

African Sociological Review, 5,(2),2001 pp.00-00.

BOOK REVIEWS

C. Lane and R.Bachmann,(eds.) 1998. Trust Within and Between Organizations. Oxford. Oxford University Press.

R. Whitley. 1999. Divergent Capitalisms: The Social Structuring and Change of Business Systems. Oxford. Oxford University Press.

R.Whitley and P.H.Kristensen, (eds.) 1997. Governance at Work: The Social Regulation of Economic Relations. Oxford. Oxford University Press.

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Given increasing disquiet with neo-liberal rational actor approaches to economics and sociology, and the crisis of classical Marxism, there has been more interest over the past two decades in alternative approaches to socio-economics. Prominent amongst these has been regulation theory, an institutional and evolutionary approach, that explores the transformative role of social action in ensuring stability within the capitalist economy, and in bringing about restructuring in response to crisis (Jessop 2001). Regulationism assesses the stabilizing role of economic and 'extra-economic' social institutions in creating stability and predictability in accumulation (ibid.). To many writers sympathetic to the regulationist project, however, insufficient attention has been accorded to national variations; much contemporary writing has focused on the financialisation-led growth regime characteristic of Britain and the United States (ibid.; c.f. Grahl and Teague 2000). This has led to increasing interest being accorded to an emerging paradigm, business systems theory, a paradigm that draws extensively on the regulationist tradition. Business systems theory has been most associated with the works of Richard Whitley, Professor of Organizational Sociology at the University of Manchester. In response to increasing interest in his (at times somewhat fragmented writings), Whitley has now consolidated his work in *Divergent Capitalisms*, which brings together many ideas associated with the business systems paradigm into a single volume. In the opening chapter, entitled 'Varieties of Capitalism', the author, drawing on earlier works, inter alia by Boyer and Hollingsworth, highlights the diversity in contemporary capitalist work organization both within and across national boundaries. However, he argues that most institutionalist approaches have hitherto focused on how organizational structures relate to dominant cognitive templates, and have accorded only limited attention to comparative systems of organizational co-ordination and control. Whitley goes on to identify the different forms of firm, and trends in flexibility in different national contexts. The chapter lays the foundations for perhaps the strongest and most interesting chapter of the entire book, when the author outlines six different types of national business systems, each characterized by different roles of the state, different financial systems, varying forms of skill development and control, and differing relations of trust and authority. These systems are as follows:

- Compartmentalized (US/British model). Central characteristics include little role for the state, a capital market-based financial system, weak unions, limited emphasis on publicly-funded training, decentralized bargaining and low trust (other than in formal institutions).
- Fragmented (Hong Kong model). Again, little role for the state, a capital market characterized by risk sharing between banks, similarly weak unions and publicly funded training.
- State organized (Post-War South Korean model). Strong state role, highly regulated markets, credit based financial system, limited emphasis on state funded training, weak unions. Strong paternalist authority, but otherwise trust levels low.
- Collaborative (West European corporatist model). Here the state plays a considerable role; much attention is accorded to incorporating intermediary groupings, with regulated markets. Again, a credit based financial system, with a strong emphasis being placed on a public vocational training system. Bargaining is centralized with strong unions. The typical business environment is a collaborative one, with a high degree of trust in formal institutions.
- Co-ordinated industrial districts (e.g. post-war Italy or similar regionally-focused European business systems). In this system, local levels of government play a considerable regulatory role. There is some local bank risk sharing. Whilst bargaining is centralized, unions are relatively strong, and there is a well-developed public vocational training system. Levels of trust in formal institutions and paternalistic authority are variable, but the business environment again tends to be collaborative.
- Highly co-ordinated (e.g. post-war Japan). The state plays a central role in regulating markets and in co-ordinating and developing business activities. Again, there is a credit based financial system. There is a limited emphasis on vocational training, and some unions. Trust in paternalist authority is high, whilst the typical business environment is guided by state interventions. (pp.43-60).

This framework provides archetypal forms of national business system, modified forms of specific ones being dominant in all of the advanced societies today. Of course, a limitation of Whitley's model is a focus on Europe and Asia; there is little on what constitutes a typical African business system.

The following chapter explores the nature of differences between firms operating in different business systems. More specifically, the nature of corporate governance (both in terms of management decision-making, and goals and performance standards) and organizational capacities (degree of innovation, flexibility and employee contributions) will vary greatly between systemic contexts. Managerial autonomy may be constrained by business partners and employees in specific systems, but this may be compensated for by gains (inter alia, higher levels of productivity and trust) in other areas. Firms are likely to prioritize growth when dependence on the state is high and/or risk sharing with the state considerable. Strong public training systems are likely to enhance employee contributions to organizational capabilities owing to both a greater range of competencies, and greater opportunities for upward progression. In the end, the central lesson from this chapter is that neo-liberalism and a minimalist state is likely to exert a heavy price on the capabilities

of firms in key areas. Many of these themes are picked up and further elaborated on in the following chapter, which deals with the social structuring of work systems.

