# ONE

## ORGANIZATIONS, GLOBALIZATION, AND DEVELOPMENT

Material progress [is not simply] a matter of settled determination, reliable numbers, and proper theory.
(*Geertz 1995, 139*)

CONVENTIONAL wisdom has it that the world is undergoing rapid globalization and that this process compels countries, industries, and firms to converge toward a homogeneous organizational pattern of "best practice" or "optimal efficiency"—those who fail to conform are doomed to fail in the global economy. I argue against this modernist, flat-earth view of globalization. Countries and organizations do not gravitate toward a supposedly universal model of economic success and organizational form as they attempt to cope with globalization. Rather, the mutual awareness that globalization entails invites them to be different, namely, to use their unique economic, political, and social advantages as leverage in the global marketplace. This is the central argument of this book on organizational change in the newly industrialized countries.

Observers and theorists of globalization have variously argued that the rapid increase in cross-border economic, social, technological, and cultural exchange is civilizing, destructive, or feeble, to borrow Albert Hirschman's (1982) celebrated metaphors. Many management scholars and gurus promise a world of boundless prosperity and consumer joy as a result of globalization, that is, the global as civilizing (Levitt 1983; Ohmae 1990; Naisbitt and Aburdene 1990). Other scholars see danger and uncertainty in globalization because we lack structures to deal with post-cold-war politics or with free international economic and financial flows (Kennedy 1993; Rodrik 1997; Mander and Goldsmith 1996; Mittelman 1999). As in the civilizing thesis, the destructive interpretation regards globalization as leading to convergence, albeit predicting harmful rather than beneficial consequences. A few skeptics propose yet a third perspective, arguing that globalization is a feeble process that has failed to advance enough to challenge the nation-state and other basic features of the modern world (Hirst and Thompson 1996; Wade 1996).[1]

[1] See Berger 1996 and Guillén 2001 for a more detailed account of the arguments and the evidence in favor of each of the three metaphors.

In this book I cast doubt on the civilizing and destructive metaphors of globalization by documenting that this process actually encourages diversity in economic action and organizational form rather than convergence. I also refute the argument of feebleness on the grounds that globalization is in fact redefining the modern world as we knew it. My conceptual and empirical analysis rests on the assumption that the study of globalization needs to be firmly rooted in the debate about economic development. Globalization and economic development are intimately related to each other (Giddens 1990, 63–65; Kobrin 1998; Sklair 1991; Waters 1995). In fact, globalization is simply impossible without development. In turn, globalization is not only the result of an intensification of long-standing trends—such as increasing cross-border flows of goods, money, and people, and a growing mutual awareness and interdependence among social, economic, and political units in the world—but also the very context in which development has taken place during the post–World War II period. Economic development is about finding politically feasible, ideologically tolerable, and economically workable combinations of domestic and foreign resources to promote growth. Obsessed with the obstacles to economic growth, previous theories of development and globalization neglected evidence showing that countries and organizations look for ways to be different. The comparative institutional perspective on globalization and development advanced in this book emphasizes that countries and firms seek to find a unique place for themselves under the sun of the global economy.

While most previous theories of development have seen global forces as tending either toward convergence and homogeneity or toward duality and oppression, there is ample evidence suggesting that governments and countries can and do exercise policy choice in the global economy. In making decisions, governments follow their political and ideological instincts and preferences, and they try to strike a balance among competing claims and pressures (Boix 1998; Campbell 1998a; Garrett 1998; Gilpin 1987; Haggard 1990). Like governments, organizational actors such as labor unions and firms also respond in a variety of ways to globalization, adopting different approaches and organizational forms. Following economic sociologists (Smelser and Swedberg 1994), I take actors and their preferences as problematic, and assume that they may shift over time as they learn how to cope with globalization.

This book documents and makes sense out of the diversity in organizational form induced by processes of economic development and globalization. An appreciation of diversity, however, should not lead to an "atheoretical, 'every case is different' indeterminateness. . . . Not everything is possible" (Geertz 1963, 146). Following the anthropologist, I look for "intensive comparative investigations," searching for "regularities," for "middle-range" sociological theories of economic and organizational change (Geertz 1963, 147). I adopt a variation-finding comparative approach that seeks to establish "a principle

of variation in the character or intensity of a phenomenon having more than one form by examining systematic differences among instances" (Tilly 1984, 116; Skocpol 1984, 368–74).

The analysis focuses on three newly industrialized countries—Argentina, South Korea, and Spain—which initially differed relatively little in terms of government policy and dominant organizational forms. Back in the late 1940s and 1950s the three countries attempted to develop their manufacturing industries by protecting domestic producers from foreign trade and investment. Business groups and state-owned enterprises reigned supreme, while foreign multinationals were kept at bay and small firms remained largely oriented toward the domestic market. Over time, however, the patterns of organizational change diverged, largely as the result of shifting interactions between sociopolitical institutions and government policies in a context of increasing globalization. I document that Argentine firms remained largely oriented to the domestic market as policies toward foreign investors and traders oscillated between relative openness and closeness. By contrast, South Korean firms pursued export-oriented growth under restrictive policies toward foreign investors and traders. Finally, Spanish firms also became more export oriented but, unlike Korean companies, under conditions of free foreign investment and trade. While Korean business groups have grown rapidly at the expense of small firms and foreign multinationals, it is the latter that have thrived in Spain. In Argentina, business groups and foreign multinationals have ended up becoming the dominant organizational actors. This diversity in organizational form has enabled each country to pursue certain activities more successfully than others in the global economy. It is the diversity in organizational form and its consequences that I seek to document and explain in subsequent chapters.

