13 and Scott 2001: 1-44

[3] Human action in this context should not be understood as individual action motivated solely by instrumental rationality, that is, a decision-making logic based on interest in maximizing benefits relative to costs (rational choice institutionalism).



Scott's Three Pillars of Institutions

Regulative Institutions

As already mentioned, regulative institutions consist of the legal, constitutional, and other rules that constrain and regularize behaviour (Scott 2001, Campbell 2004). Hence, regulative institutions affect how political and social actors are organized and manoeuvre politically. To take an example from the field of industrial relations, national legislation can facilitate the formal organisation of workers in unions and businesses in employers' associations. In addition, the legislation will stipulate the power of these organizations[4] in the decision-making process, and will create further institutions/organizations to support this, such as labour courts and the Ombudsman. Within this specific pillar regulatory processes thus involve the capacity to establish rules, inspect others' conformity to them, and as necessary manipulate sanctions, rewards or punishments in an attempt to influence future behaviour. Hence there is a rule-creating, monitoring and sanctioning aspect to these regulative institutions.

However, despite the fact the especially historical institutionalists, but also rational choice institutionalists primarily focus on the *formal* aspects of regulative institutions, *informal* methods of rule-creation, monitoring and sanctioning can be equally significant. As Scott 2001 points out, folkways such as public shaming and/or shunning activities are also means to regulate behaviour, furthermore at workplace level several un-written rules exist regarding language,

[4] There is some ambiguity as to the difference between institutions and organizations. According to Ménard 1994, institutions – unlike organizations – do not have members and identifiable boundaries. North 1990 states that organizations are political bodies (political parties, councils, committees, regulatory agencies), economic bodies (firms, trade unions, employer associations, cooperatives etc), social bodies (church, clubs, voluntary associations) and educational bodies (schools, universities, vocational training centres). Organizations thus bond individuals together by some common purpose to achieve objectives defined by the nature of the organization. Like institutions, organizations evolve over time, however precisely what organizations come into existence, as well as how they evolve, is fundamentally influenced by the institutional framework. In turn, organizations influence the evolvement of institutions – for example, labour market parties political lobbying can change social legislation.

behaviour and practice between colleagues and correspondingly how firms deal with any lack of compliance to these informal rules and procedures.

Regulative institutions thus rest on a certain degree of coercion and moulding. Rulers may at times need to *impose* their regime on others through the threat or use of sanctions, or they might provide *inducements* to secure compliance. In both circumstances the long-term effect of regulative institutions is the creation of certain *normative* perceptions of right and wrong. This is especially clear in the discussion whether legislation creates norms, or whether norms create legislation. As such, the regulative and normative institutions are mutually reinforcing.

Normative institutions

Values, norms and expectation of good behaviour are referred to as the normative institutions. Here emphasis is put on the normative rules that are contained within the prescriptive, evaluative and obligatory dimensions of social life. Values are what the individual or the group of individuals conceive as the preferred or desirable, norms specify how things should be done and what best means should be applied to reach normative goals. Values are thus judged and measured against the already existing. Valuative questions are: What would I like to be different from what is today? How should things be to be just? The normative institutions therefore refer to objectives and rules specifying how to meet such objectives with the application of conceivable just and fair means.

Normative institutions do not necessarily apply equally to all social groups in the same way. Different groups in society do not necessarily share the same values. Personal values can be separate from professionally determined values, or an individual in one group (say corporate managers) can have a different value from that of the rest of the group.

Normative institutions, i.e. values, norms and expectations put both *constraints* on social behaviour, but also *empower* social groups to act. They constrain in the sense that they define in broad terms what socially acceptable behaviour within given contexts is. However the normative institutions also empower individuals by providing the context in which they can act, and by limiting the range of imaginable solutions to given problems. Judged against the already existing, the normative institutions in times of uncertainty therefore help actors to define solutions and provide the means through which to meet the goals. In the words of Scott (2001:55): *They [normative institutions] confer rights as well as responsibilities, privileges as well as duties, licenses as well as mandates"*

The normative understanding of institutions has particularly been embraced by early theorists such as Weber, Durkheim through Parsons to contemporary sociologists March and Olsen, Scott and DiMaggio and Powell. A common thread is their emphasis on how *social order* is created by two mutually reinforcing processes: internalisation and imposition. Normative institutions are internalised by the individual or imposed on the individual from peers, kinship and society. Thus shared norms and values can be said to be the very foundation of a stable social order.

Each value and norm – the normative institutions - prescribes different roles to different groups within the company. Together these roles create the company's social order. Each individual or group member is thus socialised into a particular role or set of roles, which in turn is continuously questioned, challenged and reproduced by the actors enacting the specific institutions. As previously mentioned institutions are never static.

Cultural-cognitive institutions

Lastly, Scott operates with the cultural-cognitive institutions, which in Campbell's words are: "the culturally shaped, taken-for-granted assumptions about reality, and the frames through which it is perceived, understood and give meaning" (Campbell 2004:36). Symbols, words, signs and gestures have their affect by shaping the meanings we attribute to objects and activities. Psychologists and anthropologists have traditionally worked with the framing process prior to the creation of meaning. Their point is that when something happens or when we see an object, we evaluate, judge and decide upon what action to take or what emotion to feel based on a framing process that has been shaped and moulded throughout our lives. This shaping and moulding in turn is culturally determined – for example, what in one society can be the sign of death and destruction might in another be the sign of birth and creation. This automatic framing process which assigns meaning to social life is part of the collectivities' common knowledge and taken-for-granted routines. Compliance is here crucial since actions that differ substantially from 'how we usually do things' will be contested through the framing process. It thus follows that in order to secure compliance with a certain practice actors can make use of the symbols, words, signs and gestures that will support common or wide acceptance of the practice. An example here could be how managers in a company in America subscribe to a conception of control in relation to organising corporate activity, where managers in a company in Denmark subscribe more to a conception of trust. Both conceptions are not exclusively dependent on culture, but find their foundation in what is common routine or common practice within that culture. This is not to say that control cannot be implemented within a cultural context of trust, but that introducing an 'anomaly' will require the utilisation of other common symbols and words that can ensure compliancy.

The institutionalisation of assumptions and meanings on the cognitive level limits or constrains the range of options that are conceivable for individuals and actors. Collectively, cognitive institutions create paradigms. In the post-war era the paradigm of mass-production along assembly lines that were controlled by management operating in large vertically integrated corporations framed the range of available solutions to corporate control. In addition, the wage-labour relation that complemented post-war production methods influenced on the cognitive level how workers, managers, owners, politicians and the labour market parties perceived and gave meaning to reality. However, as paradigms change (i.e. the shared understandings), so does the range of options that are available to groups and individuals.

According to Scott 2001, the attention given to cultural-cognitive institutions and their role in the overall matrix of institutions is what distinguishes neoinstitutionalism from old-institutionalism within sociology.

Institutional creation, stability and change

As the description of the three pillars of institutions has shown, they interplay with each other in different ways according to what is being examined. This multi-dimensionality is also an expression of a multi-disciplinary approach to understanding social phenomenon, but above all it is a way to understand how social interaction is constrained and enabled by the institutional context. As noted above, clearly specifying the important dimensions of institutions aids us in determining and understanding the casual mechanisms behind institutional change.

Institutional creation

But how do institutions come about in the first place? As briefly mentioned above, institutions exist only as long as actors (re)produce them, which again implies a notion of *action* and *agency*. Hence how individuals or groups act in response to specific situations, crisis or challenges, can determine the establishment of institutions. Institutional creation thus rests on practices – or action. A natural question is therefore, how much action needs to be involved for a practice to become institutionalised? Remembering that institutions are rules, the monitoring and sanctioning systems that back them up, and the meaning systems surrounding them, it would be natural to assume that practices are institutions when they regularly and repeatedly follow a rule. So in order for an institution to be created in the first place, we should first and foremost look at how practices – or actions – are guided by regulative, normative and cognitive rules.

A glance at the literature on institutional creation however reveals varying explanations. Historical institutionalists say very little about institutional creation, however since they most commonly refer to institutions as formal rules, their point of view is that practices that are governed by rules can be said to be institutionalised. Sociologists within the normative and cultural-cognitive would say that institutions are both informal rules and habits. Hence for them a practice *embodies* institutional rules (formal, normative and cognitive), why a practice is not an institution in itself. More hard-core rational choice institutionalists make the assumption that actors behave in a fully rational manner and are in fact able to maximize benefits relative to costs. In their world, a practice is therefore a calculated action where institutions survive or fall dependent on their cost-effectiveness. Yet other – maybe more realistic rational choice institutionalists – assert that cognitive paradigms influence people's ability to make rational decisions since such paradigms can support their eagerness to ignore available information if it does not fit the so-called cognitive architecture (Jones 1999).

An important part of institutional building is the concept of fields, which can be labelled "fields" (Bourdieu 1977), "organizational fields" (DiMaggio and Powell 1983), "sectors" (Meyer and Scott 1983), "strategic action fields" (Fligstein and McAdam 1994), or "games" (Axelrod 1984). In economic theory, fields are consistent with current views on industrial organization (Gibbons 1992). Hence fields refer to situations where organized groups of actors gather and frame their actions vis-à-vis one another. The rules that govern the actions within these fields is about creating institutions, and in the words of Jepperson 1991: "Institutionalization is the process by which rules move from abstractions to being constitutive of repeated *patterns of interaction* in fields" (my emphasis). Put differently, routinized practices create rules that create - or are – institutions.