In Chapter 5, the author explores the impact of globalization. Whitley asserts that national business systems are deeply embedded, and are unlikely to radically change as a result of globalization; the latter is 'less significant in scale and consequences than many enthusiasts have claimed' (p. 135). The final chapters of this volume look at the specific characteristics and changes in the composition of business systems in Asia and the newly liberalized economies of Eastern Europe. Whilst of considerable interest to students of these regions, it would have been useful if these sections had been counter-balanced by a discussion of the challenges facing collaborative and compartmentalized business systems.

There is little doubt that this volume constitutes a major contribution to the literature; it provides an innovative way of understanding the play of institutions and the development of national varieties of capitalism. The major criticisms that can be levelled against this path-breaking volume are two-fold. Firstly, the business systems theoretical project remains partially incomplete; more needs to be done in filling in crucial gaps, particularly in understanding the role of capitalism in the developing world. Secondly, for a theoretical project rooted in the political economy tradition, it is remarkably short on questions of emancipatory politics; in what way can particular national varieties of business system be tamed, and made more responsive to the needs of the bulk of society?

Many of the themes contained in *Divergent Capitalisms* are picked up in *Governance at Work*, a volume co-edited by Richard Whitley and Peer Hull Kristensen. In the opening chapter, Kristensen asserts deliberate managerial actions (inter alia, in attempts to adopt flexible forms of work organization in response to global pressures) interact with the institutional conditioning of organizational behaviour, creating and reinforcing distinct national trajectories. Managerial action is not 'the simple imitation and import of foreign templates', but should be viewed in the context of national historical processes (p.41). When managers try and recast work organization, their actions will be inputted into a game between 'strategizing actors', producing both intended and unintended consequences (p. 41).

Chapters 2 to 6 look at distinct national governance systems in Europe. They provide valuable insights into many of the themes raised in the previous volume and further develop them. In assessing the Dutch case, Ad Van Iterson notes that Dutch firms have managed to cope relatively well with competing regulatory principles imposed by prevailing governments, and by large bureaucratic units competing on the world markets. However, in the end, the Dutch consensus is founded on boardroom hegemony aimed at the management of tensions on the shopfloor, but the manner in which the system works deserves much closer examination (p. 60). In the following chapter, Christel Lane examines the differences between the German and British cases. In both cases, societal effects seem to greatly outweigh the dominance effects of alternative paradigms (above all, Japan and the USA) on national practice. However, in Britain, institutional embeddedness is rather weaker, making the British system more susceptible to foreign influences. Elisabeth Campagnac and Graham Winch look at the social regulation of technical expertise in Britain and France. Distinct historical paths have facilitated the development of different social networks (p. 101). They contrast the French notion of corps with the

British one of profession, the former largely the product of state regulation and the latter of the market. Perhaps influenced more by its classical regulation antecedents than business systems theory, Glenn Morgan argues that pressures to privatize welfare reflect political will and bargaining, rather than rational action. However, work systems will be determined by the nature of state welfare; the question emerges as to the extent to which cheaper low-welfare systems will drive out high ones. In chapter 6, a case study of the Finish paper industry, Kari Lilja argues that even in countries that have a strong commitment to a developmental state and corporatism will be subject to some pressures to deregulation. However, this will not necessarily result in convergence, but new forms of national specificity.

The following chapters of this volume look at changing governance structures and the reorganization of governance systems within specific national contexts. Frank Mueller and Ray Loveridge look at the effects of MNC activity and global commodity chains on patterns of national practice. In the end, the predominant trends are contradictory. Institutional constraints (e.g. varying union strength) in different national contexts can threaten, yet be threatened by MNC pressures to co-ordinate activities; in certain sectors these pressures will be greater than others will. The following two chapters are case studies, of the experience of a Japanese multi-national in the UK, and of the transformation of regional governance in Baden-Wuerttemberg in Germany. In the former chapter, Diana Sharpe notes that whilst practices were transplanted, the infrastructure that supported these practices (e.g. a commitment to secure employment) was not; this has led to a series of compromise solutions. In looking at Baden-Wuerttemberg, Gerd Schienstock notes that the implementation of new production forms has been most uneven, reflecting the differing manner in which firms deal with a set of regional institutional constraints. In the concluding chapter, Richard Whitley reiterates one of the central premises of business systems theory, namely that the control of work and workplace relations varies greatly between institutional contexts. Whilst there are pressures towards a single standardized form of work organization, the trend is less towards convergence than the redevelopment of specific forms of national practice. Reflecting its edited nature, this volume lacks the theoretical clarity of the preceding one. However, it provides valuable insights into national institutional trajectories, and represents an important contribution to the burgeoning literature on business systems theory.

