GLOBALIZATION AND GOVERNANCE

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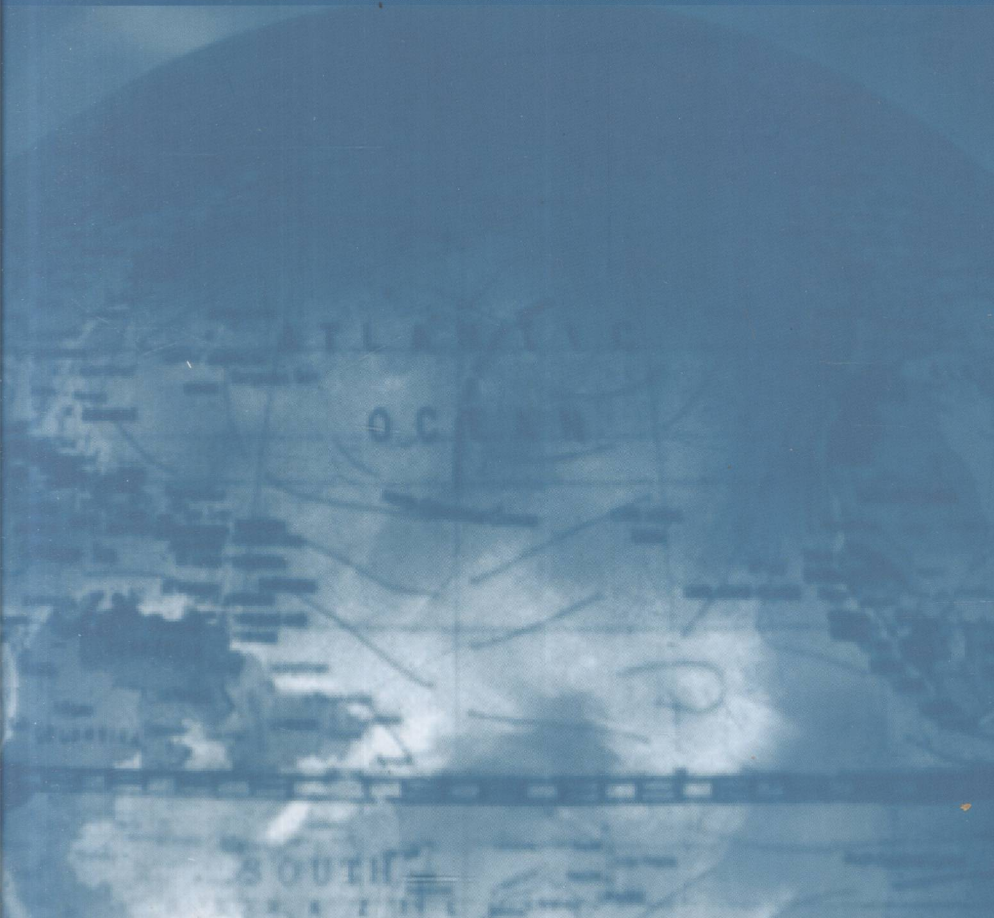

INDUSTRIES AND GLOBALIZATION

The Political Causality of Difference

Edited by Bernard Jullien and Andy Smith

Industries and Globalization

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The Political Causality of Difference

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Industries and Globalization

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1
Introduction: Industries, Globalization and Politics

Bernard Jullien and Andy Smith

Globalization is widely considered to cause many of the major political challenges of our time. Moreover, when defined as a set of processes that embody 'a transformation in the spatial organization of social relations and transactions, generating transcontinental or inter-regional flows and networks of activity, interaction and power' (Held *et al.*, 1999: 16), globalization is frequently said to be causing convergence in the way economies are structured and governed. More precisely, as a set of 'aggregate social consequences' (Bisley, 2007: 30), globalization is claimed to be driving homogenous and unstoppable swathes of neo-liberal transformations of contemporary economies and polities (Harvey, 2003).