It therefore follows that institution building is based on some notion of struggle, conflict and resolution between actors, within - yet also across - fields and ultimately therefore also on a concept of *power*. Individuals or groups will, according to their interests and/or normative beliefs, require solutions to given problems. If the institutional setup already available cannot serve to overcome the problems the different – and often contesting – interests or belief systems of the actors will lead to a *demand-side* creation of new institutions (rules). Actors are "therefore motivated by their discomfort in ongoing situations to *devise* or *borrow* new and different rules and models" (Scott 2001:109 – *my emphasis*). The power aspect necessarily implies that not all groups within a field have equal access to problem-solving resources. Depending on the roles groups play within the field, historical experience, resources to persuade or induce ones beliefs onto others, ability to legitimise ones actions and so forth are all decisive features in the power game and therefore on the outcome of the struggles – the institution. This thus implies that past experiences and the normative expectations actors have of how a problem *should* be solved, matter in present and future power games within fields. This path-dependency shall be described in more detail below.

John Meyer 1994 suggests that institutions can be created through *supply*-side mechanisms as well as demand-side. His arguments are that certain groups in society - actors in the professions or sciences - occupy institutionalised roles that enable them and encourage them to create and disperse new schemas, rules, models, routines and artefacts. As such these social innovators see themselves as part of the great project of rationalization where more and more elements of social life are brought under "the rubric of ideologies that claim universal applicability" (Meyer 1994:42). Leading actors within trade unions and employers' associations are in a position to create new norms, habits, schemas and ideologies into the system of collective bargaining. They can base their ideas on their members' opinions and ideas, on information and knowledge collected abroad or through their channels of specialised expert knowledge on labour market issues. Using this new information – or indeed privileged information – enables them to utilise their power within their respective systems and through their actions create new regulative, normative and/or cognitive institutions. Likewise scientists or rather theorists can create new intellectual-paradigms through their work. For instance, management researchers have long had a vast influence on how organisations and firms strategically organise themselves according to the leading intellectual debates. A fine example of this is the work on scientific management that was conducted by Frederick Winslow Taylor and others within the engineering profession. This paradigm that originated in America was established in the period spanning from 1900 to the 1930s, and contributed to the rise of Fordist production techniques, especially hierarchically organized mass production. The growing concern in the 1980s amongst theorists, business managers and politicians on the shortcomings of large-scale corporate bureaucracies and conglomerates also highly influenced the transition to decentralisation, flexible specialisation and just-in-time production methods in corporations.

To sum up the argument so far, institutions come about by both demand-side and supply-side processes. They are a result of power games within fields of action, and as such institutions are the result of conflict and compromise. Institutions furthermore both constrain and enable social action by providing the framework in which meaning systems are defined and rules are followed, monitored and sanctioned. This implies that institutions once established will constantly be questioned, challenged and subject to power disputes. As the creation of institutions is a dynamic process so is their continuing survival and reproduction – or ultimate destruction.

Institutional change

Institutional creation and institutional change are, in essence, difficult to separate. Indeed one can say that the creation of a new institution necessarily implies that another institution has become obsolete or is unsuited to meet new challenges. New institutions thus in many ways build on top of the foundation of already existing institutions. Bearing this in mind the following section will briefly discuss the different types of institutional change and the mechanisms through which change occurs.

Change can occur in different patterns. Theorists discuss whether change is incremental and evolutionary or sudden and revolutionary[5]. Yet others discuss whether it is an expression of punctuated equilibrium[6]. Despite the abundant discussions on types of change, very little is however mentioned about how we empirically can determine which pattern of change has occurred. The dangers of this lack of clarity are many. If we fail to correctly identify the type of change occurring, we run the risk of being unclear about what we are trying to explain but also how we are trying to explain it. If we assume we are looking for major

[5] Revolutionary change refers to patterns of change that are characterised by prolonged periods of equilibrium and stability or evolution that are interrupted suddenly by a crisis that throws things into turmoil until a new set of institutions are established.

[6] For a good overview of the different types of change and which pattern of change the three schools of institutional theory adopt respectively see Campbell 2004:11 + 31-61

and sudden changes our theoretical explanations will be very different from those seeking to explain incremental and gradual change. Or in reverse, if we are seeking evidence to support our theses on punctuated equilibrium we risk blinding ourselves of the true nature of events by skipping all counter-evidence that 'just doesn't fit'.

Having determined what the institution in question is, we then need to determine which institutional pillar or pillars we will focus on. For instance, Neil Fligstein 1990 tracked how American corporate managers' cognitive conceptions of corporate control had changed from the late nineteenth through the twentieth centuries. If we are more concerned with the regulative pillar in corporations, we would need to look at the rules and legislation governing property rights, stakeholder relations, corporate governance, industrial relation systems and so forth. Within corporations we could also decide to focus on the normative pillar, i.e. what workers, employers, owners and the labour market parties believe are the socially most acceptable ways to make corporate decisions and treat members of the firm (Streeck 1997). Deciding upon the particular institutional pillar rests therefore firstly on the *theoretical perspective* of the researcher.

Secondly, it is important in most institutional analysis to be very clear about the *level of analysis* and how this feeds back into the institutional pillars. What can explain the development of the normative institutions at force in a corporation's personnel policy? Can these micro-level norms be shaped by macro-level regulative institutions? And how do society-wide cognitive beliefs constrain the possible outcome of a change in personnel policies? By specifying the level of analysis, the complexity of multi-dimensional institutions can be taken into consideration in the analytical stage of research.

Thirdly, we then need to specify what the appropriate *time-frame* for our analysis should be. Tracking institutional development is necessarily linked to a notion of time, and in Campbell's words selecting appropriate time frames "requires paying attention to the historical specificity of the phenomenon in question (i.e., the processes, cases, and contexts involved), our theoretical perspective, the level of analysis, methodological considerations regarding the availability of data of sufficient quality and comparability over time and across cases, and the presence of critical events" (Campbell 2004:47).

The methodological strength of studying institutions as bundles of dimensions, which can be analytically and empirically disaggregated and traced over time, questions the stability of institutions. If it is true that institutions come about through power games in specific fields of action and hence of conflicting logics, it would be logical to assume that actors will frequently try to change at least some of the basic dimensions on a more-or-less routine basis. Hence the very concept of institutional stability seems only to make sense relative to the chosen time frame of analysis.

Mechanisms of change

As noted above institutional change can occur evolutionary or revolutionary. Evolutionary change implies that only a few of the relevant dimensions of an institution change from one moment to another such that today's institutional arrangements differ from yet still resemble those of yesterday. Institutionalists typically refer to this process as *path dependence*.

Some theorists who work with the concept of path dependency explain how institutions and the behaviour associated with them are 'locked in' to a particular path of historical development as a result of increasing returns by doing so. If we behave in ways that are consistent with our past actions, we thereby reproduce, more than refine, institutional set ups. The 'lock-in' process is also referred to as 'institutional stickiness', i.e. the process in which actors reproduce institutions and institutions in return reproduce actions. To take an example let us return to our corporation and their personnel policy. Institutional 'lock-in' – understood as the persistence of the institutional setup over time - can occur for several reasons. Firstly, actors accumulate knowledge about how the policy that has been introduced works. Both employers and employees are familiar and comfortable with it, and are therefore reluctant to deviate from it. Secondly, creating a policy (its institutional foundation) and implementing it has huge start-up costs. The decision-making actors (the employers/owners) will therefore not seek to change the institutions unless forced to do so. Thirdly, the policy as such maintains the power games in the field of the corporation. It prescribes roles, expectations to those roles, and meaning systems that work for employees as well as employers. Changes – small adaptations, additions or removals – will occur as the actors in the field (corporate management versus say shop steward) renegotiate the policy on the more-or-less routine basis described above. Hence over time the personnel policy at force today is one that is based on past struggles and compromises, and has thus developed in a path-dependent and evolutionary manner. However, path dependency can also lead to revolutionary change as we shall see below.

Bricolage

The mechanism which causes path dependent development is referred to by Campbell as *bricolage*. The process of bricolage involves the recombination of *already existing* institutional elements so that new institutions differ from yet resemble old ones (Campbell 2004:69). Recombination can be substantive (i.e. involving existing principles and practices) and/or symbolic (involving norms, values, belief systems). The recombination of elements - bricolage - includes therefore agency. Precisely because it is actors who are involved in the process of bricolage, we can see why institutions both empower, enable, but also constrain the ability of actors to change such institutions. Empowerment and enablement come through the recombination of practices and principles into new practices and principles that are normatively and cognitively imaginable (constraining). As such institutions provide the tool-kit with which actors change institutions.

People – institutional entrepreneurs – constitute the key process of bricolage. It is the actors' specific position in their social fields and in addition in the cross-section of fields that provide them with the resources to change institutions. Actors with diverse, social, organizational and institutional connections will be able to draw upon a wide set of repertoires with which to work. They draw inspiration and knowledge from many sources, and will be able to evaluate how the process of bricolage could be done in more then one way. Contrary to these actors are those with impoverished locations, weak networks and few institutional resources. The latter group will have less innovative solutions to the process of bricolage. What this implies is that bricolage can lead to *both* evolutionary and revolutionary change. The chances of revolutionary change are far greater the more diverse social fields institutional entrepreneurs are in connection with.

Naturally it is not such that revolutionary or innovative change happens automatically should the entrepreneur have extended inspirational sources on which to draw. Change occurs within the wider institutional milieu and remembering again Scott's three pillars, it is possible that an actor cognitively can imagine a solution that is normatively deemed inappropriate or illegitimate. Or the actor has limited access to regulative institutions – and hence is limited in the possibilities he or she normatively and/or cognitively otherwise could imagine.

Diffusion and translation

This concept of agency and action leads us directly on to another process which leads to institutional change – that of *diffusion*[7]. What happens when an institutional practice or principle is diffused to other organizations or groups within a field? In our example above, we can say that the foreign subsidiaries received new institutional principles and practices from the parent company in the form of a new personnel policy. This next section is concerned with how this process takes place.