## The Controversy over Globalization

Globalization is among the most contested topics in the social sciences. Its nature, causes, timing, and effects are hotly debated issues, including whether globalization induces convergence in economic and organizational patterns across countries or not (for a review of the globalization literature, see Guillén 2001). Intuitively, globalization is associated with increasing cross-border flows of goods, services, money, people, information, and culture, although most scholars are not sure whether it is a cause or an effect of such exchanges. Globalization and the spread of economic development across the world appear to be related to a disjunction of space and time (Giddens 1990, 64; 1991, 21), a shrinking of the world (Harvey 1989; Mittelman 1996). The global economy—driven by increasing technological scale, connections between firms, and information flows (Kobrin 1997, 147–48)—is one "with the capac-

ity to work as a unit in real time on a planetary scale" (Castells 1996, 92). It is also one in which national economies become more interdependent in terms of trade, finance, and macroeconomic policy (Gilpin 1987, 389). What is perhaps most distinctive about globalization is that it *intensifies our consciousness of the world as a whole, making us more aware of each other, and perhaps more prone to be influenced by one another without necessarily making us more like each other* (Robertson 1992, 8; Albrow 1997, 88; Waters 1995, 63). It is in this reflexive sense that globalization is defined for the purposes of this book.

The effects of globalization are perhaps the most hotly debated issue. While some sociologists have observed greater similarity among countries in terms of such rationalized features as bureaucratic administration, formal education, civil and citizenship rights protection, and organized science (Meyer and Hannan 1979, 3, 13–15; Meyer et al. 1997, 145, 148, 152–54, 161), convergence in the organizational forms adopted by labor unions or firms across countries has generally not been found. In fact, many sociologists have documented the opposite: the resilience of indigenous organizational patterns in the face of economic development and globalization (Dobbin 1994; Guillén 1994; Orrù, Biggart, and Hamilton 1997; Biggart and Guillén 1999; Whitley 1992). Comparative studies of corporate governance have also found that countries differ in the extent to which families, banks, the state, multinationals, and other actors play a role as owners and controllers of incorporated firms. No convergence is observed as to who owns and controls the corporation around the world (Guillén 2000b; La Porta et al. 1998; La Porta, Lopez-de-Silanes, and Shleifer 1999; Roe 1993; see also chaps. 3 and 4). *It is precisely because globalization enhances mutual awareness in the world that diversity in organizational form is expected* as countries and firms seek to differentiate themselves in the global economy.

Examining the impact of globalization on organizational patterns at the country, industry, and firm levels requires careful analysis because scholars do not agree as to when globalization started and to what extent it has made inroads (Guillén 2001). While some date the beginning of globalization with the first circumnavigation of the earth or the rise of the European-centered world-economy in the early sixteenth century, others would rather wait until the turn of the twentieth century, World War II, the oil crises of the 1970s, the rise of Thatcher and Reagan, or even the collapse of the Soviet Union in 1989. For most analytical purposes—including the study of cross-national organizational patterns—it is preferable to date the beginning of globalization with the post–World War II period, that is, with the emancipation of colonies, the efforts to accelerate growth and development, and the renewed expansion of foreign trade and investment (Gilpin 1987, 341–44; Kennedy 1993, 47, 50; McMichael 1996; Guillén 2001).

A sound analysis of the impact of globalization on a certain organizational variable should avoid assuming that globalization is a uniform and inexorable trend. Rather, globalization is a fragmented, incomplete, discontinuous, contingent, and in many ways contradictory or incongruous process. Sociologist Anthony Giddens (1990, 64, 175) observes that globalization "is a process of uneven development that fragments as it coordinates. . . . The outcome is not necessarily, or even usually, a generalized set of changes acting in a uniform direction, but consists in mutually opposed tendencies." Anthropologist Jonathan Friedman (1994, 210–11) further notes that globalization is the product of cultural fragmentation as much as it is the result of modernist homogeneity, and that "what appears as disorganization and often real disorder is not any the less systemic and systematic." These perspectives are consistent with the *reflexive* definition of globalization proposed above, which emphasizes that it creates mutual awareness as opposed to mindless conformity.

## Main Approaches to Globalization and Development

Despite the intensity of current controversies, the social sciences' interest in economic development and globalization is not new. Right from their beginning as scholarly disciplines, sociology and economics concerned themselves with industrialization and socioeconomic change (Giddens 1990; Robertson 1992; Smelser 1976; Smelser and Swedberg 1994). Such pivotal social scientists as Comte, Saint-Simon, Spencer, Marx, Durkheim, Weber, and Parsons formulated theories to understand the social and economic change induced by industrialization, and could be considered as pioneering theorists of globalization as well (Albrow 1997; Robertson 1992; Waters 1995). However, the systematic study of the causes of economic development and underdevelopment, and the formulation of specific prescriptions as to how to generate economic growth in an interdependent world, did not start until the end of World War II. The time was then ripe for development studies to flourish: economies had to be reconstructed, colonies were emancipating themselves, and the two superpowers competed with each other to extend their influence throughout the developing world (Bell 1987; Gereffi 1994b; McMichael 1996; Portes 1997). Not surprisingly, the first students of economic growth adopted a "developmentalist" approach, first formulated in terms of modernization and later of dependency.

The publication of Walt W. Rostow's *Stages of Economic Growth* in 1960 marked the heyday of modernization theory. In his view, countries evolve from "undeveloped" to "developed" via five stages as long as the right value incentives are in place: traditional society, preconditions for takeoff, takeoff, maturity, and high mass-consumption. Each stage is a prerequisite for the

next because new political, economic, and social institutions make possible ever more economically advanced and differentiated activities over time, a point also underscored by Kerr, Dunlop, Harbison, and Myers in their landmark book, *Industrialism and Industrial Man* ([1960] 1964). Political scientists (e.g., Apter 1965) refined the argument when asserting that the primary engine of change was a piecemeal shift from traditional to modern values, that is, a transformation of authority structures, a perspective also embraced by many sociologists (see the review by Smelser 1976, 144–63). As reflected in table 1.1, the modernization approach to economic development regards globalization as a civilizing force.[2] In addition, modernization theorists think of economic development as contributing to a "shrinking" of the world, a convergence of economies and societies, a trend toward homogeneity, or at least toward a restricted set of alternatives (Kerr et al. [1960] 1964; see also Robertson 1992, 91; Waters 1995, 13–19). In their eyes, traditionalism stands in the way as the main impediment to economic growth, and development can occur only if modernizing elites—social, political, economic, financial—act as the agent of change (Kerr et al. [1960] 1964; Rostow [1960] 1990, 4–12, 26, 31). Modernization scholars are adamant that "technology and specialization . . . are necessarily and distinctively associated with large-scale organizations." Economic activity is "carried on by large-scale enterprises which require extensive coordination of managers and the managed" (Kerr et al. [1960] 1964, 21; see also Rostow [1960] 1990, 9–11, 40). Family firms and cooperatives are predicted to disappear as traditional patterns of behavior are replaced by modern ones (Kerr [1960] 1964, 67, 227).

