INTERNATIONAL AND COMPARATIVE BUSINESS

FOUNDATIONS OF POLITICAL ECONOMIES

LEO McCANN

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For Ruby and Max

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About the Author

Dr Leo McCann is Senior Lecturer in International and Comparative Management at Manchester Business School. His research and teaching focuses on the impacts of large-scale economic change on work and organization across numerous countries. He has written many articles on the subject of the international transformation of white-collar work in journals such as *Journal of Management Studies, Human Relations*, and *Organization Studies*. He is the co-author of *Managing in the Modern Corporation* (Cambridge University Press, 2009). His research draws on the paradigms of sociology of work, varieties of capitalism, and political economy, exploring how large-scale 'global' transformations are translated through national institutional structures with often profound effects on the everyday lives of organizations, managers, workers and citizens. The present volume is his first textbook, based on over a decade of experience teaching and researching comparative capitalism, globalization, and the restructuring of organizations and work.

Prologue

Tōkaidō Shinkansen, approaching Shin-Ōsaka station, Japan

The carriage is a picture of calm. There is barely any noticeable vibration or rocking as the train slides along its dedicated high-speed tracks. The electric hum of the engines is muted and unobtrusive. Somehow it is even pleasing to the ear, contributing to a sense of forward flow. This is high-speed travel as art form. The intense light and sound of Japanese urban life cannot penetrate the cocoon. Instead the neon and concrete flashing past the windows serve as a colourful backdrop. Many passengers have pulled the sun-shutters down to block it completely. The train is quiet, tidy, clean and spacious. The interior colour scheme of dull whites, silvers and pastels is impeccably neat and tidy. The whole scene is beautifully organized but dull, somehow empty and clinical.

The old-fashioned uniform and extremely polite bowing of the ticket inspector hints at traditional notions of hierarchy, stability and authority. He has probably been employed by Japan Rail all of his working life. The passengers are quiet and orderly. Cellular phone networks work well, meaning there is no need for passengers to speak loudly or repeatedly call back when the signal drops. In fact, when they do talk, they move into the vestibule area, speaking in hushed tones, covering their mouths so as not to create undue noise. There's even a Silence Car, in which not only are calls forbidden, but so is talking to other passengers and the public address system is switched off. Many of the passengers are men in suits – the 'salarymen' rank and file of giant Japanese corporations and public bureaucracies. Several of them are asleep, slumped into reclining chairs; an indication of the uncompromising pace, intensity and length of Japanese office days. If they need a boost they could purchase a drink from the young saleswoman who wears an old-fashioned apron tied with a bow and calls out her items for sale in a sing-song, exaggeratedly girlish manner.

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East Midlands Trains Liverpool–Norwich service, arriving at Manchester Oxford Road, UK

The carriage overflows with humanity. The old, ugly train's diesel engines grumble, vibrate and belch filthy fumes. The service seems to be running around 10 minutes late but there is no announcement or apology. The outside of the train looks odd. It is made of four carriages – the front two feature the new colour-scheme of maroon and gold but the trailing section is coloured green and blue. The muddled colour schemes point to the frequent changes of train companies that have operated this franchise. Neither of the colour schemes match the uniforms of the staff. The catering staff uniform bears the slogan 'Innovation' but there is scant evidence of newness or invention in the products on offer. Besides, the overcrowding is so severe that the trolley cannot advance down the train and it remains rooted at one end. People talk loudly into mobile phones, which regularly cut out as the network coverage fades. There is a lot of noise. There is also a tremendous mix of ethnicities and an apparently broad gender balance; several women are making business calls, tapping on laptops, checking emails. Many passengers appear to be international migrants, such as the dozens of Chinese students travelling between the several university cities on the line.