Although practitioners, journalists and many academics often find the parsimony of this argument compelling, over the last few years it has come to be challenged for theoretical and empirical reasons. For instance, leading political economists have highlighted the need to abandon conceptualizations of globalization as 'a process without a subject' and study instead 'the insertion of subjects into processes' which, when analysed together, allow one to identify the phenomenon (Hay and Marsh, 2001: 6). Indeed, empirical research conducted from this perspective particularly underlines just how differently the dynamics one might synthesize as 'globalization' affect nations, states and sectors of socio-economic activity (Berger, 2006). Such research findings strongly suggest globalization should be conceptualized more as a vector for the renewal of economic, social and political diversity, than as a force causing generalized convergence (Hay, 2006).

When one restricts the scope of enquiry to change within specific industries, as we do in this book, what relationship do these processes of change have with globalization? Can one simply continue to conduct research on this question using mainstream institutionalist thinking which essentially underlines the impact of 'institutional constraints' or effects of 'path dependence' upon 'varieties of capitalism' (Hall and Soskice, 2001)? Both our research findings on contemporary industries and theoretical reflections lead us to respond negatively to the latter question in order to generate precise answers to the former. As this book seeks to demonstrate, what needs studying are the ways social and political actors work to influence change within and between the different relationships which structure daily practice in industries. More specifically, on the basis of empirical research into the way actors within industries such as automobiles and wine have interpreted globalization and intervened in order to shape its perceived effects, we have developed elsewhere an analytical approach to *The Politics of Industry* which allows one to both conceptualize these relationships (Jullien and Smith, 2008a) and study their dynamics (Jullien and Smith, 2008b). Summarized versions of arguments made in these two articles provide the basis for the central proposition made in this introduction and tested in the more empirical chapters which follow. This argues that the 'political work' carried out by actors within industries is the principal cause of the construction, maintenance, and regulation of, and challenges to, industrial orders, on the one hand, and of the specific translations of 'globalisation' which occur during this process, on the other.

By highlighting the role of political work carried out by different sets of actors, *The Politics of Industry* approach possesses three traits which increase its analytical purchase. First, it shows that grasping the dynamics of industry requires deeply interdisciplinary co-operation between economists and political scientists in order to enrich understandings of 'globalization'. Second, it encourages and structures research that is designed to generate new and in-depth knowledge about the regulation of specific industries, and this regardless of their apparent territorial implantation. Third, such an approach can also provide practitioners with improved capacity to influence interpretations and orientations of globalization within their respective industries.

This introduction unpacks these three points, transforms them into objectives and sets out how this book, and more generally *The Politics of Industry* approach, attempts to attain them. We first show how politics is omnipresent within the regulation of industries (Section 1), before developing an analytical grid designed to reveal how and why 'political work' is the independent variable which causes the changes observed within industries (Section 2). The empirical chapters are then presented, their principal findings highlighted and their validation or invalidation of the book's claims underlined (Section 3). Overall, we seek to convince the reader of the potential of the analytical framework proposed in this book for renewing research on the dynamics of industry and, in particular, for identifying whether, how and why globalization effects these processes.

1. The Politics of Industry approach: Definitions

As N. Fligstein and J. Choo underline in their analysis of 'corporate governance' (2005), the regulations which structure industries and define what economists generally call 'industrial organisation' have not been brought about by, and do not owe their continuing existence to, efficiency. Rather this organization is the consequence of sets of regulations which engender 'stable institutions that are legitimate and prevent extreme rent seeking on the part of governments and capitalists' (2005: 61). In other words, even if the sustainability of the rules which structure daily conduct within firms and industries are inevitably linked to functional issues (i.e. designing, producing and selling goods), their durability is above all a political construction. It follows that the critical condition for the stable regulation of an industry is the capacity of certain actors to impose and maintain a division of authority that rests upon justifications which are generally accepted by the practitioners concerned. Consequently, we define the regulation of industries as a set of stabilized rules which, within any industry, transform production, marketing and competition into durable and 'secure' processes.

Studying this regulation requires the development of an approach capable of simultaneously grasping the structures of an industry and the organization of its production, commercialization and competition (Section 1.1). In defining the regulation of industries in this way, one sees more clearly the concrete issues tackled by actors through their *political work* (Section 1.2). In particular, this work, and the regulation it constantly seeks to shape, will be shown to feature three processes: institutionalization (the construction and consolidation of rules), deinstitutionalization (challenges to rules) and reinstitutionalization (the creation of new rules).