Modernization theory's tenets were challenged by a second strand of developmentalist thinking. During the 1950s and 1960s dependency scholars noted that developing countries were dependent on more advanced ones, often former colonizers, for capital, technology, and access to markets. Dependency theorists observed that the terms of trade between advanced (core) countries and developing (peripheral) countries tended to evolve against the latter, who would become more impoverished as they engaged in international trade (Prebisch 1950; Frank 1967; Furtado 1970; Bruton 1998). Thus, the tendency of capitalist development was to create exploitative relationships between developed and underdeveloped countries as first-world multinational corporations sought to exploit their oligopolistic advantages in developing countries (Haggard 1990, 16–21).

According to dependency theorists, only an autonomous state bureaucracy capable of imposing a logic of import-substitution industrialization can offer

[2] The original thesis about how economic development affects democratization was formulated by Lipset in the 1950s (Lipset 1981, chap. 2). However, political scientists have always been reluctant to argue that economic growth necessarily results in democracy (Lipset 1981, 53–54, 469–76; O'Donnell 1979).

**TABLE 1.1**
A Comparison of Theories of Development and Globalization

| | *Modernization* | *Dependency* | *World-System* | *Late Industrialization* | *Neoclassical* | *Comparative Institutional* |
|---|---|---|---|---|---|---|
| View of globalization | Civilizing, convergent, homogenizing | Oppressive, dualizing. | Oppressive, dualizing, teleological | Process of catching up, convergent | Civilizing, convergent, homogenizing | Promoting diversity and renewal. |
| Obstacle to development | Traditionalism | Neocolonialism | Peripheral status | Right prices, meager investment | Wrong prices, state intervention | Institutional disregard |
| Solution | Staged institution building and gradual change of values | Import substitution of not only consumer goods but also intermediate and capital goods | Radical social and political change at the world-system level | Price distortions to stimulate economic activity, especially exports | Swift move toward free markets, protection of property rights | Match of logics of social organization with opportunities in the global economy |
| Agents or actors | Modernizing elites who foster gradual change in stages | Autonomous state that imposes its logic on actors | Internal contradictions that trigger change | Developmental state that imposes its logic on large industrial enterprises | Autonomous technocracy that imposes its logic on actors. | Different actors and relationships allowed and enabled |
| Expected organizational forms | Large-scale, bureaucratized enterprises; family firms, worker cooperatives, and other traditional enterprises not viable | Large, rent-seeking business groups with ties to multinationals and the state, state-owned enterprises, and subsidiaries of multinational enterprises (the "triple alliance") | | Business groups guided by state subsidies and tied to multinationals through arm's-length contracts | Business groups while market failure persists; otherwise, efficient scale enterprises, "serviced" by smaller firms | Social organization and government policy, which shape relative role and proportions of business groups, small firms, and multinationals |
| Representative scholars | Rostow 1960, Kerr et al. 1960, Apter 1965 | Prebisch 1950, Frank 1967, Furtado 1970, Cardoso and Faletto 1973, Evans 1979 | Wallerstein 1974, Evans 1979 | Gerschenkron 1962, Johnson 1982, Amsden 1989, Wade 1990 | Leff 1978, 1979, Balassa et al. 1986, Caves 1989, Sachs 1993 | Bendix 1956, Geertz 1963, Dore 1973, Orrù et al. 1997 |

*Source*: Adapted and expanded from Biggart and Guillén 1999.

a feasible solution to dependency in the long run (Bruton 1998). Thus, policies were consciously designed to discourage imports (especially of consumer goods) and promote local production. The emphasis was placed on escalating import-substitution quickly to include not only consumer goods but also intermediate inputs and capital goods (Frank 1967, 205–7; Cardoso and Faletto [1973] 1979, 5, 128–30; see table 1.1). Dependency theorists were, of course, aware of the "inefficiencies" of import-substitution due to lack of experience in applying new technology, limited competition, insufficient scale of production, and diversion of resources away from agriculture and export-oriented activities. Still, they argued that its countercyclical and developmental effects would outweigh its pitfalls, and that it was one feasible way for peripheral countries to catch up with the technologically advanced core (Prebisch 1950, 6–7, 44–46, 53–54; Furtado 1970, 59). Other leading theorists such as Hirschman (1958, 1968) endorsed import-substitution industrialization as one way of turning "unbalanced growth," shortages, and bottlenecks into sustainable economic development, a position that stood in sharp contrast to the staged model of modernization theorists. In practice, import-substitution resulted in the gradual displacement of the small-scale local bourgeoisie not connected to foreign and state capital, with the "triple alliance" of state-owned enterprises, subsidiaries of foreign multinationals, and local business groups gaining in importance (Evans 1979; see also Frank 1967; Cardoso and Faletto [1973] 1979, 163, 174, 213).

Immanuel Wallerstein (1974) proposed another influential theory of development that emphasized systemic patterns of dependence in the world economy. Wallerstein saw underdevelopment as the result of a country's integration into the modern "world-system" created by the capitalist development of western Europe since the sixteenth century. Thus, the longer a country remains outside the world-system, the more easily it will develop (Ragin and Chirot 1984, 292–94). In this view, global capitalist forces have not only generated oppression and duality between the "core," on the one hand, and the undeveloped "periphery" and developing "semiperiphery," on the other, but also a momentum of their own as the capitalist world-system inexorably experiences a series of recurrent crises that result from its inherent contradictions. Unlike dependency theorists, however, states (and not social classes) are central to world-system analysis because they manage the social problems generated by the expansion of world capitalism and thus contribute to the stabilization of the world-system (Waters 1995, 22–26).