When a new institutional practice or principle travels from one site to another (is diffused), it implies that at the receiving end *new* elements will need to be incorporated into already existing ones. This process is referred to as translation, since the new externally given elements need to be combined (translated) into current elements. This process of translation does not automatically imply

[7] Organizational institutionalists have traditionally been concerned with the process of *diffusion*, which refers to the spread of principles or practices with little modification through a population of actors. In their view, diffusion leads to isomorphic or homogenous outcomes in populations of organizations (Campbell 2004). A major critique of how organizational institutionalists use the concept of diffusion is centred on their lack of specification of the mechanisms involved in diffusion. Instead it seems as if an institutional practice or principle simply arrives at the doorstep of an organization and is enacted without further hesitation. (see Campbell 2004:77-79 for further discussion)

that all institutional elements are translated and implemented. Some aspects will be contested, change, moulded and rewritten in order to fit the local institutional context, others will be adopted without much further ado, and others will be disregarded all together.

Translation contrary to bricolage thus involves the introduction of *new* ideas, practices, norms, values etc into the institutional milieu. Via translation institutional elements are recombined – just as with the process of bricolage, to create new institutional settings. The main difference is whether the new institutions are made up of a combination of new and old elements (translation) or just old (bricolage). This also implies that via the process of translation, revolutionary change will be more common.

Actors and agency are equally as important in the process of translation as they are in bricolage. The degree to which a diffused practice, principle or idea is translated into a local context depends on the local institutional context, power struggles within the field, leadership support and implementation capacities.

Summary

In review, we have established that institutions – understood as rules, the monitoring and sanctioning systems that back them up, and the meaning systems surrounding them – both constrain and enable action. They come about through contest and compromise by actors in powerful positions within fields – or arenas of social action. Institutions are also multidimensional and are found on all levels, ranging from the micro to the macro. Precisely because human agency matters, history matters too.

The concept of path dependency aids us in unravelling how institutions develop, i.e. how they are continuously reproduced, modified and evolved through complex processes. We have tracked the mechanisms behind institutional change, and shown that the recombination of already existing institutional elements through the process of bricolage can lead to evolutionary change, when the new differs from yet resembles the old. We have also established that institutional practices and principles can be diffused across and within fields through the mechanism of translation. Again how and in what way institutions are diffused depends on the social position of the actors involved. Can they mobilise political support and resources to introduce new institutional elements? Do they have access to the knowledge and cognitive backgrounds to introduce innovative solutions to problems?

On a more concrete level, we have now laid down the foundations to understanding *why* and *how* capitalisms and corporate strategies differ across nations. Sure enough institutional practices and principles do not explain everything, but understanding how the development of a particular location's institutional milieu has come about, and how this in turn enables and constrains future actions, allows us to enter into an analysis of why economies have developed differently through time and across space. It thus goes without saying that this paper rejects neoclassical economic models that predict that markets will balance out around supply and demand mechanisms and actors will make choices that serve their own self-interests so as to increase returns. There is simply more to economic action than pure market forces and rational well-informed action.

It also rejects that economic globalisation and the expansion of the market across nation boundaries therefore automatically leads to isomorphism in how national economies and corporations react to such pressures. There is not a predetermined 'one best way' to follow, yet there can be evidence of certain homogenizing pressures as practices are diffused across localities such as the cognitive theories and assumptions about reality that powerful actors, elites and intellectuals put into play.

Having now established the complex nature of institutions, and how we through careful application of the causal concepts can analyse the role they play in social life, we can now turn to showing how they influence both corporate strategies and more macro-orientated economic and regulative developments. The following sections will look at the national level as well as the firm level through the eyes of two influential theories that – from albeit different viewpoints – assert the importance of institutions in explaining diversity in strategies and development across corporations and across national spaces.

Section 2: The Regulation Approach

A particular school of thought that takes the role of institutions seriously is the regulation approach (hereafter RA). Strongly rooted in Marxist political economy, the regulation approach was originally developed by French economists in the mid 1970s. Rather then being a unified theory, the RA is more a research programme and a methodology and as such offers a way of analyzing the interconnections between the institutional forms and the dynamic regularities of capitalist economies (Jessop 2001).

One of the key research questions for early regulation theorists was the need to explain how capitalism, a system with a strong tendency towards recurring instability, crisis and change, nevertheless regularly manages to experience extended periods of sustained growth with relative stability. In answering this apparent 'systemic coherence' the regulationists focussed on two main features.

Firstly, each expansionary phase of capitalist development was seen to be characterised by a specific *regime of accumulation* at the level of the whole economy, i.e. a macro-economic regime sustaining expanded reproduction. The regime of accumulation is defined by a relatively stable and reproducible relationship between production and consumption (Hirst & Zeitlin 1992:85). Hence it describes a relative equilibrium between the patterns of consumption and accumulation (i.e. the creation of wealth). Furthermore this definition suggests a "correspondence" between production methods and the living conditions of wage labour: a change in the former will lead necessarily to a corresponding change in the latter.

Secondly, the RA emphasises the dialectical nature of the relationship between capital accumulation and capitalism's social, political and cultural context (Broomhill). Drawing on Polanyi, the concept *mode of regulation* refers to the regulatory framework needed to support and sustain economic growth – in other words, the accumulation regime. The mode of regulation therefore refers to the ensemble of norms, institutions, organizational forms, social networks and patterns of conduct within a society that both enable and regulate capital accumulation according to a set of principles.

By linking the regime of accumulation with the mode of regulation, and by stressing their mutual interdependence, the RA treats economic activities and institutions as socially embedded. In line with Polanyi, this implies that continued capital accumulation cannot be secured purely through economic mechanisms.

Considering that the regime of accumulation refers to macro-economic processes, the *labour process* on the other hand refers to the micro-economic technical and social division of labour that typically is the backbone of the accumulation regime. Regulationists stress that at any given time there would be more than one labour process (assembly-line work, flexible work etc.) in a society, and hence also more than one type of worker (unskilled, semi-skilled, skilled, multi-faceted etc.).

Between the micro and the macro economic processes, the mode of regulation thus sits as the meso-economic, institutionally-focused level of analysis. Ideally, the mode of regulation can be divided into six features, or which some are economic, some are social: a) the wage relation (wage-labour nexus) - i.e. the actors involved in determining the wage, industrial relations, relation between management and employees; b) the ideal-typical enterprise – ownership and control, size and organisation of firm (hierarchically integrated or disintegrated); c) money – national or international commodity, investment policies, credit systems (consumers and enterprises) and state credit policies; d) forms of competition & commercial capital – monopolistic and/or competitive competition plus the means through which enterprises spur demand for products (through advertising, norm creation, etc.); and finally e) the state – the mode through which the state promotes the virtuous circle of the accumulation regime (demand or supply management, welfare/workfare policies, support policies for business, investments, social policies and so forth; and f) forms of insertion into the international regime, i.e. the set of rules that organise nation states' relationship with the rest of the world, in terms of commodity exchanges and the localisation of production, via direct investment or through financing of capital inflows and external deficits)[8].

Furthermore, the RA emphasises the importance of both space and time (Jessop 2003) by taking seriously the importance of specifying the combinations of specific economic and extra-economic institutions, norms and practices in a temporal and spatial context. Spatiality has in most regulationist research referred to the level of the nation, and the importance of taking into account that each compromise between accumulation and regulation is a result of struggles

[8] Boyer 1986 originally only includes five fundamental institutional forms, whereas Bob Jessop includes others. The six presented here are a combination of the two.

specific to that location. However, a strand of regulation theory stresses lower levels of spatiality, focussing on regional/local differences within countries observable in the impact of economic, political and social restructuring (e.g. Peck and Tickell 1992; Goodwin, Duncan and Halford 1993; Low 1995). The importance of temporality refers not only to the identification of longer periods of relative stability, but just as importantly to the conceptual understanding that regulatory systems and accumulation regimes are never static. Rather, they are continuously negotiated, contested and transformed. It is therefore important to have *en mente* that regulatory systems are neither predetermined nor predictable. Instead they are arrived at through political struggles, negotiations and compromises. The periods of relative stability only arise from political and economic compromises which have been struck between conflicting interests within the society. As such 'institutional fixes' are continuously in flux and will invariably become unstable in the longer term – they do not solve the inherent crisis tendencies within capitalism, they simple off-put it.

The role of institutions in RA

The regulation approach is the antithesis of neo-classical economics which is built on the fiction of a representative agent operating in an institutional void (Boyer & Saillard 2002). On an agency/actor level, regulationists stress that individuals occupy different roles depending on their social position within *socially constructed fields*. Hence an entrepreneur does not have the same objectives as his employees, an industrialist is different from a financier and a manual worker occupies a different position within a firm then a junior manager. Precisely because individuals are in different socially-defined positions within a field, the existence of an all encompassing rationally calculative actor, who acts according to an instrumental logic of maximising returns, is simply not possible. Instead, the regulationists see institutions as the basis through which competing actors can orient themselves: "Agents can orient themselves only through constraints, common references, procedures and patterns that transmit or support collective arrangements of rules, conventions and organisations" (Orléan 1994). Agents occupy different social positions that are held together through social bonds. In times of crisis or disagreement, these very bonds which are governed, formalised and held together by institutions, are destabilised. The destabilisation process is what inevitably leads to institutional change.

On a more general level the regulation approach is built on the understanding that political and economic spheres interact, although economic logic and political goals are fundamentally different (Boyer 2002b). Many institutional compromises emerge from the tension between the two spheres, and hence institutional forms and new modes of regulation. The institutional forms, which are created through the six features of the mode of regulation described above, are thus codifications of fundamental social and economic relations and how they are governed within a particular context. The combination of institutional forms within the boundaries of the nation state thus constitutes the *institutional architecture* of that state at a particular time.

