INSTITUTIONAL CHANGE AND ORGANIZATIONAL DIVERSITY

Seven issues and a Japan-Germany comparison

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SYNOPSIS

1. Do institutions and organizations follow the same logic?
2. Is organizational diversity a specificity of the contemporary world?
3. How do institutions shape the organizations?
4. When institutions change, how do organizations adapt?
5. Can a major institutional change imply an organizational innovation?
6. Conversely, can a series of organizational changes foster an institutional innovation?
7. Why and how do various capitalisms coevolve?
I. DO INSTITUTIONS AND ORGANIZATIONS FOLLOW THE SAME LOGIC?

- **Variety of Capitalism**: YES from a representative firm to macro-economic institutions (Hall & Soskice, 2001)
- **Régulation School**: YES fordism as a homology between an accumulation regime and a typical firm (Coriat, 1980)
- **Business models and brands of capitalism**: YES the same indicators in comparative analyses (Whitley, 1999).
Two common hypotheses: a representative organization for firms and organizational/institutional isomorphism.
Definitions of the links

1 TC/TO  Technological/organisation complementarity
(Ex. Just-in-time, total quality, polyvalence)

2 & IO  Isomorphism between institutions and organisations
(Ex. Just-in-time, industrial district polyvalence, training system)

3 IC  Institutional complementarity
(Ex: industrial district, stable employment, patient financial market)
Two different conceptions of the causality

✓ VOC: from the firm to society wide institutions:
   Technical complementarity at the firm level
   +
   isomorphism organizations / institutions = institutional complementarity.

✓ Régulation Theory: from institutional forms to firms organization:
   Institutional complementarity
   +
   isomorphism institutions / organizations = organizational complementarity.
The need for precise definitions of the various institutional entities

<table>
<thead>
<tr>
<th>NATURE COMPONENT</th>
<th>DEFINITION</th>
<th>PRINCIPLE OF ACTION</th>
<th>FACTORS OF CHANGE</th>
</tr>
</thead>
</table>
| CONSTITUTIONAL ORDER | A set of *general rules* to set lower level conflicts among institutions, organizations, individuals | *Legitimacy* via deliberation | ▪ Large inertia in democratic states  
▪ Role of *political* process in the redesign. |
| INSTITUTION | An *immaterial method for structuring interactions* among organizations | Reduces or removes the *uncertainty* associated to strategic behavior | ▪ *Structural crises*  
▪ Low efficiency is not a *sufficient* reason for change |
| ORGANIZATION | A structure of power and a *series of routines* to overcome coordination failures among agents or their opportunistic behaviors | *Carrot and stick* (i.e. the pay system and control) are related to external institutions or conventions | ▪ Poor outcomes in the *competition* with other organization.  
▪ Major crises trigger redesign |
| ROUTINE | A set of *rules of actions* derived from the conversion from tacit to codified knowledge, that can be shared by several actors belonging to the same entity. | *Standardization* makes simpler complex processes, thus allows shared understanding and reaction. | ▪ Adverse evolution of the environment.  
▪ *Inconsistency* among a series of routine or shift from techné to epistémé. |
| CONVENTION | A *Self enforcing set of shared expectations and behaviors*, emerging from decentralized interactions. | *Lost memory* of the origins of the convention which seems « natural » | ▪ *General crisis, invasion, translation, ...*  
▪ Efficiency is rarely a selection criteria |
| HABITUS | A set of *embodied patterns of behavior*, forged during the socialization process of an individual. | *Adaptation* to a given field, possible disequilibria out of this field | ▪ Shift to a new field of an habitus forged into another  
▪ *New learning*, even if quite difficult |
II. IS ORGANIZATIONAL DIVERSITY A SPECIFICITY OF THE CONTEMPORARY WORLD?

- **NO**, for conceptual reasons institutions and organizations differ.

- **NO**, the history of industrial census shows the coexistence of quite different firms organizations.