Dependency theory and world-system analysis lost clout during the 1980s and 1990s. Two other approaches—late industrialization and neoclassical economics—have come to dominate debates about policymaking over the last 15 years. The origin of the late-industrialization thesis dates back to the pioneering work of Gerschenkron (1962), who argued that economic laggards

must engage in certain price distortion and protectionist policies so as to foster local manufacturing activities. More recently, Johnson (1982), Amsden (1989), and Wade (1990) have refined this model and provided extensive empirical evidence on the Japanese, South Korean, and Taiwanese cases, respectively. Amsden (1989, 1994) has contributed the most elaborate account of the theory. Globalization and development are seen as processes of "catching up" that exhibit certain patterns of convergence, including the growth of large enterprises in industries similar to those found in the advanced countries. A "developmental state" is proposed as the key actor, whose role it is to distort prices using subsidies and protectionism so as to encourage local firms to increase investment, production, and exports. Like dependency theory, the late-industrialization approach expects (and prescribes) large business groups with arm's-length relationships with foreign multinationals. The emphasis on export-led growth, however, clearly sets late-industrialization theory apart from the dependency approach.

By contrast to the dependency and late development perspectives, recent neoclassical theory and practice of development and reform argue that "market-driven" policies and "getting the prices right" are the only sustainable way of achieving high growth. Opening to foreign trade and direct investment, deregulation, fiscal discipline, privatization, and capital market liberalization are proposed as prerequisites of sustained development (Balassa et al. 1986). Neoclassical economists take globalization as a given, arguing that countries cannot possibly ignore or resist its convergent and homogenizing effects without paying a dire price. Like modernization theorists, market-driven economic reformers see the global economy as a civilizing force. Unlike in modernization theory, however, gradualism is frequently abandoned in favor of swift deregulation or transition to the free market, a strategy commonly known as "shock therapy" (Sachs 1993). Although countries are asked to dismantle most of the state regulatory apparatus, careful attention is given to the role of an autonomous technocracy that is supposed to impose a logic of market-driven reform on actors and to protect property rights. Countries are advised to emulate a laissez-faire model, to expose their economies to the winds of global investment and trade. The emphasis on comparative advantage, specialization, and free exchange within and across borders leads neoclassical economists to criticize both "industrial gigantism" and worker ownership, and favor instead efficient scale firms and plants. They see an important role for small enterprises to play, albeit merely "servicing" larger firms (Sachs 1993, 18–20, 82–83). However, as market failure is rampant in newly industrialized countries, economists expect the rise of business groups that internalize inefficient markets for managerial talent, worker skills, capital, and intermediate goods until adequate markets are developed (Caves 1989; Leff 1978, 1979).

### *The Curse of Modernity in Development Studies and a Comparative Institutional Alternative*

Modernization, dependency, world-system, late-industrialization, and neoclassical theories have shared the stage of development studies and policymaking over the last half-century. This book's contention is that previous theories of development and globalization suffer from an infatuation with what Jürgen Habermas has called "the project of modernity," or the revolt "against the normalizing functions of tradition" (Habermas 1983, 5, 8; Guillén 1997a). Modernity is "the imposition of practical rationality upon the rest of the world through the agency of the state and the mechanism of the market, [and] the generation of universal ideas to encompass the diversity of the world" (Albrow 1997, 33; see also Robertson 1992, 97–105). Modernism—the cultural glorification of things modern—developed a fascination with the "regularity, continuity, and speed of technology and mass production" and a taste for the "one best way" to fix social and economic problems (Guillén 1997a, 697).

Common to the main five theories of development are three quintessentially modernist features. First, *development is about overcoming obstacles* rather than building on strengths (other than those captured by the rather narrow concept of comparative advantage, in the case of neoclassical theories). Tradition, dependency, peripheral status, right prices or wrong prices—depending on the theory—are constructed as stumbling blocks standing in the way of development. Thus, countries must eliminate, surmount, or circumvent such obstacles so as to develop economically (Bell 1987; Biggart and Guillén 1999; Evans and Stephens 1988; Portes 1997; Portes and Kincaid 1989).

Previous theories of development assume not only that there are discernible, self-evident obstacles to development but also that the *policy prescriptions proposed to overcome obstacles apply to most, if not the whole range, of developing countries*. Thus, little, if any, serious attention is paid to historical particularity or institutional variation when it comes to extrapolating specific success stories into general policy recipes. As Haggard (1990, 9) has put it, development theories are intrinsically voluntaristic in their view of how to overcome obstacles. For them, "policy is simply a matter of making the right choices; 'incorrect' policy reflects misguided ideas or lack of political 'will,' " and "economic successes can be broadly replicated if only 'correct' policy choices are made" (Haggard 1990, 21). This universality of application and replication represents a second modernist feature of previous theories.

The third modernist feature is the *intimate linkage that previous theories establish between economic development and the modern nation-state, both as a geographic entity and as an agent of change* (Block 1994; Evans and Stephens 1988; McMichael 1996; Pieterse 1996). Development policies—as proposed and interpreted by modernizing elites, state bureaucrats, or a cadre of

neoclassical economic experts—are instruments designed to accelerate the growth of the national economy.[3]

In contrast to the main theories of the last 50 years—modernist each in its own way—this book approaches economic development as a process by which countries and firms seek to find a unique place in the global economy that allows them to build on their preexisting economic, social, and political advantages, and to learn selectively from the patterns of behavior of other countries and actors. A comparative institutional perspective on development sees *globalization as promoting diversity and renewal* (see table 1.1). The reason lies in that globalization increases mutual awareness, and mutual awareness is at least as likely to produce differentiation as it is to cause convergence (Robertson 1992, 8; Albrow 1997, 88; Waters 1995, 63). Although globalization has some of its roots in the tremendous expansion of trade, investment, communication, and consumption across the borders of nation-states over the post–World War II period (Louch, Hargittai, and Centeno 1998; Sklair 1991), it is not necessarily the continuation of the homogenizing consequences of modernity or modernization, as such social theorists as Anthony Giddens (1990, 64; 1991, 22) have argued. However, one does not need to go as far as Martin Albrow (1997, 100, 101) and declare that globalization is the "transition to a new era rather than the apogee of the old." From a comparative institutional perspective, it suffices to be noted that "globality restores the boundlessness of culture and promotes the endless renewability and diversification of cultural expression rather than homogenization or hybridization" (Albrow 1997, 144; see also Mittelman 1996).