***

This book is about international comparisons. The public transport systems of different nations are a common point of comparison, often made very negatively in Britain's case.[1] My simple comparison of two train journeys would be a grossly unfair one if I tried to generalize from it. Many other services in Britain are far better than this particular line, including some that run on upgraded, high-speed electric lines. Many services in Japan are notoriously overcrowded, and the speed and comfort of the local services at the bottom of Japan's hierarchy of train transport compare poorly to those of the Shinkansen at its summit. The Shinkansen has been a symbol of Japanese modernity for many years (Hood 2006). Some of the trains have been emblazoned with the slogan 'AMBITIOUS JAPAN!' across the cars (in English). This train system is widely regarded as a phenomenal success, and one that reflects well on the country and the various government bureaucracies and domestic industrial giant firms that planned, built and run it. Japanese railways

[1] A recent study by the UK's independent rail travel watchdog found that, on average, UK rail fares were 50% more expensive than for similar journeys in European nations, 'GB rail fares more than Europe', *BBC News*, 19 February 2009, http://news.bbc.co.uk/1/hi/uk/7897903.stm. Accessed 4 July 2013.

have a reputation as being possibly the best managed, most safely operated and most heavily used systems in the world.

A brief comparison of the Japanese and British railways raises dozens of broader questions. Questions that might probe beneath the shiny surface in Japan and reflect other angles on both the Japanese train system and the socio-economic system that brought it into being. For example, is its operator, JR Tōkai (Central Japan Railway Company), a profitable, well-run company? Would it even matter if JR Tōkai was losing money or is it more important that it provides a 'world-class' public service? Passenger tickets for the Shinkansen are notoriously expensive – is this service available to all citizens or can only the rich afford to use it? Does the speed, reliability and availability of the line mean some sort of efficiency gains for businesses? Or are Japanese executives too heavily focused on the importance of face-to-face contact, meaning that the Shinkansen simply enables them to make lots of rather pointless, long-distance journeys? Are there any ways in which the UK's much-derided train system could emulate Japanese practice? Should the UK government, for example, finally bite the bullet and spend billions of pounds on new high-speed rail links rather than expanding environmentally damaging airports and roads? These are almost impossible questions to answer unequivocally as they depend on subjective judgements, not just about how to make profits, but also political and social judgements about what makes a 'good society'.

The UK rail system is highly fragmented following privatization and there have been major conflicts between the various players in a complex arrangement of train operating companies, banks (who own the rolling stock) and the not-for-profit company that owns and runs the infrastructure. This messy system has been widely criticized, not least for it possibly being responsible for a series of tragic fatal accidents during the period shortly after the change (Law and Mol 2002). The sector has been massively underfunded for decades, leading to a lack of investment in new trains and signalling systems. It suffers from chronic overcrowding in many urban areas, some services struggle with reliability and tickets are also very expensive. The slow decline of the industry reflects the general malaise of British manufacturing; dozens of production and maintenance companies, based in traditional rail manufacturing towns such as Doncaster and Crewe have shrunk to almost nothing. There is now very little train-building industry left in the country, and what remains (the former British Rail Engineering Limited facility at Derby) has been through several overseas takeovers and is currently owned by Bombardier of Canada. Many of the existing trains that were built by British firms are gradually running down towards decommissioning, and all new trains are built by international contractors, such as Alstom of France, Siemens of Germany or even Hitachi of Japan. One might argue that the physical, infrastructural, manufacturing side of rail transport now lies outside of the UK's core expertise, which represents a complete turnaround since the glory days of UK industry when pioneering engineering achievements took place. Today the UK is at cutting edge of finance, rather than mechanical engineering – a world leader in services rather than industry. Although its train-building industry is now a pale shadow of its former self, the UK boasts the world's biggest train museum, the National Railway Museum at York. There is clearly only one winner in a comparison of the UK's and Japan's rail infrastructure. One might also say in the UK's defence that it has moved on into other sectors, being more flexible and responsive to change. This brief vignette has also hinted that the UK is a more open, less controlled, society than Japan with more diverse ethnic and gender representation in its workplaces.

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ONE Introducing the Field

Chapter objectives

- To introduce readers to the field of study known as 'varieties of capitalism' (VoC), showing that even as the world economy is becoming more interconnected and 'globalized', it still tolerates wide differences in national 'models' of capitalism
- To lay out the four main aims of the book
- To introduce the two general characterizations of types of 'models' of capitalism that exist in the world: namely 'liberal market economies' (LMEs) versus 'coordinated market economies' (CMEs)
- To introduce the ideas of globalization and VoC as powerful yet contested concepts

Introduction: a global economy, but made of many 'varieties of capitalism'