Institutional evolution

Institutional change can come about through several processes. Fundamentally regulationists believe that institutions undergo evolutionary change with gradual incremental adaptations continuously modifying the different institutional forms. Institutional change involves many 'trials and errors' as institutions are put into place and gradually adapted over time[9]. However, the relatively long stable periods are interrupted by crisis that predominantly arises from *endogenous* factors (Boyer 2002b) within one or more of the institutional forms. Some crisis can be absorbed by the mode of regulation, which leads to minor crisis. Others are more critical resulting in the destabilisation of the institutional architecture that is supposed to ensure the coherence of the institutional forms. Hence the pattern of change is one of punctuated evolution, which implies that change is episodic and marked by a (brief) period of crisis or critical intervention followed by a longer period of path-dependent evolutionary change. (Powell 1991:197).

Regulationists thus stress that the transformations that come about through the pattern of punctuated evolution is not an easy, automatic transition between two well defined equilibria. Instead they maintain – much in line with Douglass North 1990 - that conflicts, strategic behaviour and political intervention play a crucial role both in the crisis period but also in the relative stability that emerges out of the crisis (Boyer 2002b). The mechanism of change is path dependent[10] to a certain degree; however careful attention must be given to how each institutional form develops on itself as well as in the overall institutional architecture.

The regulation approach is also concerned with how institutions diffuse – or not – across national spaces. In their view, the neoclassical assumption that through competitive mechanisms the most efficient institutions will be diffused across space is highly problematic. For as Robert Boyer 2002b points out, if this is to be true than all central banks should "resemble that of the German Bundesbank (to promote price stability), labour markets should have North American flexibility (to promote employment), internal organisation should be based on Japanese firms (to develop skills) and states should adopt the French administrative structure (that as some point in time had the reputation of being highly effective)" (329). However, the very combination of such institutions is highly conflictual even if the mechanism of competitiveness did work. The problematic assumption in the neoclassical model, according to regulationists, rests in the fact that institutions are founded as a result of conflicts and specific *national* compromises. Furthermore the positive outcome of a national institution might depend entirely on the existence of other institutional forms that sup-

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[9] In many ways, this version of institutional change is similar to that of the school of evolutionary economics, which owes its origins to Joseph A. Schumpeter (see Metcalfe 1998).

[10] Regulationists often use the term *national trajectories* to refer to the consequence of the endogenous dynamic and responses associated with the mode of development and specific institutional forms (Boyer 2002a; Boyer 2002b). The trajectories in turn are contingent outcomes of struggles, conflicts and compromise.

port and strengthen the former. In the diffusion of one successful institution both the national context and the complementary institutions thus remain behind. In other words, institutions as such cannot be diffused. At best their most efficient elements can be copied and 'alchemised' into a new institution that consists of the combination of new and old principles and practices so as to obtain fairly similar results through very different means (Boyer 2002b:330)[11]. In this sense the regulationist view on diffusion rests of the mechanism of translation, as described in section 1.

Institutional complementarities and complexities

As already mentioned the *institutional architecture* of a given state and economy and how the different institutional forms have developed along paths or trajectories, is what in essence accounts for the diversity of capitalisms across space and time. Change comes about in an evolutionary fashion, and through crisis – which by regulationists are endogenous to the system. However, the relative periods of evolutionary stability are also conditioned by the *institutional complementarity* of institutions. The assumption here within the regulation approach is that the conjunction of two institutional forms supplies an adaptability and performance that is superior to alternative configurations in which only one of the forms is present. Some institutional actors may ex ante realize the need for this complementarity and implement it even before an unfavourable evolution cases them to look for such a configuration. In other circumstances complementarity comes about through the co-evolution of institutions. For instance, the Danish system of *flexicurity* combines labour market institutions (such as flexible rules of employment and collective agreements' rules and regulations on dismissal) and welfare institutions (generous social benefits, training programmes and active labour market policies) to create a model in which the labour market is highly flexible at the same time as provisions are in place to provide security for the individual employee (Andersen & Mailand 2005). Hence the Danish flexicurity model includes provisions from the labour market parties, through the collective bargaining system, as well as from the state. Andersen and Mailand point to the fact that attempts to combine flexibility for enterprises and security for employees can be traced back to the beginning of the collective bargaining system more than a hundred years ago (p.2). This example holds elements of both ex ante institutional complementarity building as well as the process of co-evolution.

It thus follows from the concept of institutional complementarities that institutions interact in a complex fashion and often with unintended consequences to boot. Institutions can be built to overcome or off-put certain dilemmas, but they can also in their lifetime create new dilemmas or situations which then need to be overcome. The regulation approach encompasses both social and economic institutions, and as such is in the position to adopt an understanding of institu-

[11] The 'copying' process adopted here envisions a selection or *imitation* mechanism like the one evolutionist theorists have been formalising with regard to technological choices firms make (Nelson & Winter 1982)

tions that contains the three institutional pillars described in section 1. However, the vast majority of research conducted within the regulation approach is predominantly engaged with normative and cognitive-cultural institutions if they influence the mode of regulation through the six institutional forms presented above. For instance, the wage-labour nexus is defined by the complementarity of the institutions framing the employment contract and their compatibility with the current mode of regulation (Boyer 2002c) (see below for more detail).

Four brands of capitalism

From numerous case studies that bring together comparisons of a range of fields between nation states and the institutional forms that make up the mode of regulation, the regulation approach derives (at least) four forms of capitalism within developed economies (Boyer 2005; Amable *et al.* 1997). The first is the *market-oriented*, which puts its faith in the markets and in the independent authorities who are responsible for staving off market excess and the opportunistic behaviour it can generate. It is thus driven by a commercial logic adapted by the competition supervision entities. In this group we find all of the English-speaking countries (Amable & Petit 2001). The second is the *meso-corporatist*, which corresponds to a modernised version of the paternalistic capitalism which was typical of the nineteenth century. The driving principle is the exchange of solidarity against mobility in a conglomerate type of economic unit that is big and diversified enough to survive temporary booms and busts. Japan and Korea are two examples of this configuration. The third is the *social democratic*, which emphasises the role of the labour market parties in the emergence and management of most institutional forms, at the forefront of which is the wage-labour nexus (including the social protection system). Hence the labour market parties in frequent negotiations with public authorities negotiate rules governing most aspects of society and the economy. The Scandinavian countries are examples of this model. The fourth is the *statist*, which involves a state-driven capitalism revolving around the crucial role played by national, regional or local state authorities in making economic adjustments. Here the logic that the economic circuit is shaped by public interventions in areas such as production, demand and institutional codifications (Boyer 2005). This configuration is typical of the continental European countries within the EU[12].

Within each of these four typologies of the mode of regulation, the six institutional forms described previously interact. Each specific outcome of these institutional interactions, their co-development and complementarities will evolve over time, and is thus the foundation for understanding the diversity of capitalist systems.

Institutional forms - between states and market

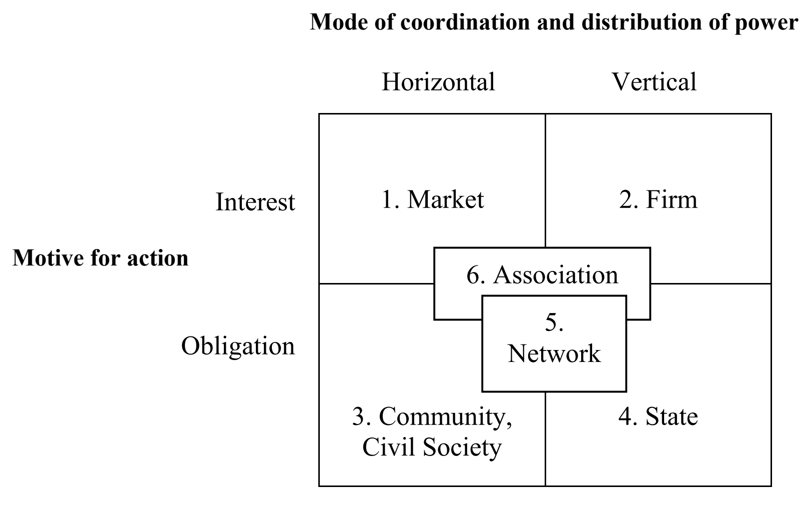
Having previously discussed that the mode of regulation (the economic, social and political) and the regime of accumulation (the economy) are mutually de-

[12] These four typologies resemble very much those used by, for example, Visser 1996 in explaining labour market models, or Esping-Andersen 1990 on welfare states.

pendent, it would be easy to deduce that there exists a canonical relation between the institutions of markets on the one hand and those of the state on the other (as some theories indeed do, one of which is the VOC approach, which we shall be returning to in section three below). However, on reviewing the literature on institutional economic theories Hollingsworth and Boyer show that it is no longer possible to see the market as the sole process of coordination (ultimately supply and demand mechanisms), no more than it is to view the market and the state as diametrically opposed to one another (Hollingsworth and Boyer 1997).

Drawing inspiration from neo-corporatist analyses (Schmitter 1990), regulationists have on this background extended the analysis of the institutional arrangements and modes of coordination that are part of the economic and social field (see figure 1 below). This particular synopsis links the self-interest based motives for action favoured by economists with the sense of obligation that particularly sociologists are interested in[13]. Furthermore, it distinguishes between horizontal and egalitarian aspects versus hierarchical, unequal aspects of coordination problems between sites. It thus ensures a bridge between the micro and macro levels of analysis since it operates at an intermediate level between actors and the economic system from a more general level.

Figure 1: A taxonomy of different coordination principles



Source: Boyer 2005

As figure 1 shows the mode of coordination and the distribution of power amongst actors can be horizontal or asymmetrical, and can be based on self-interests (logic of instrumentality) or obligations (logic of appropriateness)[14].

[13] For example organizational institutionalism (Campbell 2001:17)
[14] March 1981 distinguishes between logics of instrumentality, i.e. what are my interests in this situation (regulative institutions), and logics of appropriateness, i.e. given my role in this situation, what is expected of me (normative institutions)?