Unlike previous theories, a comparative institutional approach to development sees the *social organization unique to a country not as an obstacle to economic action but as a resource for action* (Biggart and Guillén 1999; Portes 1997; Stinchcombe 1983). Thus, countries and firms do not fall behind in the global economy because they fail to adopt the best policy available or to conform to best practice but because their indigenous sources of strength are not taken into account when policies are designed and implemented. Thus, preexisting institutional arrangements are regarded in this book as the path-dependent context of action, as guiding and enabling socially embedded action (Douglas 1986; Geertz 1973, 220; Granovetter 1985; Swidler 1986). Following a comparative institutional perspective, Biggart and Guillén (1999, 725) have argued that "organizing logics vary substantially in different social milieus. For example, in some settings it is 'normal' to raise business capital through family ties; in others, this is an 'inappropriate' imposition and fostering ties to banks or to foreign investors might be a more successful or legitimate fund-raising strategy. Logics are the product of historical development,

[3] Perhaps world-system theory is to be exempted from this criticism, for it sees little possibility of national development without change at the world-system level.

are deeply rooted in collective understandings and cultural practice, and resilient in the face of changing circumstance. Culture and social organization provide not only ideas and values, but also strategies of action."

Social-organizational logics enable different types of actors to engage in different activities. They are sense-making frames that provide understandings of what is legitimate, reasonable, and effective in a given context (Barley and Tolbert 1997; Clegg and Hardy 1996; Nord and Fox 1996; Powell and DiMaggio 1991; Scott 1995; Smelser and Swedberg 1994). Only practices or organizational forms that "make sense" to preexisting actors are adopted. The comparative institutional literature has long documented that foreign models seen as a threat to preexisting roles and arrangements tend to be rejected (Arias and Guillén 1998; Cole 1989; Djelic 1998; Dobbin 1994; Guillén 1994, 1998a; Kenney and Florida 1993; Orrù, Biggart, and Hamilton 1997; Westney 1987).

If local patterns of social organization are resources for action, then successful economic development involves *matching logics of social organization with the opportunities offered by the global economy*. A corollary of this proposition is that there are multiple institutional configurations or paths to development, that is, several ways of becoming part of the global economy. A comparative institutional approach warns that it is futile to attempt to identify the best practice or model in the abstract (Guillén 1998a, 1998b; Lazonick and O'Sullivan 1996; Whitley 1992). Rather, countries and their firms are socially and institutionally equipped to do different things in the global economy. Thus, German, French, Japanese, and American firms are justly famous for their competitive edge, albeit in different industries and market segments (Cantwell 1989). Germany's educational and industrial institutions—dual apprenticeship system, management-union cooperation, and tradition of "hands-on" engineering or *Technik*—enable companies to excel at high-quality, engineering-intensive industries such as advanced machine tools, luxury automobiles, and specialty chemicals (Hollingsworth et al. 1994; Murmann 1998; Soskice 1999; Streeck 1991, 1995). The French model of elite engineering education has enabled firms to excel at large-scale technical undertakings such as high-speed trains, satellite-launching rockets, or nuclear power (Storper and Salais 1997, 131–48; Ziegler 1995, 1997). The Japanese institutional ability to borrow, improve, and integrate ideas and technologies from various sources allows its companies to master most categories of assembled goods, namely, household appliances, consumer electronics, and automobiles (Cusumano 1985; Dore 1973; Gerlach 1992; Westney 1987). And the American cultural emphasis on individualism, entrepreneurship, and customer satisfaction enables its firms to become world-class competitors producing goods or services that are intensive in people skills, knowledge, or venture capital, such as software, financial services, or biotechnology (Porter 1990; Storper and Salais 1997, 174–88). Trade economists have demonstrated that countries' exports differ in the degrees of product variety and quality depending on their social organizational

features (Feenstra, Yang, and Hamilton 1999). The empirical chapters in this book further demonstrate that newly industrialized countries and their firms—based on their social organization—also excel at different activities in the global economy.

The argument about the diversity in institutional configurations, however, should not be used to deny the importance of theory and generalization. A balance between theoretical generalization and historical particularity needs to be struck, using "general principles, economic or sociological, not as axioms from which policies are to be logically deducted but as guides to the interpretation of particular cases upon which policies are to be based" (Geertz 1963, 157). Even the most modernist development scholars and policymakers must take into account that "material progress [is not simply] a matter of settled determination, reliable numbers, and proper theory" (Geertz 1995, 139). A comparative institutional approach to development is a "critique of conceptions which reduce matters to uniformity, to homogeneity, to like-mindedness—to consensus," preferring instead to open things up "to divergence and multiplicity, to the non-coincidence of kinds and categories" (Geertz 1998, 107).

A comparative institutional approach also differs from previous theories of development in that it allows for *different actors and relationships*, and in that it expects to find *different proportions of business groups, small firms, and foreign multinationals* across countries and over time (table 1.1). While previous approaches to development and globalization predict the proliferation of the same organizational form in countries undergoing development—large-scale, bureaucratized firms and/or business groups—the comparative institutional perspective does not expect the dominance of any particular organizational form under all circumstances. Rather, it makes arguments about how the interaction between sociopolitical patterns and state development policy affects dynamics among business groups, small firms, foreign multinationals, and other organizational forms.

## Elements of a Comparative Institutional Approach

A comparative institutional approach to development and globalization argues that there are multiple viable paths to development and insertion in the global economy. Countries embark on different trajectories depending on a complex set of variables that is very difficult to reduce to simple principles. Some of these variables lie beyond the control of the country, for example, its natural endowments, including factor endowments and geographical location. Others have to do with international constraints and opportunities that countries can shape at least in part. Finally, a third group of variables has to do with such sociopolitical aspects as ideologies, traditions, cultural norms, domestic politics, and state structures. These variables make certain develop-

ment policies and paths more feasible than others. The dynamic unfolding of development policies over time interacts with natural endowments, international constraints and opportunities, and sociopolitical patterns to produce different combinations of organizational forms. The core argument of the comparative institutional approach is that the emergence of a specific combination of organizational forms in a given country enables it to be successful in the global economy at certain activities but not others. Thus, development and incorporation into the global economy are processes that require a careful understanding of the diverse combinations of actors and relationships that emerge in different countries.