1.1. Industrial organization as regulation

Undertaking research into the regulation of any industry can be broken down into three stages. The organization of an industry's regulation first needs to be studied through the *Institutionalized Relationships* around which it has emerged and evolved (Section 1.1.1). Once this knowledge has been accumulated, one is then in a position to capture the industry's specific configuration of institutionalized rules, practices and expectations: its *Institutional Order* (Section 1.1.2). Finally, analysis in terms of *Institutional Orders* enables one to grasp not only the causal processes within and between an industry's *Institutionalized Relationships*, but also their relation with institutions and regulation that are trans-industry (Section 1.1.3).

1.1.1. Institutionalized Relationships

Over time, actors within any industry have composed institutions and modes of regulation in order to manage four sets of constraints and opportunities. In turn, these have given rise to four *Institutionalized Relationships* (IRs) which concern employment, finance, production and sales.

1. The *Employment IR* is the configuration of rules, actors and expectations through which employer–employee relations are mediated. This IR obviously includes employment (or 'labour') law, but it also encompasses the range of practices for conciliating the interests of management and trade unions which are commonly called 'industrial relations'.
2. The *Finance IR* concerns the institutions which structure how the firms of an industry manage their respective capital investments and operating costs. Banking, accountancy and stock market laws are clearly of paramount importance here. Beyond such legislation, however, each industry tends strongly to have developed its own set of standardized practices and patterns of power.
3. Production of a good or service is structured by numerous factors. However, in any stabilized industry the principal mechanism through which these are collectively and publicly mediated are interfirm relations which we conceptualize as the *Purchase IR*. This is the relationship through which rules and norms are established regarding producers of raw materials and processors (e.g. wine-makers).
4. Finally, an industry's *Commercial IR* concerns the institutions that structure the selling and marketing of a good or service. Typically this IR mediates the objectives and interests of producers (e.g. car manufacturers) or wholesalers (e.g. wine merchants) on the one hand, and retailers (e.g. supermarkets) on the other.

Considered in this way, IRs possess a number of characteristics which Commons attributes to institutions (1934): they structure and liberate individual action by reducing uncertainties via collective action without which industries would be paralysed. IRs are therefore constraints on economic action but also provide the very conditions for such action. This means that each IR provides a framework for productive and commercial activity within an industry which, far from determining precisely what each individual actor will do, allows them to situate and position themselves within a broader set of considerations. More precisely, the IR enables actors to choose whether to conform with existing institutions or distance themselves from them (what we call *subscription* or *extraction*). Either option is chosen because each actor has a certain representation of the effects of their own actions and, in particular, the economic results these are likely to attain.

In our view, characterizing an industry in terms of its four IRs provides a solid starting point from which to generate studies which explicitly integrate the economic and political dimensions of an industry. By conceptualizing as IRs what neoclassical economists reduce to being a market relation regulated by price, this approach identifies why it is necessary to study the social relationships through which an industry is regulated. Consequently, our approach encourages research into an industry's normative, cognitive and symbolic (i.e. political) structure as consubstantial to its more functional dimension. Even if at certain times the regulation of an industry is 'market driven' (i.e. in response to changes in price and/or supply and demand), this occurs within a set of enduring relationships which always possess both political and functional dimensions.

This standpoint can be further explained by situating it in relation to other approaches to the study of industries. Our list of four IRs will be familiar to many economists who distinguish between fixed capital (the Finance IR), variable capital (the Purchase IR) and labour markets (the Employment IR). However, we consider that research cannot presuppose that a firm's access to its resources and its clients will systematically be determined by the market. Instead, our institutionalist perspective leads us to consider that the relationships which structure industries and the firms they contain are not just choices of types of co-ordination dictated by the nature of the goods or services being transacted. Rather these relationships stem from social and political compromises which are likely to vary considerably from one polity or period to another.