- **NO**, within the same industry, in spite of acute competition, different productive organizations still exist various.
The distinction between a growth regime and organizational choices of firms

Source: adapted from Boyer, Freyssenet [2000: 24].
One set of macro-institutions, various firms’ organizations within the same sector (the car industry)

Source: adapted from Boyer, Freyssenet [2000: 24].
The heterogeneity of contemporary economies has significantly increased.

✓ The old Fordist paradigm has been challenged by ICT emerging paradigm.
✓ The dynamism of FDI has built productive systems different from the domestic ones.
✓ De facto, productivity increases have been very heterogeneous even at the sectoral level.
✓ The breaking down of past coordination mechanisms has implied a larger dispersion of remunerations:
  • Japan: the end of the Shunto.
  • Germany: the erosion of sectoral collective agreements after reunification.
III. HOW DO INSTITUTIONS SHAPE THE ORGANIZATIONS?

- A common international shocks, different macroeconomic outcomes
  - The 1973 and 1979 oil shock: speeding up of innovation in Japan, reduction in Europe
  - The 1990s financial crisis: flexible exchange rate in Asia, march to the Euro in Europe.
  - The 2008 world crisis: recession in US, resilient growth in China, stagnation in EU.
  - The 2011 crisis: stable unemployment in Germany, rising in southern Europe.
A *common* national macroeconomic shock, *different firms behaviors*


✓ The 1990s financial crisis: a drift toward finance, des-industrialization in UK and US.

✓ The 2008 world crisis: more credit to State related firms, few to other sectors in China.

✓ The 2011 crisis: subsidies to export firms employment, lower wage in the service sheltered sector in Germany.
IV. WHEN INSTITUTIONS CHANGE, HOW DO ORGANIZATIONS ADAPT?

- A first level *adaptation: a change in the distribution of firms:*
  - **Japan:** after the bursting out of the 1990 bubble, a rationalization in the “lifelong employment” (Boyer, Juillard 1996)
  - **Korea:** after financial liberalization and crisis, explosion of flexible employment contracts
  - **Germany:** after reunification, delocalization of firms.
V. CAN A MAJOR INSTITUTIONAL CHANGE IMPLY AN ORGANIZATIONAL INNOVATION?

- A second level adaptation: innovations, new organizational forms:
  - **Japan**: the invention of an hybrid firm, Japanese employment style, partial shareholder value (Aoki, Jackson, Miyajima, 2007)
  - **Korea**: after the 1997 crisis, a redefinition of chaebol (Kim & alii, 2012).
Germany: the invention of low paid jobs in the sheltered service sector (Frachon, 2015).

The US: air traffic liberalization and the invention of low cost companies.

The US and then the World: urban transports liberalization and Uber.


Germany: after 2010 crisis, new policy of employment subsidies for hours reduction.
VI. CAN A SERIES OF ORGANIZATIONAL CHANGES FOSTER AN INSTITUTIONAL INNOVATION?

- A *two sided causality*:
  - A change in institutional forms imply an alteration in the distribution of firms and possibly the invention of new organizational forms.
  - Conversely the adding up of seemingly marginal transformations of firms may generate a new institutional architecture and régulation mode.
The *Yin and the Yang*: institutional and organizational changes

- **NATIONAL INSTITUTIONS**
  - Government’s decisions about reforms
  - Filtering by the constitutional order
  - Incentives and constraints
  - Conflict between status quo and innovation
  - Social transformations

- **FIRMS’ ORGANIZATIONS**
  - Redefinition of firms’ comparative advantage
  - Change in the distribution of firms / innovative organizational forms
  - Feedback on polity
Numerous examples

✓ US in 1990s: how low costs air travel companies generate a new pattern for price formation.

✓ US in the 2000s: how the strategy of large financial firms triggers the crisis of finance led accumulation (Boyer, 2011).