### *Actors and Relationships*

As a society-centered approach to development, the comparative institutional perspective advanced in this book focuses on the categories of *actors* and the types of *relationships* among them that social organization enables and sustains over time (Biggart and Guillén 1999; Hollingsworth, Schmitter, and Streeck 1994; Portes 1997; Smelser and Swedberg 1994; Stark and Bruszt 1998; Storper and Salais 1997). The availability and legitimacy of different categories of actors—individuals, families, large companies, business groups, small and medium firms, state-owned enterprises, banks, worker-owned cooperatives, foreign multinationals, and, of course, the state itself—are invoked to explain how countries develop and firms make a dent in international competition. Ideologies, taken-for-granted assumptions, politics, and geopolitical conditions will be used to understand which categories of actors are legitimate in a particular country and hence available to pursue development and integration with the global economy (Haggard 1990; McGuire 1994).

The second element—relationships between actors—points to a major departure from previous theories of development. The post–World War II period's modernist obsession with the territorial nation-state as the target of development elevated location as the key variable in development studies. An actor's location in geographic space—defined as a system of generally nonoverlapping nation-states—became a key determinant of its possible role in the global economy, basically because of the factor-endowment issues so intimately related to geography. Development scholars studied nation-states as having various degrees of control over relatively immobile factor endowments and actors located within their territorial boundaries. Actors were literally trapped in their local environments, and it was the duty of the state to mobilize them in the pursuit of economic growth (McMichael 1996; see also Kogut 1991).

A world tending toward globalization requires a reexamination of the impact of location on development possibilities (Kobrin 1998; Porter 1998).

Globalization makes actors more mutually aware of each other and lowers the barriers and costs of cross-border activity. Accordingly, a comparative institutional theory of development downplays actors' geographical location in favor of actors' ability to network across national boundaries.[4] Moreover, globalization reduces the chances for a relationship across borders to be mediated by the state, the professions, and other influential organizations that the sociological literature has usually identified as cross-border brokers (Arias and Guillén 1997; Guillén 1994). As globalization enables actors to look for opportunities, resources, and potential relationships by themselves, without paying tribute to intermediaries, it encourages diversity rather than homogeneity, an outcome supported by the empirical evidence presented in subsequent chapters.

Location, of course, still matters in a global world because it shapes the very ability, propensity and desire of actors to network. Thus, social, cultural, political, and even geopolitical conditions facilitate or privilege different types of relationships, for example, vertical, horizontal, cooperative, competitive, domestic, or cross-border. In a context of globalization, Gereffi (1994a, 1994b) has proposed a particularly useful distinction between "producer-driven," or push linkages to the global economy, and "buyer-driven," or pull linkages, both of which emerge from the increasing international division of labor produced by globalization (Giddens 1990, 75–76; Kogut 1985). A vertical pattern of social organization (e.g., Korea's patrimonialism) facilitates producer-driven linkages fostering large-scale, capital-intensive activities by local firms, while a horizontal pattern (Taiwan's family business networks) enable buyer-driven linkages leading to flexible, knowledge-intensive activities (Biggart and Guillén 1999; Orrù, Biggart, and Hamilton 1997). In addition to push and pull linkages, countries may also relate to the global economy by means of direct ownership ties. In certain societies, for example, prevailing social organizational patterns or ideologies have fostered relationships between certain categories of domestic and foreign actors, or simply allowed foreign actors unrestricted access to the country. This pattern of linkage to the global economy has proved essential to the development of countries such as Ireland, Singapore, Puerto Rico, or Spain (Dietz 1986; Huff 1994; Shirlow 1995; Suárez 1998; see also chap. 5). These three types of relationships—push, pull, and direct—will serve as the basis for making arguments in subsequent chapters about diversity and renewal in the global economy.

[4] This line of thought is indebted to Merton's (1968) classic distinction between cosmopolitans and locals, suggesting that the role of an actor in a social setting follows from its ability, propensity, or desire to engage in different types of relationships. Thus firms and, by implication, countries will play different roles in the global economy depending on their relationships to other actors (Biggart and Guillén 1999; Castells 1996, 66–150; Kanter 1995; Orrù, Biggart, and Hamilton 1997; Reich 1991).

In many ways, a comparative institutional approach to development in an era of globalization shares much intellectual ground with the "cultural turn" in sociology (Robertson 1992, 32–48). In particular, a comparative institutional theory of development and globalization centered on actors and relationships highlights *reflexivity* as the process through which actors acquire the ability to participate in social and economic life in relation to others (Mead 1934). Modernist theories of economic development neglected the reflexive aspect of actors' behavior as socially constructed behavior, as action rooted in patterns of social organization, thus making it very difficult to make sense of their resilient desire to be different. If globalization is seen as a process tending toward enhanced mutual awareness in the world, then the reflexive character of action becomes a central concept for understanding how countries and organizations find a place for themselves in the global economy.

### *The Role of the State*

Except for world-system and neoclassical theories, existing approaches to development give the state an important, even leading, role to play in development efforts (Kerr et al. [1960] 1964, 22–24; Rostow [1960] 1990, 7, 30–31; Cardoso and Faletto [1973] 1979, 127–48, 154, 205–6; Evans 1979; Amsden 1989). As explained above, the comparative institutional perspective is a society-centered one. Globalization may be regarded as a challenge to the modern nation-state, but not because the state will lose relevance as an institution or will not have a role to play as an actor—as Evans (1997a) has feared. Rather, *globalization undermines certain modernist assumptions but not the existence of the state as an actor.* It is important for a comparative institutional theory of development not to reify the state but rather to deal with it as yet another institutionalized actor with its own set of relationships to other actors. Thus, in a context of globalization the state ceases to be the center of attention but retains all of its characteristics as a social actor as well as an institution inducing patterns of political culture, group formation, political activity, and issue orientation (Skocpol 1985; see also Sassen 1996, 25–30).