1. Markets: Supposedly an anonymous place where the behaviours of actors driven by their self-interests are compared. Essentially actors are endowed a priori with equal powers;
2. Firms: Or more generally private hierarchies, as found in vertically integrated firms. Such hierarchies wield decisional power over actors who operate in line with the firm's economic interests;
3. Community: Or civil societies, communes, clans, districts that establish a form of cohesion that derives from the adherence of actors to valuable rules of the game (normative institutions in other words);
4. State: Which combines an obligation principle with coercive power. As such it is diametrically opposed to the market;
5. Networks: Are made up of professional associations, unions and private interest governance bodies. Since such networks are created in the field of social relations they can be used in economic competition and innovation;
6. Association: describes modes of governance maintained through the agreement of the parties concerned. Their advantage is that they share uncertainties associated, for example, with new technologies.

The regulation approach suggests that all institutional forms borrow from these four orders in proportions that will vary greatly from one social organisation to another. If we take the Danish labour market regulation as an example, the coordination principles will be based on a strong link between networks in the centre and the state. The normative legitimisation comes through links to both the firm level and civil society. In contrast, the American labour market will be characterised by primary links between markets and firms, backed up by forms of association in which risks are shared, with supporting activities found in civil society/local communities and state policies.

The taxonomy is used to show how diversities of capitalist economies can come about. For each modality there are numerous ways of combining the elements, all of which will depend on the national specific national trajectories, their mode of regulation and the institutional forms that make up the overall architecture. It is, however, also used to defend the regulation approach against claims that it stresses the permanence of structures, and tends to overlook human subjects, their changes and what is happening to them with the disorganization and reorganization of social relations.

In summary so far, it is important once again to stress that the regulation approach as it is presented here is more to do with the economic and extra-economic institutions on a meso- and macro level than it is to do with institutions governing the behaviour between individuals. The most recent addition to RA in the form of the taxonomy above does however provide a more coherent method to approach coordination problems and institutions on the micro-level (in particular the level of firms), to which we now turn.

The regulation approach on firms

Regulationist research puts firms into the analysis when it comes to explaining the diversity of labour market institutions – a key component explaining diversities of capitalisms. Firm organisation is influenced by four institutions; 1) the skill-labour nexus (training, education, apprenticeship programmes etc.), 2) the wage-labour nexus (labour market institutions, collective bargaining system, legislation etc.), 3) monetary and financial regimes (i.e. state redistribution systems, taxation policies, income policies etc.) and 4) form of competition (open competition, oligopoly, monopoly – regulated vs. unregulated competition).

Depending on the how these institutions are interlinked with the wider principles of coordination, the strategies firms will differ.

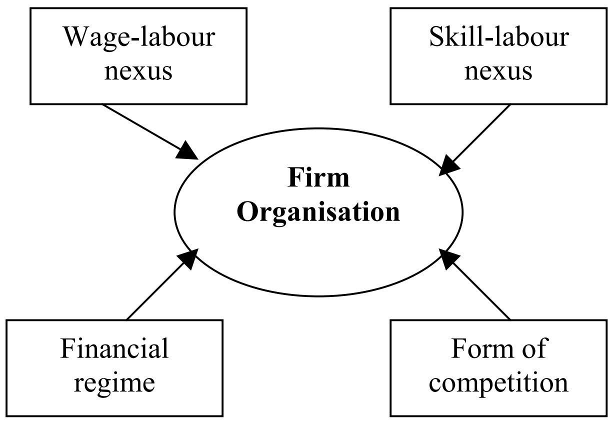


Figure 2: The four institutions that influence firm organisation

Firms and the wage-labour nexus

Of particular interest for the organisation of labour-management relations is thus the link between firm organisation, the wage-labour nexus and from there to the mode of regulation. The wage-labour nexus consists of five different components: a) the type of means of production, b) the social and technical division of labour, c) the ways workers are attracted and retained by the firm, d) the direct and indirect determinants of the wage income and e) the workers' way of life, which relates to their acquisition of other goods and the use of collective services outside the market.

It follows that the institutional forms of each of these relations between firms and the components of the wage-labour nexus will differ according to the firm in question as well as the specific institutional architecture of a national political-economy, its regime of accumulation and its mode of regulation. The relational form between firms and the wage-labour nexus also links the economic with the social (Bertrand 2002). Remembering that regulationists also define institutions as rules (formal and informal), it is the actual rules (the regulative institutions) that are in focus when the particular institutional forms are put into a comparative context. It is also important to keep in mind that any institutional rule must necessarily be socially validated, since each rule is a result of conflict and compromise.

Taking a glance at the composition of the wage-labour nexus, we can see that the different elements can be combined in wide variety of ways and can be mutually complimentary. For example, the wage and employment conditions can be overtly governed through collective bargaining at central and local level (c and d above), if so they are complimentary institutional forms that are contextualised into the wider *mode of regulation*, i.e. the presence of an employment system that is partially or wholly governed by the labour market parties. However, within that employment system is it possible to imagine situations where the negotiation of wages and employment conditions are conducted on an individual firm-specific level. Here the is no *direct* link to the wider employment system, yet *indirectly* the context in which individual negotiation/contracting takes place is within those of the overall employment system, which will monitor and sanction contracts that are socially (normatively) unacceptable by the institutional context.

The labour market parties in the former case represent the collective actors, and the site of managing conflict and compromises. The confrontation exists between union representatives (commonly at sector level) taking responsibility for wages and employers' associations bargaining for productivity. The contest between the social conditions of competition on the one hand and productivity on the other are thus lifted from the individual employee-firm level to the national sector level, and plays thereby a major role in defining the wage-labour nexus' institutional form within the mode of regulation.

Alternatively in systems where wage and employment conditions *predominantly* are negotiated at the individual firm level, other systems of 'collective action' will be put in place. These can be through corporate networks aimed at sharing information on wage levels and productivity through the market or market institutions. The legal system, which governs corporate practice, can also act as a base on which 'common knowledge' is built and where references to practices are shared – formally and informally. Hence although firms act individually at first glance – and in sharp competition with one another – they do so on the basis of market and extra-market institutions that govern and sanction their behaviour.

Mediating between these two systems are the systems of collective bargaining, especially in Germany and Denmark that are characterised by processes of organised decentralisation or centralised-decentralisation respectively. C*ontrolled decentralisation* implies that the process of decentralisation is strongly controlled at the sector level by the trade unions and the employers' associations, who have coordinated horizontally between the different regions (*Bezirke*). This makes the decentralisation in Germany a classic example of *organised decentralisation* (Andersen 2001:169-170; Traxler 1995:6-8). In Denmark's *centralised decentralisation* the coordination of bargaining activities is generated from the sector level making a hierarchical process moving from top to bottom like in the controlled decentralisation, although the element of control is less emphasized (Andersen 2001:171-172). In the Danish system, the power relations and the consensus-based negotiations found between the sector-level partners, is reproduced at company level (Due *et al*. 1994).

Recent developments in the bargaining system have furthermore lead to increased decentralisation tendencies, why it can be argued that in the Danish and German cases the local partners all operate in systems characterised by *multi-level governance*, where vertical and horizontal coordination processes determine the final output of flexible working hours (Madsen et al. 2001:23-26,28-32). Influence on the coordination processes is generated at different levels; for instance the company level, sector level or inter-sectoral level. In both centralised-decentralisation and multilevel governance systems, the negotiation over wages and (most) employment conditions take thus place at the level of the individual firm, under the framework of sector-based framework agreements. Hence there are multiple actors involved in defining the institutional form of the wage-labour nexus.

Implicitly this implies that there can be different *rules* for governing the wage-labour nexus at the microeconomic level (firm level) *within* national political economic spaces. The analytical task is to see whether changes at the microeconomic level can be used as indicators of potential changes at the macroeconomic level, or put differently how the institutional form of the wage-labour nexus is constantly (re)-produced by micro-level arrangements (Reynaud 2002). Furthermore, it is analytically important to analyse whether different rules necessarily imply different principles. This means that different modes of firm organisation can co-exist within a mode of regulation, yet careful attention should be applied to whether the principles in which these rules are applied are *distinctively* different. For example, as mentioned above, one firm within a political economy can negotiate wages collectively, another one individually. However if the principles that underlie the mode of governance are similar, then the significance of the difference can be less important. The question of principality is therefore fundamentally linked to the normative and cognitive levels of institutions – i.e. whether the diversion from normal practice is socially acceptable or not.

The Danish system of *flexicurity* in the labour market was previously mentioned as an example of institutional complementarity. It too is linked to the wage-labour nexus, and especially to c) attraction & retaining of workers, d) determinants of wage income and e) worker's way of life, use of non-market collective services. Here firms can easily hire and fire workers (c), yet do so under the auspices of the collective bargaining system or legalisation (d). The workers way of life is characterised by relatively large consumption power provided through either direct wages or generous social benefits. The state supports this system through the provision of extensive public services, and active labour market policies aimed at improving the employability of redundant workers (e). This then shows that not only are these institutional forms complementary on a macro level, they also provide the context in which firms can organise on a micro level.

In sum, firms are situated in a wider social and economic institutional context, part of which is defined by the wage-labour nexus. Each of the components of the wage-labour nexus both interplay with one another and have *individual* and *collective* consequences on the macro-level. As illustrated in figure two above, the wage-labour nexus stands in relation to three other institutional forms that influence firm organisation; *the skill-labour nexus, the financial regime and the form of competition*. Briefly, all four of these forms are interrelated; the skill-labour nexus defining systems of vocational training can, for example, be interlinked with the system of collective bargaining, or the wider mode of regulation and therefore the state. It can include the active participation of firms themselves, who thus are willing to lift the cost and run the risk of training individuals to have both firm- specific as well as general skills. This collaborative system influences the mode of competition (how does one firm make sure another does not simply 'steal' the newly-trained employee leaving the first firm with all the costs and no direct benefits?), the level of trust between firms and so on. Some important questions are therefore, who provides the training, what are the implications of this, how are qualifications linked to wage levels, in collaborative systems how is trust disseminated and governed, what influence does this have on competition etc. etc.?