✓ OECD economies: how the progressive domination of export led firms and multinationals has induced a change from wage led to profit led demands (Boyer, Bowles, 1990).
European economies: how the extension of atypical jobs has changed the labor market properties, hence the growth regimes (Palier & alii, 2014; Baccaro, 2016).

China: how the allocation of credit to State related companies triggers a financial crisis. Hence the need for a new regulation (in the American meaning) (Boyer, 2016).
VII. WHY AND HOW DO VARIOUS CAPITALISM COEVLVE?

- From the *micro* to the *macro* level:
  - Redefinition, layering and reconfiguration: how to evolve from one system to another one? (Streeck, Thelen, 2005; Mahomey, Thelen, 2010).
The adding up of small changes tilts the dynamic property of a socioeconomic regime (Lordon, 1997).

Tentatively importing a system triggers an hybridization process that may fail or succeed and define a new configuration (Boyer, Charron, Jürgen, Tolliday, 1998).
Endometabolism and hybridization shape national trajectories.
The US and Japan: interacting endometabolism and hybridization processes

Henry Ford’s vision (1913)

United States

Endometabolism

Obstacles to its implementation

Actual American Fordism

Rise... and maturation

Financialisation

Crisis of a finance-led growth regime

Endometabolism

Hybridization

Obstacles to the adoption

Hybridization

Obstacles to the adoption

Adaptation process

Invention of Toyotism

Rise and success

Rise and success

Endometabolism

 STRUCTURAL CRISIS OF AMERICAN FORDISM

Hybridization

Exacerbates American crisis

Exacerbates Japanese crisis

STRUCTURAL CRISIS OF TOYOTISM

Slow and uncertain growth

Endometabolism

Hybridization

1900’s

World War I

World War II

Oil shocks

Financial globalization

2000’s
The surprising consequences of hybridization: the proximity of Germany with respect to Japan
Work council, codetermination and collective bargaining: the complementarity of German industrial relations, before reunification

**Codetermination**

- Search for an equilibrium between capital and labour
- Incentive to focus upon firm level issues
- Investment in skills
- Voice and bargaining power
- Changes the allocation of rent

**Work Council**

- Voice more than exit

**Collective Bargaining**

- Removes wage issues from shop-floor
- Industry wage formation

**Outcome**

- More value added
- More employment stability
Financial regime and industrial relations: the complex German evolution since 1989

Increased international competition

Rise of international investors

Shareholder value

Change in managers' compensation

German reunification

Productive and organisational restructuring (early retirement, redistribution of income)

Evolution of industrial relations

Class oriented background

Shift in the significance of codetermination

Firm efficiency oriented consensus

Permanence and changes in codetermination
A possible theme for INCAS collaborative research

Similarities and differences in the long run trajectories of Japanese and German trajectories and firms organizations.

Survey the past literature on the issue of illiberal capitalism.

What is new since the 2000s?

CONCLUSION

C1 – Firms’ organizations and national institutional forms are to be conceptually distinguished: they display contrasted logics and they operate at different levels (micro, meso, macro).

C2 – Economic history (the successive industrial census) and sectoral studies (the car industry) falsify the representative firm hypothesis, since a significant variety of firms’ organizations coexist in the long run.
C3 – The same international change or world crisis, has a different impact upon each national economy. The synergy between Institutions and organizations matters.

C4 – In many configurations, when national institutional forms evolve, the distribution of firms’ organizations change too. Institutions and organizations co-evolve.
C5 – Epochal institutional change may foster organizational and technological innovations. During the last two decades, liberalization, globalization, and financialization have been strong incentives for private innovations.

C6 – Conversely, the accumulation of seemingly minor changes in firms’ organization distribution may reach a tipping point in the macroeconomic regime.
Two generic mechanisms explain the ups and downs, the similarity and the divergence of capitalist economies trajectories: endometabolism and hybridization.
FURTHER READINGS


Thanks for your attention and patience

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