It is also important to clarify that in a global world the state may have a role to play that goes well beyond the economists' (and conservatives') minimalist functions of enforcing property rights and providing for a few other public goods. The state also needs to foster the development of governance structures and rules of exchange among economic actors, both domestic and foreign (Campbell and Lindberg 1990; Fligstein 1996; Lindberg, Campbell, and Hollingsworth 1991). In particular, countries need the state to articulate and encourage the kinds of relationships actors may have with the global economy, as enabled by social organization and prevailing ideologies (see chap. 2). It is also important that the state puts in place mechanisms to protect the country

from global shocks, including policymaking institutions and, especially, social and welfare programs (Boix 1998; Esping-Andersen 1985; Katzenstein 1985). These roles of the state are key to understanding development efforts and the categories of actors that will thrive as countries relate to the global economy (see chap. 3).

Thus, a comparative institutional perspective on development goes several steps further than recent studies emphasizing the nature of state-society relations. For example, in his landmark book *Embedded Autonomy*, Evans (1995) argues that successful development obtains only when an autonomous and capable state can establish a collaborative relationship with business actors in the society (see also Evans 1997b). This approach is an important step in the right direction because it places state-business relations at the core of the explanation (see also Block 1994). However, it does so at the cost of assuming that business actors are a given, an objection raised by several institutional researchers (Biggart and Guillén 1999; Campbell 1998b; Stark and László 1998, 124–29). By contrast, a comparative institutional approach does not take for granted that actors exist or that, if they do, they are equally capable, legitimate, or embedded in networks of relationships among themselves. A comparative institutional perspective on development makes actors as well as action problematic.

Some 70 years ago, the philosopher José Ortega y Gasset (1986, 149) warned against nation-states choking the spontaneity of society, a theme subsequently revisited by influential writers of various political persuasions (e.g., Hayek 1944; Putnam 1993; Schumacher 1975). As Albrow (1997, 164, 168) cogently argues, globalization "has revivified the social" and reminded us that "the modern nation-state is not . . . the crowning political achievement in human history." Globalization has made it apparent that "the nation-state has failed to confine sociality within its boundaries, both territorial and categorical. The sheer increase in cross-national ties, the diversification of modes of personal relationships and the multiplication of forms of social organization demonstrate the autogenic nature of the social and reveal the nation-state as just another timebound form" (Albrow 1997, 164).

Thus, globalization offers a unique opportunity to reassess the role of the state (Mazlish 1993), and to bring society—actors and networks of relationships—back into the study of economic development and organizational change. The challenge of a "critical globalism" is, as Pieterse (1996, 554, 560) argues, to theorize about each and every one of the realms impinging on development: the state, the market, the civil society, and international forces. From this critical globalist perspective, states, firms, labor unions, community groups, and other associations are neither asked to resist globalization nor to celebrate it, but rather to *engage* it, to make choices, to be selective, to assess and reassess how they relate to the global economy (Geertz 1998).

### *Intellectual Lineages of the Comparative Institutional Approach*

The comparative institutional perspective on development advanced in this book has its intellectual roots in three classic comparative analyses of industrialization: *Work and Authority in Industry* (Bendix [1956] 1974), *Peddlers and Princes* (Geertz 1963), and *British Factory—Japanese Factory* (Dore [1973] 1990). These books underscore that economic and organizational arrangements spring from social and institutional structures. In this book, I take institutional logics as repositories of distinctive capabilities that allow organizational actors and countries to pursue certain activities in the global economy more successfully than others, thus echoing the so-called resource-based view of the firm (Barney 1986; Nelson 1995; Nelson and Winter 1982; Peteraf 1993). I also build on Schumpeter's (1934) society-centered theory of development, which highlights the role of the innovative entrepreneur as a key actor in development. Finally, my approach is indebted to the "varieties of capitalism" research tradition, as initially outlined by Polanyi (1944), and subsequently developed by several political economists and political scientists (Boyer 1996; Hollingsworth, Schmitter, and Streeck 1994; Katzenstein 1985; Lindberg, Campbell, and Hollingsworth 1991; Piore and Sabel 1984; Sabel 1982; Soskice 1999; Storper and Salais 1997; Streeck 1991, 1995). All of these scholars argue one way or another that there are multiple solutions to the problem of economic performance, and that development (and hence globalization) induces a diversity of economic action and organizational forms.

It is important to note that a sociological concept of institutions as constituting actors stands in contrast with the economic view of institutions as mechanisms to overcome anomalies, for example, market failure due to the costliness of measurement and enforcement (North 1990, 1997; Williamson 1985). Institutions do much more than fill in the gaps of the market. They enable actors to engage in socially meaningful action. Business groups, small and medium-sized firms, and multinationals, among other forms, are not equally legitimate as actors across countries, a variable that affects development outcomes (see chaps. 3–7). Institutions also shape actors' preferences. Thus, the comparative institutional approach adopted in this book differs from economic institutionalism in that neither actors nor preferences are taken for granted.

The comparative institutional perspective on development also represents a radical departure from economic theories of comparative advantage. First, it considers social and political endowments in addition to economic ones (Biggart and Orrù 1997). And second, it takes economic, social, and political resources as malleable, socially constructed, and subject to change. A country's institutional resources and logics, though resilient, are not to be seen as

entirely fixed.[5] Rather, they are subject to social construction and transformation over time through the agency of the various economic and political actors, including entrepreneurs, labor, organizations, and the state (Biggart and Guillén 1999; Storper and Salais 1997; see chaps. 2 and 5).

## A Comparative Study of Globalization and Organizational Change

This book's empirical chapters seek, first, to establish a principle of variation in organizational forms as countries develop and become integrated with the global economy (chaps. 2–5) and, second, to examine the performance outcomes of such variations (chaps. 6–8). The analysis is based on a considerable amount of multifaceted evidence collected since I started work on this book back in 1994. First, my research assistants and I have conducted some 120 semistructured interviews with key informants (see the appendix for a complete list). My interviewees included top managers of companies and banks, secretaries-general of labor unions, government officials, and cabinet ministers. Second, I have visited the manufacturing plants of some 25 companies. Third, I have conducted several large sample surveys with closed questionnaires: a survey of 163 firms in the Argentine province of Mendoza; surveys of 120 large firms and of 1,150 exporting firms in Spain; and a survey of attitudes toward economic policymaking in Spain among 1,200 respondents representing the country's adult population. I have also analyzed in depth the census of 3,971 foreign direct investments by Korean companies undertaken between 1960 and 1995 as compiled by the Bank of Korea. Fourth, I have collected data on the ownership of the largest 100 firms in each country in terms of total sales, exports, and foreign investment. Fifth, I have analyzed confidential data on companies collected by government agencies, central banks, industry associations, consulting firms, and research institutions. And sixth, I have consulted archival and documentary material on companies and labor unions referring to the period between 1950 and 1999 (see the appendix).