We are increasingly told by politicians, think tanks, academic experts, businesspeople and the media that we live in a 'global' economy. People the world over live and work in a globalized economy of dramatic and intense change, in which products and services are increasingly designed, produced, delivered and consumed across almost all territories of the world, and in which financial and physical transactions cross borders at dizzying speed. Multinational corporations, such as McDonald's, Unilever, Toyota, Tata or Siemens, market their products and services to almost all corners of the world, and a global labour market for employee 'talent' has emerged within which companies compete to recruit the 'best and the brightest' graduates regardless of their country of origin. 'World class' corporations claim to be genuinely global companies – although they have a headquarters somewhere in the world they detach themselves from their traditional national moorings as they try to attract global consumers, investors and employees. 'Global' seems to have superseded 'national' as any attempts by governments to develop distinctly national economic plans or industrial policies seem doomed to failure. Traditionally national 'ways of doing business' have 'converged' into an ephemeral 'world best practice' as the seemingly 'universal' norms of global capitalism take over.

This is what we are told. But is it true? This book agrees that the world economy is changing, and is in many ways becoming more internationally interconnected than ever before. But it also demonstrates that many profound differences remain in how business (and capitalism more generally) operates across many regions of the world. This is true even across highly advanced economies, such as Japan, the USA, France, Britain, Germany or the Nordic economies, and the book suggests that national traditions of business are likely to remain very significant. The book introduces readers to a large and influential set of literatures that explains economic action not in terms of detached, 'global' norms but as framed, enabled and constrained by complex, historically produced and contemporaneously reproduced local and national institutions. These institutions form essential 'rules of the game' that allow capitalism to work yet also continue to structure it and reproduce it in quite different forms. There remain powerful forms of national difference in supposedly 'global' business in terms of how companies are financed, who they do business with, how they recruit, train and retain staff, their interaction with unions and other forms of employee representation (such as German-style Works Councils), how they develop and deploy technology and how they restructure when facing financial trouble.

Just because the world is (arguably) getting more integrated and globalized, this does not necessarily mean that economic action and firm behaviour is becoming more similar. Rather than the somewhat simplistic assertion of a 'convergence' in economic behaviour under globalization, a large and powerful literature points to continued 'divergence' and the maintenance of difference (Amable 2003; Coates 2000, 2002; Dore 2000; Hall and Soskice 2001, Morgan et al. 2010; Whitley 1999; Wood and Demirbag 2012). These authors have developed and contributed to the influential 'varieties of capitalism' (VoC) or 'national business systems' (NBS) literatures, which focus on the production and reproduction of the institutions that make up national economies. This literature teaches us that countries develop distinct 'models' of economic behaviour, which clearly change over time but in doing so retain certain fundamental features even under the pressures of globalization and convergence (Coates 2000; Steinmo 2010).

This book aims to explore and describe this globalizing world economy, but it does so by paying close attention to historical and contemporary differences in national 'models' of capitalism. It aims to build on the insights of VoC, noting this body of work as a powerful corrective to the often overblown globalization and convergence theories. It does this by exploring a large literature on a range of countries, discussing the historical development of each country's economic 'model' and the ways in which each 'model' has changed, adapted and perhaps been eroded by domestic and global forces of competition and transformation. Much of the VoC and NBS literature is very abstract, technical and detached. Many readers, while attracted to the logic of the argument that there remains many distinct systems of capitalism, become frustrated by this abstraction and by the absence of detail on how and why these systems have formed. This book aims to make a contribution to these debates by paying closer attention to distinct country-based research in each chapter, by focusing in depth on how each major country 'model' really operates, in terms of finance and corporate governance, government institutions and macroeconomic policy, and at more micro levels – the level of management, work and organization. In doing so, it tries to project a more 'human face' onto discussion of VoC.