An approach similar to ours was developed some years ago by Imai and Itami (1984) when they attempted to characterize and compare Japanese and American industrial configurations. Like us, they examined four domains within industries and underlined in particular the importance of access to intermediary goods (what we call the Purchase IR). They then went on to divide each domain in terms of its market and organizational dimensions, and this from the point of view of both basic principles and modes of decision-making. They were then able to unveil important differences for each category of goods or service within both countries under study. Finally, on the basis of this analysis, Imai and Itami proposed a way of analysing the difference between varying strategies of industrial diversification, financing and innovation in terms of a firm's behaviour and its institutionalized choices (the latter conceptualized essentially as choices over modes of co-ordination). Three of our four IRs are therefore similar to theirs for three reasons:

1. Each IR has to develop its own internal coherence because all the firms concerned need to be able to fit with it in order to produce their respective goods or services.
2. Each IR has an initial need for external coherence because production, and more generally the definition of company strategies, needs to fit with all four IRs through developing 'institutional complementarity'.
3. Each IR also possesses a second need for external coherence in that the choices behind it are also inscribed in social, economic and political contexts. These structure, or at least inform, actor choices by providing them with the repertoire of legitimizing resources and legal tools which they need in order to protect and reproduce themselves.

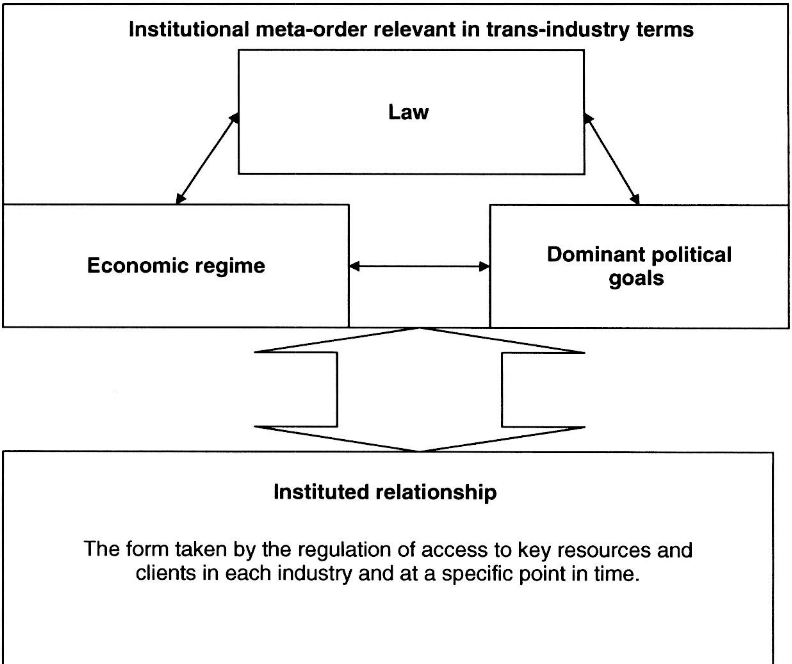
An approach even more akin to our own has been developed by Neil Fligstein (2001), who defines industries, which he calls markets, as 'organizational fields'. More precisely, Fligstein's central question, like ours, is what determines the reproducibility of commerce and the stability of each firm's markets? For Fligstein, firms are constantly confronted with uncertainties linked to the risk that prices will fall and the fact that their internal politics are inherently unstable. In order to surmount this uncertainty, Fligstein suggests that four sets of institutions have emerged which are the product of compromises between the state and the dominant firms within its territory:

1. property rights which regulate both who controls each company and its profits;
2. governance structures made up of sets of rules which organize competition and co-operation within each sector (e.g. anti-trust regulations);

3. the rules of commerce which concern the security of transactions and the definition of product quality;
4. conceptions of control which are collective representations (or conventions) held by the managers of firms which concern how a sector is organized, the constraints they are under and the appropriate strategies for dealing with these constraints. These representations allow and cause such managers to determine which are the dominant firms and which are the dominated. Once adopted, they also shape company cultures through structuring coalitions within each organization.