This first chapter having established the reciprocal relationship between globalization and development, formulated the fundamentals of a comparative institutional approach, and outlined the main message of the book—that is, countries and firms seek to become different rather than to converge on a universal pattern—the second chapter characterizes the different paths to development implied by the various development theories, and justifies the choice of Argentina, South Korea, and Spain for intensive comparative study.

[5] I thank Clifford Geertz, Mark Granovetter, and John Meyer for encouraging me to clarify this important point.

The central goal of this chapter is to document each country's development path and to provide an understanding of the complex reasons why each country shifted development policy over time.

The next three chapters (3–5) examine the effects of each country's development path on various types of enterprises, namely, business groups, small and medium enterprises, and foreign multinationals. The third chapter analyzes the political-economic conditions under which entrepreneurs prefer to diversify and create business groups straddling multiple industries as opposed to remain product-focused with a tightly integrated firm. I argue that it is primarily when a country maintains asymmetric international economic relationships with the global economy that entrepreneurs find it most attractive to create business groups. Using data on the largest 100 companies each in Argentina, South Korea, and Spain over a 20-year period, I find that cross-national contrasts in the presence of business groups persist when controlling for the obvious differences in industry composition across countries, and that this organizational form is associated with the asymmetric international economic relationships so typical of Argentina and South Korea. It is precisely because Spain has followed a more symmetric development path that business groups have lost ground. In this chapter I also elaborate on how business groups have engaged in political action so as to preserve their privileges. I conclude that business groups grow at the expense of both small and medium enterprises and foreign multinationals.

The fourth chapter deals with how small and medium enterprises (SMEs) have adapted to the processes of economic development and globalization. I begin by noting that modernist approaches to economic development have frequently privileged large firms at the expense of SMEs. I argue that SMEs are neither good nor bad. The point is to understand under what circumstances they become successful exporters, foreign investors, and technological innovators. The chapter compares the fortunes of SMEs in Argentina, South Korea, and Spain, drawing from statistical surveys and case studies of firms in the railway equipment, alcoholic beverages, and publishing industries. Spanish SMEs are found to outperform larger firms in terms of technological innovation, exports, and foreign investment, while Argentine SMEs excel only at foreign investment, not exports. Korean SMEs have been hurt by the rise of the big business groups.

The fifth chapter addresses the interaction between foreign multinationals and labor unions in newly industrialized countries. Drawing on interviews, archival materials, and union publications, I assess organized labor's ideologies toward foreign investment and their effects on the development paths pursued by each country. In particular, I document how Spanish labor unions evolved from a negative view of multinationals in the 1960s to a full acceptance of their presence in the country as "partners" during the 1980s and 1990s. By contrast, South Korean labor unions have come to tolerate multina-

tionals only as "arm's-length collaborators" of locally owned firms, whom they provide with technology and marketing skill. Finally, the Argentine labor unions have regarded multinationals as "villains" trying to plunder the country's riches, with only a few spells of grudging acceptance of their presence as "necessary evils" in order to surmount acute financial and economic difficulties. I conclude with a reflection on how the sequence of political and economic change affects development paths, arguing that political authoritarianism and exclusionary labor regimes are not conducive to ideal outcomes of economic reform.

After reviewing the roles business groups, SMEs, foreign multinationals, and labor unions have played under different development circumstances, chapters 6 and 7 analyze two industries in depth—automobiles and banking—so as to assess the performance consequences of different development paths and organizational forms. In chapter 6 I review the rise of the automobile assembly and components industries in the three countries to illustrate that organizational logics specific to each country have mediated in the relationship between state policies and development outcomes, producing a wide range of unintended consequences. I chose the automobile industry because it is a key sector that most developing countries wish to participate in. I compare two cases in which high-volume, export-oriented auto assembly has taken hold—Spain and South Korea—with one in which the industry remains backward, Argentina. I document that a competitive auto components industry developed in Spain but not in Korea, where the state and the big business groups choked the activities of small and medium firms. Lastly, the Argentine state misread the capabilities of local auto components firms, failing to encourage backward supply linkages between assemblers and domestic firms. Spanish firms, however, gradually fell into foreign control, whereas in Korea the automobile industry remains domestically owned. I conclude that a comparative institutional view taking into account not only resource endowments and degrees of state autonomy and capacity but also logics of social organization offers the best perspective to study development outcomes at the industry level in an era of globalization.

In chapter 7 I apply a similar logic of analysis to the banking sector both as a service industry and as a critical activity in any development effort. A comparative study of banking is useful for two reasons. First, banks play a key role in any industrialization effort. Second, banking is one of the most misunderstood sectors of the economy because most scholars fail to see in it more than a support activity of manufacturing. While Korea nationalized its banks in the 1960s and Argentina allowed them to fall into foreign hands, Spain has a thriving, domestically owned banking sector ranking among the most competitive and profitable in the world. Based on interviews with over 30 bank regulators and executives, I review the evolution of banking in each country and compare the contributions of this industry to the economic devel-

opment of the manufacturing sector. Issues of ideology and happenstance figure prominently as part of the analysis in this chapter.

Finally, chapter 8 assesses development outcomes at the country level and presents the conclusions. I first summarize the major findings of the empirical chapters, showing that the Argentine, South Korean, and Spanish paths to development entail a mixture of strengths and weaknesses, and of successes and failures. The book ends on a positive note as to the effects of globalization. Evidence is presented to demonstrate that it is possible—though not easy—for countries to break through the glass ceiling separating the poor countries from the rich, that globalization encourages diversity in economic action and organizational form, and that democracy is the best form of government to deal with the contingencies of globalization.