The book has four main aims:

- The first is to explore the theoretical background to debates on VoC and NBS, pointing out why these debates are crucial to a thorough and realistic appraisal of the world economy, and why it is important to note the wide diversity in socio-economic models that persist amid 'globalization.'
- The second is to provide detail on the historical development and contemporary reproduction of national models or systems of capitalism. It covers all of the world's major economies, moving from West to East through chapters exploring the USA, the UK, France, Germany, the Nordic economies, Russia, India, China and Japan. The book will focus on country-specific literature in order to build up a clear and detailed picture of the domestic and international forces that have helped shape these distinct models over time.
- The third is to show how these country models have changed in recent decades. Clearly globalization and convergence are real forces at some level. 'Neoliberal' economic theory and concepts of 'global best practice' in management, finance and government policy have spread across all manner of national business systems, and countries, firms and institutions demonstrably do change and adapt, especially when previously secure and economically successful models run into

trouble following recessions or financial crises. Governments initiate reform policies that open up their economies to international trade and inward investment, and companies restructure themselves so that they better conform to (typically Anglo-American) forms of 'best practice' as they try to remain competitive. The chapters will show that (at a very general level) all of the nations have been through three very broad phases in the development of their own version of capitalism. These phases are: (1) an early period of growth in which 'wild' and unregulated forms of liberal capitalism emerge, often involving considerable social turmoil; (2) a period of 'organized' capitalism in which the rougher edges of capitalism are smoothed over by government regulations and the emergence of bureaucratic management structures in firms, which constitute more established 'rules of the game' and typically result in a more egalitarian distribution of wealth; and (3) a period up to today of 'disorganized capitalism' (Lash and Urry 1987), characterized by intensified international economic relations, widespread organizational restructuring, and a return to higher levels of income inequality. These three phases are similar to what Boltanski and Chiapello call the first, second and third 'spirits' of capitalism (Boltanski and Chiapello 2005). Throughout each of these phases, however, each of these countries has retained distinct institutional elements that means that notions of *national* varieties of capitalism still remain sensible and accurate.

- Finally, it tries to insert more of a discussion of morality and ethics into the typically rather technical discussions of models of capitalism. Much of the VoC literature has rather little to say about which models are the most morally defensible or socially attractive. Some write of the various strengths and weaknesses in national innovation systems and the ways in which various national models tend to specialize in different industrial and service sectors (Hall and Soskice 2001) but these analyses are often problematic. Supposedly strong and effective models can act in ways that confound expectations. What appears to be an effective or dominant model in one era can falter in the next. Change can be unpredictable and can often occur in some of the last places you expect to see it. The book will largely stay away from debates about the economic effectiveness of models, but will try to provide some insights into the relative strengths and weaknesses of the models in a moral and ethical sense. Recent years have seen many important economies struggle severely with the impact of financial crashes, unemployment, social dislocation, poverty, joblessness, even hopelessness. In such a context, which of the models seems the most morally defensible? The book will ask which – if any – of these various systems of capitalism approximate most closely to a model of a 'good society' – especially when it comes to their relative levels of income inequality, or workplace democracy, or employee dignity.

VoC literature places a great deal of emphasis on the existence of differing economic and social *institutions* that operate in different nations. These institutions (such as national laws and historical and cultural customs and practices) serve to structure the ways in which businesses, organizations and people operate (Scott 2008a). Institutions set the 'rules of the game' for capitalism, and these rules can differ significantly across difference regions of the world (North 1991). As the prologue has suggested, Japanese institutions seem better at supporting train-building industry and infrastructure than British institutions. In contrast, the UK's institutions might be better at supporting the development and running of museums or other service-based firms. Institutions therefore assist the smooth development of certain economic forms, but also serve to inhibit or restrict the development of others.

This introductory chapter proceeds in five further sections. First, it outlines one of the main ways of distinguishing and categorizing different varieties of capitalism, explaining what is meant by so-called *liberal market economies* or LMEs (such as the UK) and *coordinated market economies* or CMEs (such as Japan). The chapter moves on to explore the debate between the VoC approach and another major (perhaps dominant) area of literature, that of globalization theory. Thereafter a discussion ensues about the disturbing and traumatic economic crises that seem to have become a common feature to all economic systems in recent years. In that section, I will briefly explore the extent to which all 'varieties' of capitalism were caught up in the 2007–8 subprime mortgage crisis, and the extent to which this crisis may have discredited or disrupted the previously dominant ideology of neoliberalism and the LME model. A very brief section then explains the main motivations for writing this book, which aims to help the reader understand the value of this field of study. The chapter closes by highlighting the complex, contested and very unresolved nature of the field of international and comparative business.