If we take inspiration and support from these two sources, the meso-economic approach that is absent for Imai and Itami and explicit for Fligstein, is nonetheless much more central in our own analysis of the politics of industries. Within these authors' research agendas, the meso-level is examined essentially in order to show how macro-economic and political characteristics that are constructed elsewhere have been translated within the firm. For example, Fligstein's empirical investigations concern how macro-economic or global conceptions of control end up imposing themselves on each company and industry. He therefore avoids the question of each industry's regulatory autonomy. Consequently, one is less able to understand how macro-economic trends differentiate because of the political work carried out within each IR of each industry. Our own approach has been developed precisely to generate knowledge on this question in general, and is therefore particularly adapted to studying the relationship between industries and globalization. In short, our analysis in terms of IRs is designed to be both more conceptually solid and more empirically operational.

As Figure 1.1 highlights, the internal structure of each IR features structured and durable mechanisms which mediate between actors with differing, or even opposing, interests. Here our approach also positions itself as regards debates concerning the study of 'transactions'. With Commons (1934), but against the New Institutional Economics of Williamson (1985), we consider that the fact that these transactions concern goods and services should not lead research to forget that commerce always essentially concerns relations between people situated in societies which ascribe them rights and duties. Consequently, the internal coherence of IRs reflects the social dimension of transactions



Relationships between 6 'Cs'	Between stakeholders	Between businesses
Conflict–Co-ordination	Identity of holders and users of resources or assets implied in the transaction.	Identity of dominant and incumbent firms and/or producers.
Compromise–Convention	Qualification of solutions used to insure co-ordination between stakeholders.	Factors explaining unequal access to resources or assets.
Cooperation–Coercion	Evaluation of the degree of asymmetry between stakeholders.	Evaluation of the degree of asymmetry between competitors.

Figure 1.1 The structure of each Institutionalized Relationship

which is regulated by the institutionalization of the two sides of each relationship:

1. relations between private, collective or public representatives of rival holders and users of resources within the industry who engage in shaping its reglementation (its stakeholders);
2. relations between firms who compete for market share (its businesses).

In short, competition takes place not only directly between the firms of an industry and through markets for goods or services, but also through quests for access to resources such as intermediary goods, labour or finance. For this reason, we conceptualize first the power relations and the division between the dominant and the dominated – Fligstein's 'conception of control' – at the level of each IR (the right-hand column of Figure 1.1).

From the point of view of research, this definition of an IR obliges and enables research to unpack in three stages, and through three couples of 'Cs', how mediations within industries entail processes of cognition, powering and domination.

The first couple (*conflict–co-ordination*) concerns a fundamental economic question for both stakeholders and businesses: actors within an industry have conflicts of interest but, nevertheless, must co-ordinate in order that production and competition can take place in an environment which is not a Hobbesian 'war' of everyone against everyone else. This means studying the structural dependencies between these actors by identifying the private, collective and public actors who compete to make reglementation over the holding of resources (left-hand column), and the businesses who compete for access to these resources and clients (right-hand column). The objective of analysis here is essentially to generate thick description of the *conflicts* which occur between these protagonists and of the mechanisms of *co-ordination* that have emerged to mediate, and in many cases to 'pacify, them.

In order to delve deeper into the dynamics of an industry, a second stage of research centred upon the couple *compromise–convention* then consists of analysing the relations which structure co-ordination within the industry. Are these based upon occasional *compromises* (e.g. issue-by-issue trade-offs closely related to short-term market conditions), or do they possess more regularity due to the importance of explicit and institutionalized intra-industry *conventions*?

Finally, on the basis of stages 1 and 2, the couple *co-operation–coercion* enables research to interpret the asymmetries of power within the industry. Ultimately, does its regulation depend upon *co-operation* between protagonists of relatively equal politico-economic power? Or, on the contrary, is the industry's regulation the result of *coercion* of the dominated by the dominant?[1]

Before proceeding to show how we conceptualize IRs as part of industry-specific Institutional Orders, it should be added that Figure 1.1 as a whole, and its top part in particular, also seeks to capture how we conceptualize the way trans-industry trends and norms take effect