The point here is that corporate strategies are influenced by the context in which they find themselves, yet just as importantly firms also have the possibility to shape and change that very context through their actions. Hence institutions and institutional forms both enable and constrain action. Actions are governed not only by rules, but also by the wider social field, and as such the normative and cognitive attitudes, beliefs, values and expectations of others.

What can the regulation approach teach us?

Having now predominantly on an abstract level presented the regulation approach's central theses, it should be easy to answer the opening question of this research paper. What makes capitalisms and corporate strategies differ? Well institutions do, and in particular the way institutions are created as a result of struggles, conflicts and compromise and subsequently co-evolve and complement each other creating specific national trajectories. On a more empirical level the regulation approach can be used to identify social (extra-economic) and economic institutional forms that govern certain subfields of an economy. This understanding – or clarification – can then be used to conduct international comparisons between nations, between specific institutional practices and/or between the institutional architecture that governs the strategies and organisations of, for example, firms.

The relatively recent extension of the regulation approach by Robert Boyer and others to include neo-corporatist inspired theories on the institutions that mediate between markets and states, has thus allowed for a more detailed account of the coordination activities firms must engage in with relation to the national political-economies in which they operate. This theoretical development takes us on to the third section of this paper, in which a particular school of thought that has its origins in explaining varieties of capitalism will be presented. The Varieties of Capitalism approach puts the firm in the centre of the analysis and from there moves on to explain how opposing forms of capitalist economies yield different institutional architectures, each with their own distinctive competitive advantages.

Section 3: The Varieties of Capitalism Approach

Having presented the somewhat holistic regulation approach that seems to be able to provide tools to understand both micro and macro level reasons for continued capitalist and corporate diversity, it might seem unnecessary to bring yet another theory into play. However, the Varieties of Capitalism approach (VOC) has since its advent become increasingly referred to and used as a theory and method to describe why capitalisms and corporate strategies differ[15]. It therefore seems important to take this approach into account in order to see whether it produces additional insights to capitalist diversity than those already presented.

The fundamental thesis in the VOC approach is that the institutional arrangements of national political economies have effect on the economic performance and social well-being within those nations. The VOC approach identifies two distinctively different forms of capitalist organisation – the liberal market economy and the coordinated market economy both of which are competitive and perform successfully but do so for different institutional reasons.

In short the varieties of capitalism approach rests on the argument that different national economic institutions - such as the financial system, the vocational training system and the industrial relation system – offer different opportunities to firms; firms being aware of these opportunities will adjust the organisation of their production and the use of different types of human capital (either general or firm specific) to take advantage of these opportunities. Further, as these institutions and hence opportunities vary between nations or groups of nations, firms within these groups are likely to excel to producing different goods; this in turn is reflected in the competitive advantage of these groups of nations. In conclusion then, national economic competitiveness rests of the comparative advantages of its economic institutions.

Just like the regulation approach the VOC approach bases its ontology in a different camp then neoclassical economists. However, where the regulation approach draws on Marxist political economy, the VOC approach draws many of its basic assumptions on transaction costs economics[16] and game theory[17].

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[15] See for example Tregaskis 2003 for multinational corporations and innovation policies; Gunnigle *et al.* 2004 for IR systems and multinational corporations; Rueda and Pontusson 2000 for an analysis of wage inequality and varieties of capitalism; Höpner 2005 for the institutional complementarity between IR systems and corporate governance.

[16] Put simply, transaction costs arise whenever economic agents engage in, or seek to engage in, trade. These costs potentially include *search costs* (the costs associated with trying to find an economic partner or trying to ascertain which potential partner offers the best price quality or value), *bargaining costs* (the costs of negotiating a deal), *monitoring costs* (the costs of ensuring that contracts are being adhered to), *enforcement costs* (the price that must be paid for the enforcement of a contract, which can include

Furthermore, the approach adopts the view that a political economy is constituted by multiple actors, each of whom seeks to advance his interests in a *rational*[18] way in strategic interaction with others (Hall and Soskice 2001:6). These actors can be competing firms, individuals, social and political organisations, groups and so forth. What follows from this is that firms (as actors) must interact – or coordinate – with other actors in order to obtain economic success. Firms thus participate in a wide range of relations with other organizations and they operate within certain legal and regulatory frameworks. Hall and Soskice 2001 go as far as saying that the quality of the relationships firms have, both externally and internally, are critical to the very success of the firms (p.6). Hence, a firm's capability of coordinating these relationships effectively is highly crucial[19]. According to Hall and Soskice, depending on the firm's core competencies and capabilities, coordination problems must be resolved within five main spheres, four of which are *external* to the firm, one which is internal.

Five spheres of strategic interaction, coordination and market economies

The VOC approach has an actor-centred approach to understanding wider economic systems. As such the analyses conducted within the umbrella of VOC assume that firms are the central actors in the economy whose behaviour aggregates into national economic performance (Hall & Gingerich 2005). Like with the RA, the VOC approach adopts a relational view of the firm, by saying that in order for firms to prosper they must engage with others in multiple spheres of the political economy. These spheres are: a) *the industrial relations system* (for wage and working conditions), b) *vocational training and education* (to ensure workers have the required skills), c) *inter-firm sphere* (to secure access to inputs and technology), d) *corporate governance* (to raise finance on financial markets) and e) *employees* (to secure the cooperation of their workforce)[20]. (For a more detailed account of these spheres see Hall and Soskice 2001:6-7).

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legal costs), and the costs of maintaining the system as a while (courts, the police etc.). Transaction costs economics seeks to assess the way in which these costs influence the actions of economic agents (Allen 2004).

[17] Game theory is a branch of applied mathematics that studies strategic situations where players choose different actions in an attempt to maximize their returns. In other words, game theory studies choice of optimal behavior when costs and benefits of each option are not fixed, but depend upon the choices of other individuals.

[18] Even though Hall and Soskice are not explicit about what they mean about rational, other commentators have stated that the type of rationality referred to here, is one of *bounded rationality*, understood as the inability to access pertinent information that does exist (Allen 2003, Scott 1994).

[19] It is unclear precisely how Hall and Soskice determine whether a coordination of relationships is effective or not. Does effective mean economic efficiency, cost efficiency? Or does effective relate more to the notion of trust building?

[20] What seems to be lacking from the overall picture here is yet another external sphere. Firms are strongly embedded in the region in which they are located; therefore, a possible fifth external sphere could be the *community sphere*. Firms – especially in more rural regions – are often powerful, influential and highly visible within the community. Good publicity, community approval, corporate social responsibility, family-policies and so forth that give the firm leeway in the public eye, are influential on the overall

As already mentioned the VOC approach operates with two ideal typical forms of capitalist political economies; the liberal market economy (LME) and the coordinated market economy (CME). The two are poles of a spectrum on which many countries can be arrayed (Hall and Soskice 2001:8). This typology is based on how firms *coordinate* the relations with the spheres identified above. In the LME firms coordinate with other actors primarily through competitive markets, characterized by arms-length relations and formal contracting. In the CME "equilibrium outcomes depend on the institutional support available for credible commitments, including support for effective information-sharing, monitoring, sanctioning and deliberation" (Hall & Gingerich 2005:8). In the latter, the concept of *strategic interaction*[21] between institutions plays an important role in defining the nature of the relationship between firms and, for example, unions, suppliers' of finance and so on. This then means that LME's are governed by market coordination and CME's by strategic coordination.

The presence of *institutional complementarities* is central to the distinction between LME's and CME's. Just as in the RA, VOC regards institutions as complimentary if the presence (or efficiency) of one increases the returns from (or efficiency) of the other. Of particular interest to the VOC approach is the presence of complementarities between different spheres of the political economy. For example, Aoki 1994 showed a complementary relation between long-term employment on the one hand, and a financial system which provides capital on terms that are not sensitive to current profitability on the other. Hence, open-ended contracts were more likely to be found in firms that had a longer-term financial and credit flow. Institutional complementarities are, according to the VOC approach, therefore important in analysing the relative stability of national political economies and the institutional framework (Hall and Soskice 2001:17-21).

The role of institutions in VOC

Bearing in mind that any strategic interaction between a firm and one or more of the spheres is based on bounded rationality, i.e. that economic actors are '*intendedly* rational, but only *limitedly* so' and that the limitation lies in the fact that actors are unable to access important and relevant information even though it exists, problems will, per definition, arise (Scott 1994). To overcome such relational problems, the VOC approach brings institutions, organisations and

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growth potential of the firm in that particular location. Furthermore, coordinating and handling community relations affects the overall economy.

[21] The concept of *strategic interaction* comes in part from game theory, and refers to how, for example, two actors that are dependent on each other for positive pay-offs, strategically decide to 'play the game'. For each move the other actor is likely to do, the first actor will have a set of strategies to counter pose this, so as to ensure that the outcome of the game is generally positive for both involved parties. (Strategic interaction is said to take place in markets where there are a small number of actors or markets are governed by other principles then supply and demand). This is in sharp contrast to situations of competitive market equilibrium where ultimately each player follows his own strategies regardless of others behaviour, since the overall governing principle is the market equilibrium between supply and demand.

culture into the analysis because of the support they give for the relationships firms develop.