Co-edited by one of the contributors to the previous volume, Christel Lane, together with Reinhard Bachmann, *Trust within and Between Organizations*, explores the nature of trust within and between organizations, and in particular national contexts. Although somewhat more eclectic, this volume again centres on the effects of specific institutional contexts on organizational dynamics and vice versa. An introductory section by Christel Lane outlines competing definitions of trust, and the effects of differing levels thereof, at both the macro- and micro-level within organizations. Chapter 1, by Jorg Sydow, underscores the importance of inter-organizational trust. Ironically, whilst the success of the currently fashionable network organization depends on high levels of trust, it also lacks the secure forms which will engender the latter. In the following chapter by Cynthia Hardy, Nelson Phillips and Tom Lawrence, the relationship between trust and power in inter-organizational relations is considered. Again, the nature of trust relations depends on specific institutional dynamics. This theoretically innovative chapter argues that whilst

relations within and between firms depend on both power and trust, a veil of the latter may conceal (or make more palatable) gross power inequalities. It makes a valuable addition to earlier literature on power relations within organization (e.g. Knights and Willmott 1985). Based on a survey of component suppliers in the automotive industry, conducted in the United States, Japan and Europe, Mari Sako explores the relationship between trust and performance, a relationship found to be positive. Sako argues that firms need to move beyond developing safeguards against the abuse of trust, to thinking about ways in which trust may be enhanced. However, he is rather vague as to how this may be achieved, reflecting this chapter's theoretical paucity, drawing on a body of literature that is variously dated and/or lightweight (e.g. Francis Fukuyama). This is to be regretted, as the basic findings underscore the effects of national institutional variations. A rather idiosyncratic chapter follows this, by Julia Liebeskind and Amalya Oliver, looking at the effects of trust relations within a specific area of applied scientific research, and assessing the effects of market pressures. The conclusions are very worthwhile; that the university as an independent sanctuary of independent research is under considerable threat. A pity that this is obscured under a mass of excess verbiage and overly complex diagrams. Rather more rigorous and coherent is the subsequent chapter by Simon Deakin and Frank Wilkinson looking at the effects of variations of contract law within different national business systems. They stress the point that the relationship between legal norms and economic outcomes is a highly complex one; reforms to the former may have unforeseen consequences for the latter. In chapter 6, David Marsden looks at the effect of inter-firm institutions on trust within the employment relationship. Marsden notes that there is a fundamental contradiction in the employment relationship. A flexible relationship is only workable with a high degree of trust. However, co-operation based on trust is fragile given the 'prisoner's dilemma' – the possibility of selfish and opportunistic action by one party may precipitate similar action by the other. In the end, inter-firm conventions and rules may restrain a slide into low trust, and foster an environment in which high trust relations may develop (p. 199).

Chapter 7, by Horst Kern, explores the effects of the decline of background trust in the German case. Kern argues that this reflects the erosion of the plant community. Regrettably, the chapter is far too short, and marshals insufficient evidence to make a convincing case either way. Much more substantial is the following chapter, by John Humphrey, looking at trust and the transformation of supplier relations within Indian industry. Humphrey argues that firms operating in the developing world cannot hope to create the institutional framework that underpins trust networks in the advanced business systems manifest in countries such as Japan and Germany; rather trust relations have to be engendered in ways compatible with specific historical and national trajectories. A similarly weighty chapter by John Child looks at the nature and effects of trust in international strategic alliances, looking specifically at the case of Chinese joint ventures. The latter, Child suggests, are likely to be more successful if firms work through Chinese networks and long-term relationships. Conversely, low trust strategies may yield short-term gains, but are likely to be ultimately self-destructive. In chapter 10, Georg Brenkert looks at trust and morality in international business. Refreshingly, Brenkert explores the moral dimensions of trust; too often the need for trust is justified by the exigencies of long-term (as adverse to short-term) profitability. Yet, both firms and societies face very

real moral choices; what is socially good should not always have to be defended by profitability arguments. The final chapter, by Reinhard Bachmann, attempts to link up the different themes raised in this volume. Regrettably, this chapter is little more than a summary of preceding chapters.

The importance of all three volumes cannot be disputed. The varying consequences of specific national institutional configurations, and the effects of relations of ownership, state interventions, and trust networks is of central importance in understanding the nature of contemporary capitalism. Of the three volumes, *Divergent Capitalisms* is probably the most significant. Both a consolidation and an advance in theorising on business systems, it is likely to become a classic work in the body of sociological literature. *Governance at Work* provides a useful illumination of many of the trends and issues covered in *Divergent Capitalisms*. The somewhat more eclectic *Trust Within and Between Organizations* is marred by the varying quality of the contributions. However, it does represent an important step forward in thinking about the social causes and consequences of trust. The publication of all three volumes both reflects the current vitality of theorising in industrial sociology and highlights the need for further similarly ambitious endeavours.

References

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