Leaving aside for now organisations and culture, the VOC approach adopts the definition of institutions as proposed by North 1990: “Institutions are a set of rules, formal and informal, that actors generally follow, whether for normative, cognitive or material reasons” (p.3). Hence institutions allow “actors to coordinate on *equilibrium* strategies that offer higher returns to all concerned” (Hall and Soskice 2001:10). Herein lays some important assumptions with regards to why actors engage in coordination. Firstly, it is presupposed that actions are taken in order to serve ones self-interests. However, since each actor acts through limited rationality, any formal relation between one actor and another will be characterised by a degree of *uncertainty*. To overcome this uncertainty, institutions are formed that can facilitate *credible commitments* between actors, reduce actor opportunism and thereby reduce strategic uncertainty. Institutions that supply the exchange of information, the monitoring of behaviour and the sanctioning of defection will make human behaviour predictable thereby lessening the uncertainty and transaction costs involved with cooperation (Ostrom 1990). Such institutions that are particularly important in CME’s include powerful business and employer associations, strong trade unions, networks of cross-shareholding, and legal or regulatory systems designed to facilitate information-sharing and collaboration.

It follows from here that the institutions formed will thus lessen the transaction costs of collaboration, and will therefore have a heavy influence on the strategic choices of firms. If a non-zero-sum game can be played in which both parties gain, the equilibrium achieved will be not be changed since no party will see an advantage in changing his or her behaviour. Institutions which therefore lead to credible commitments serve as checks and balances on actors to militate against actor opportunism, and, hence, facilitate outcomes that can be mutually beneficial. The power game between actors is therefore viewed positively, since institutions help create strategic equilibria. On this point Hall and Soskice 2001 identify the presence of *deliberative institutions and informal rules and understandings* as particularly important. Deliberative institutions encourage actors to engage in collective discussion and to reach agreements with each other since they involve extensive information sharing and hence improve the confidence amongst actors. Deliberative institutions create a thicker ‘common knowledge’ amongst actors, and will therefore in situations where actors have a choice of multiple equilibria enhance the possibility of them coordinating on a specific equilibrium. In situations of uncertainty where both actors are faced with new or unfamiliar challenges, deliberative institutions can be instrumental in devising an effective and coordinated response, allowing the actors to develop a common diagnosis of the situation and an agreed response (Hall and Soskice 2001:11-12). *Informal rules and understandings* work in more of less the same way as deliberative institutions. They provide actors in multi-equilibria games with a shared understanding of what others are *likely* to do, thereby facilitating them to negotiate on a particular equilibrium. In this respect they resemble Scott’s normative institutions (see section one) in as such they provide actors with a sense of what is appropriate to do under certain circumstances. They also predefine the expectations actors have of each other, and through historic experience constitute something like a 'common culture' (Hall and Soskice 2001:13). As such in the VOC approach, the institutions of a national political economy are bound up with its history in two respects. Firstly through the actions that establish formal institutions and their operating principles (rules, monitoring and sanctioning procedures). And secondly, through historical experience that builds up a set of common expectations that allows the actors to coordinate effectively with each other.

Macro-level institutions and the strategies of firms

The varieties of capitalism approach turns against transaction cost economics with respect to the origins of institutions. Transaction cost economics view institutions as the outcome of firm strategies, i.e. that firms will create those institutions that provide efficient means to performing certain tasks. Hence structure (institutions) follows strategy (firms). Furthermore, transaction costs economics takes the position that firms will not adjust their strategies according to the institutional context in which they are located. However, if an institutional form does prove to be successful the firm might change its opinion about it (North 1990).

The VOC approach seems to take a rather ambiguous view on the relationship between structure (institutions) and firm strategies. The VOC approach is fundamentally of the opinion that the institutions that matter are those that are national – and therefore collective - and that can be taken as given (Hall and Soskice 2001:15). They therefore contend that a single firm cannot create them, and due to their multifarious effects a group of firms might not be able to agree on them. This then implies that a single firm, to a large extent, is incapable of shaping the institutional setting in which they must operate (Allen 2004). Hence strategy (firms) follow structure (institutions), why the strategic preferences of firms are endogenous to the institutional framework. Since institutions offer opportunities, firms can be expected to gravitate towards strategies that take advantages of these possibilities. In other words firm strategies will therefore be adjusted to the overall national institutions.

Following this line of thought, we should see a convergence of firm strategies within a national political economy so that, for example, all corporations have a work's council, or all corporations negotiate wage levels and employment conditions through the collective bargaining system and so forth. This is naturally not the case in any national political economy, which Hall and Soskice recognise by stating that there will exist differences in firm strategies within a national political economy, however if these variations do not show up on the national level they are given less significance (Hall and Soskice 2001:15-16).

What this implies is that it is only the institutions on the *national* level which generate systemic differences in corporate strategies across LME's and CME's. Furthermore, since it is one of the central claims of the VOC approach that it is the institutional framework of particularly CME's that enables the competitiveness of these economies, it therefore ignores the fact that on the micro-level there may exist many different corporate strategies that deviate from what can be observed on the national level. For example, in attempting to argue that employment protection legislation facilitates the provision of firm-specific skills, Estevez-Abe *et al.* 2001, have examined macro data on tenure rates in 18 OECD countries. In the case of Germany their point is that the presence of institutions allowing employee codetermination will provide workers with a larger incentive to invest in firm-specific skills (since employee codetermination can limit the risk of lay-offs and hence provide a form of employment protection). Concluding that Germany, for instance, offers employment protection through, amongst others, the system of work's councils, and that German firms invest heavily in firm-specific skills (thereby proving the correlation), they indirectly thereby assume that all German companies have a work's council. However, such an assumption is increasingly called into question. Streeck 1997, for example, has spoken of 'co-determination free zones' in Germany.

By only looking at national level institutions, the VOC approach thus runs the risk of neglecting significant micro-level institutional forms. Another example of the danger of this is the link Hall and Soskice 2001 make between Germany's export performance and its success in incremental innovations. The positive correlation within certain sectors has been concluded to support the thesis in the VOC approach that CME's will because of the institutional framework, support incremental innovation (see pages 38-44 – especially page 39). However, this study fails to explicitly show that it indeed is the institutions of the German economic model, especially work's councils that in large part are responsible for these outcomes. In addition, the fact that work's councils and collective agreements no longer can be assumed to be a feature of almost all German corporations, leads to doubts over the validity of their argument. Their study furthermore does not include an analysis of whether it indeed is the corporations with no collective agreements and work's councils that export the most.

The point here is that in the very attempt to explain the diversity of corporate strategies across market economies due to the institutional framework of these economies, the VOC approach is in great danger of failing to explain corporate strategy diversity *within* national political economies. Hence the approach can, arguably, be criticised for trying to explain the persistence of cross-national diversity through methods of oversimplification and presupposed similarities at the national level.

One last note is here briefly called for. The VOC approach, as mentioned in the beginning of this section, claims to be an actor-centred approach that regards companies as the crucial actors in a political economy. Further, "firms are the *key* agents of adjustment in the face of technological change or international competition whose activities aggregate into overall levels of economic performance" (Hall and Soskice 2001:6 – my emphasis). This statement is somewhat contradicted by the very conclusions on which the VOC approach validate their argument. Firstly, if firms are the key agents then surely it would follow that structure (the institutional framework) should follow strategy – and not vice versa as they claim. Secondly, if we accept that it is the aggregated activities of firms that determine the overall levels of economic performance, and that this performance in especially CME's is determined by the institutional framework, how does institutional *change* come about if individual firms or smaller groups of firms cannot change the national institutions? Thirdly, given that power in the approach seems to be levelled out by the presence of institutions (see above), how does the approach account for the presence and dissemination of novel practices and deviations from the institutional norm that are introduced through, for example, multinational corporations?

VOC and the management-employee relation

Returning to the relationship between economic and extra-economic strategies in multinational corporations, the insights from VOC approach are especially relevant with regards to the interrelation between the industrial relation sphere and the internal firm sphere. The VOC approach stresses how firms must coordinate their activities with a wide range of actors, and that these activities will depend on the overall institutional framework of the political economy in which they operate. One of these institutions is the industrial relations system. Following the logic of the approach, firms (sometimes via their employers' association) will enter into a multiple equilibria game with the trade unions, the result of which will depend on the formal institutions (rules) governing this game as well as the informal shared understandings about what other actors are likely to do, i.e. the logic of appropriateness. This implies that firms, who have institutionalised collaboration with the industrial relation system in order to secure competitiveness within the overall institutional framework, will be more likely to reproduce that collaboration system within the firm itself. Or put differently, if consensus and cooperation is regarded as rationally effective in the sense that it is in the firm's self-interest, then coordination with the internal sphere (the employees) will be more probable. It thus follows that within the VOC framework, we should expect to find systems of management-employee relations that include the interests of both parties - i.e. both consideration for production and for social and environmental issues - to be more likely in CMC's then in LME's.

However, when it comes to the relation between firm strategies and institutional structures, the VOC approach is more problematic. It follows from the ontology that if firm's preferences are shaped by the overall institutional context, then, for example, a firm that has been socialized in a CME will automatically adjust its production strategies and organisational strategies if the firm moved to a LME. If this is true, it neglects the sociological understanding that institutions once formed become less malleable, and that employers who are accustomed to pursue production strategies based on cooperative relations with labour, will therefore pursue such strategies even if they moved to liberal market economies. This is particularly important with regards the notion of *dynamism* in the VOC approach. For unless it is possible to imagine that firms from one type of economy will diffuse their home practice to different types of economies, how do we account for the spread of, for example, lean production as invented by the Japanese, mass-production invented by Ford in America or the existence of work's councils in countries with no formal regulation on the matter and so forth? The approach seems therefore to lack a coherent understanding of institutional change at the micro-level, diffusion and translation practices and therefore the macro-level dynamics of convergence and divergence tendencies. The fact that in the VOC approach firms will automatically adopt the structures of the country in which they operate, neglects their own understanding of the role informal rules and culture play in defining strategies. It is probable that once an informal rule (i.e. the logic of appropriate behaviour) has become internalised in the strategies of a corporation, these normative and cognitive institutions will be diffused to the corporation's activities abroad. Furthermore the potential barriers to diffusion and translation need to be unravelled and analysed for regulative, normative and/or cognitive institutions. as such it is highly probable that certain institutional elements will be diffused, while others not. (On the importance of carefully defining institutional dimensions see section 1)

Section 4: Linking the two approaches

Both the regulation approach and the varieties of capitalism approach are concerned with how and why capitalisms and corporate strategies differ across developed economies. They too are both interested in creating methods to combine the macro-institutional foundations of a national political economy with the micro-level economy. However, as the previous sections have shown, there are important differences between the regulation approach and the varieties of capitalism approach especially with regards their ontological starting points. Where one is based on Marxist political economy, the other rests on the new institutional economics, and especially transaction costs economics. This naturally implies that there will be several points of deviation between the implicit assumptions governing action and agency on the micro level, and how the overall structure of society should be viewed on the macro level. On the micro-level the RA is of the view that different roles in society and the consequential power games within social fields will create situations in which institutions will be formed to enable social interaction. Once these institutions are founded they both enable and constrain further action. The VOC approach perceives action as what individuals pursuing their self-interests under conditions of bounded rationality do. In order to overcome the uncertainty that arises out of individual rationality, the VOC approach assigns institutions the role of mediation and a means through which the strategic interaction between individual actors can take place enabling coordination at minimum costs.

In the RA institutions continuously undergo evolutionary change as actors reproduce the institutions that govern them. Change is here endogenous to the system. In the VOC approach institutions do not change unless the equilibrium between actors is thrown into crisis, usually through exogenous crisis. Hence where the RA says the pattern of change is punctuated evolution, the VOC approach says it is more like punctuated equilibrium. The mechanism of change is path dependent in both.

Despite these differences there are also a number of ontological similarities in the research agendas of both approaches. They both stress the significance of institutions and institutional forms (hence structure) on the overall economy, the way it is governed and the principles, rules and practices that constitute action and they way firms develop their strategies. In this context, the presence of institutional complementarities that are mutually reinforcing ‘lock’ the development of national political economies into national trajectories of evolution. Furthermore, both approaches stress that firm strategy is conditioned by the overall institutional architecture in which they are located. Hence for both approaches, strategy follows structure even though the regulationists adopt a lesser deterministic view of this then the VOC approach does. However, both approaches maintain that there are isomorphic tendencies between firm practices and the institutional framework.

A common problem for both approaches is therefore how to deal with the diversity of firm practices *within* national political economic spaces at the same time as pointing to certain commonalities between firm organisation and the institutional context. The contemporary challenge for both approaches is therefore how to preserve hypotheses of institutional complementarity and isomorphism between firms’ organisations and institutional architectures while abandoning the postulate of an emblematic firm (Boyer 2005).

On firm organisation in general and management-employee relations in particular

Interestingly from their very different starting points, the RA and the VOC approach point to very similar factors governing firm organisation. Figure 3 below illustrates the similarities.

Even though both approaches stress the importance of labour market institutions, they nevertheless end up with different configurations. The RA identifies at least 4 typologies of capitalisms based on these institutions, the VOC approach only two. This is actually the major source of difference between the two approaches, since one of the major criticisms of VOC by RA is the canonical relation between LME’s and CME’s. Clearly, the RA wishes to push for further distinction – a critique that has raised by others, especially those pointing to the existence of ‘hybrid-forms’ of capitalist political economies or negotiated economies such as the Danish (Pedersen, forthcoming).

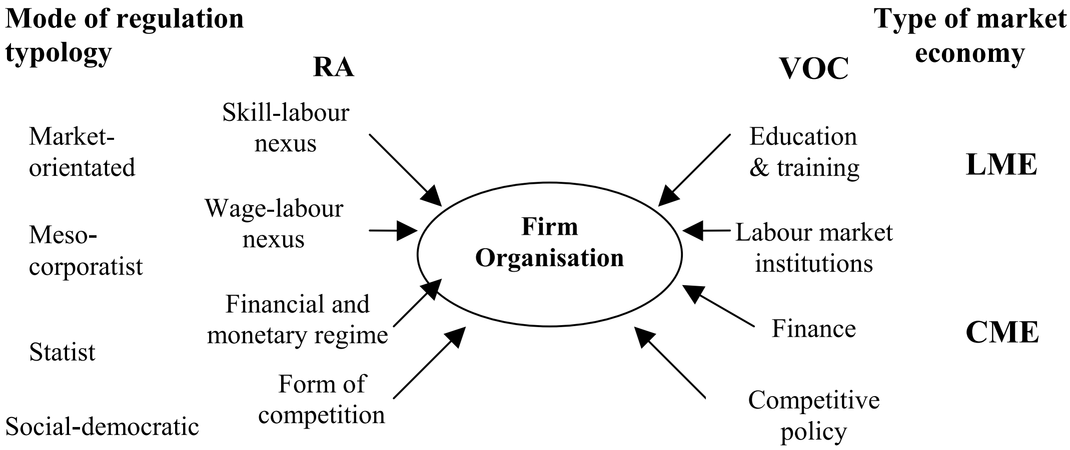

Figure 3: The institutions the shape firm's organisation plus the typologies of market economies (source Boyer 2005)

However, this aside the above sections have discussed the role especially the wage-labour nexus and the industrial relations system play in shaping firm organisation. The RA goes one step deeper than the VOC approach does in specifying the elements of the wage-labour nexus that are of particular importance. Recapitulating, these were a) the type of means of production, b) the social and technical division of labour, c) the ways workers are attracted and retained by the firm, d) the direct and indirect determinants of the wage income and e) the workers' way of life, which relates to their acquisition of other goods and the use of collective services outside the market. By carefully defining each particular outcome of these institutional forms and linking them to the overall institutional architecture, it is the aim of both approaches to find instances of institutional complementarity and isomorphism that can explain why particular institutions are more likely to produce certain outcomes than others.

With particular interest for the agenda defining this research paper, the hypotheses was that the extent to which firms would incorporate extra-economic strategies along side economic strategies would depend on three interrelated processes: 1) the institutional context, 2) the diffusion and adaptation of practices and 3) third party pressure. Both the RA and the VOC approach have provided useful tools in which to analyse the institutional context and furthermore to situate this into a wider economic context. As such it should be possible to hypothesise on how multinational corporations originating from institutional contexts that are founded on coordination and consensus are likely to act when setting up subsidiaries in countries more similar to the liberal market economies.

An important element in this analysis of how vertically-integrated multinational corporations define their global strategies is through the processes of diffusion, bricolage and translation that were presented in section 1. On the diffusement and translation of practices, the RA takes the view that the uncontested diffusion of a practice from one institutional context to another is unimaginable since its very success is dependent on the institutional complementarities that are nationally specific. Practices and institutions can at best be copied and 'alchemised' into new contexts through the process of translation. The VOC approach - although not explicitly clear about it – adopts the view that multinational corporations will amend their strategies to fit the institutional context in which they operate. Hence in vertically-integrated firms the consequence would be that policies and strategies will differ according to each country in which the firm operates. As such, global strategies will be locally translated and adapted to fit each specific institutional context more than to fit the strategy of the parent company. What is lacking in both approaches in these issues is an understanding of the actors involved in the translation process and how they influence the process. This is where some of the insights with regards *institutional entrepreneurs* from section one can be applied, thus adding another layer to both the RA and the VOC approach.

This then leads on to the third process – that of third party pressure. On a *national* scale both the RA and the VOC approach offer insights into how the power game between multiple actors can take form. However, both approaches neglect to focus on how international/global institutions can affect national ones and therefore also firm-level organisation. By adding this level to the analysis, yet another layer can be added that can advice on whether global institutions serve to maintain divergence in capitalist systems and corporate strategies or, to the contrary, create institutional convergences at the micro-and macro level.

Conclusion – where to go next?

Hopefully this rather abstract discussion of the neo-institutional foundation and the two political economical approaches to firm strategies and capitalist systems has shown that capitalisms and corporate strategies differ due to the presence of institutions. It would therefore be most relevant to analyse the role of extra-economic corporate strategies (the relation between management and employees) in the overall strategies guiding firms in an institutional context. Starting from the micro-level the studies to be conducted will analyse the following elements. Firstly, what regulative, normative and cognitive institutions constitute the particular labour-management relation in a multinational corporation? How do these institutions fit into the wider institutional context in which the corporation is located? Secondly, in this corporation's foreign subsidiaries, how is this labour-management relation diffused and/or translated – if at all? And thirdly, who are the actors involved in the formulation, implementation, diffusion and translation of the relation in addition to the overall personnel policy?

Moving to the macro-level important questions will be; what institutional barriers need to be overcome in the host country and what factors encourage transferability? On the background of these findings it will be necessary to establish what the 'country institutional profile' of both home and host country is, and evaluate whether 'institutional distance' is a key variable in determining whether a practice (institution) is diffused through processes of dominance or restriction. Furthermore, it will be interesting to establish the power relations between different countries, in other words, is it possible to identify national level factors that lead to more - or less - power in diffusing firm-specific practices? Do multinational corporations from coordinated/organised regulatory systems adopt and export the practices of their parent country, and does this give them a competitive advantage in the host countries in which they operate?

Linking these firm-specific institutional factors to the overall national economic factors in the countries involved by using the tools and insights provided for by the regulation approach and the varieties of capitalism approach, we should thus be in the position to argue whether institutional practices at firm level can be said to be context-dependent and therefore also part of the overall competitiveness of national political economies. In addition, by analysing in depth how firm practices reflect regulative, normative and cognitive institutions, we should be able to discuss why different modes of corporate strategies seem to coexist in contemporary capitalist societies. Furthermore, by analysing how processes of diffusion can be linked to economic and extra-economic expressions of particular institutional forms, we should be in a position to analyse how distinctively different firm practices can be introduced into the institutional architecture.

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