Introducing the two main 'models' of capitalism: liberal market economies versus coordinated market economies

VoC authors have made many different attempts to describe, clarify and categorize the competing socio-economic systems that exist across the world. One of the simplest and widest-used frameworks was that developed by Hall and Soskice (2001), in a very widely cited text that seems to have had a labelling effect on the field of study – *Varieties of Capitalism*.[1] In their interpretation countries that operate LMEs are compared to countries operating CMEs.[2]

LMEs are highly open, highly globalized economies with traditions of minimal governmental interference and light regulation, and in which short-term stock market movements are of crucial importance in both explaining firm behaviour and motivating top management. Large firms operating in such a climate tend to be owned by a large and very diverse range of shareholders, which exercise considerable pressure on top management to ensure that the company is acting in the interests of owners by delivering 'shareholder value'. These pressures are often short-term and the management of firms in LMEs often engage in dramatic and radical organizational change (such as downsizing and cost-cutting) in order to maintain high stock prices and dividends. Employment and careers inside LME firms can be insecure, and workers tend to have limited say in the operation of their work and in the running of the company. LME firms often radically reinvent themselves to stay 'ahead of the game' exiting quickly from industry sectors that appear to be non-value-creating, and entering new areas, such as in the so-called 'new economy' era in the 1990s when IT and internet companies (especially in the USA) boomed in value. The word 'liberal' in this context refers to the freedoms the system grants for business; implying limited state involvement in the economy and the absence of heavy regulation. Under these systems firms also tend to be less cooperative with each other than they may be in other economic systems. This feature is particularly clear in the USA that has especially tight anti-trust legislation.[3] LMEs are also known as 'Anglo-Saxon economies' or 'stock market capitalism'. The classic examples are the USA and UK, which are well

[1] There may be others, but the earliest use of the exact phrase 'varieties of capitalism' that I have come across was in Thomas McCraw's textbook *Creating Modern Capitalism* (1997a: 11–12).

[2] There have been many different versions on this theme, often using different language to describe either the same things or the same idea with a slightly different regional or philosophical emphasis. The LME model is regularly labelled 'Anglo-Saxon capitalism', 'stock market capitalism', the 'Anglo-American model' or 'neoliberal capitalism'. The CME model is variously called 'alliance capitalism', the 'social-market economy', 'welfare capitalism' or 'non-liberal capitalism'. Other theorists have proposed more than two versions of capitalism suggesting for example six (Whitley 1999) or five (Amable 2003) distinct models that do not always correspond neatly to the individual boundaries of nation states. For a deeper discussion see Chapter 2.

[3] Anti-trust legislation refers to laws that are designed to encourage more open competition and to break up monopolies and cartels.

known as 'business friendly' environments, especially since the enactment of 'neoliberal' economic reforms begun under US President Ronald Reagan and UK Prime Minister Margaret Thatcher in the 1980s.[4]

In contrast, there are the CMEs. The most widely used examples of CMEs are Germany and Japan. These countries have tended to progress down different economic routes from the LMEs for numerous reasons, not least of which is the almost total rebuilding of their economies after the Second World War. As the 'coordinated' title suggests, these countries exhibit a much-increased role for inter-firm interaction and cooperation, such as the formation of large business groups. 'Coordination' also refers to firms' close interactions with various institutions of government (Hall and Soskice 2001: 8–9). The post-war rebuilding of Germany and Japan, which involved considerable state intervention, direction and ownership of industry, has often led to the CME model being associated with the concept of the 'developmental state' (Johnson 1982; Wade 2003). Ownership of large companies in CMEs tends to be much more concentrated, with more committed owners who are invested for the longer term and are relatively unconcerned with short-term movements in share price. Sometimes these owners are families, sometimes they are large and conservative banks, sometimes they are other companies who are fellow members of business groups which have traditionally collaborated with one another. The absence of a 'shareholder value logic' means the CME firms are typically understood to be able to plan and invest for longer time horizons than their counterparts in LMEs. This tends to mean that careers in CME firms are more stable and long-term (even 'jobs for life') and that employees have stronger forms of representation and involvement in their work and in the strategy of their companies. This can also mean, however that CMEs are conservative and slow-moving environments, in which radical changes and innovations are relatively rare. A good example might be the Japanese economy's slow and indecisive response to its major financial crisis of the 1990s.

There are many facets through which the differences between these kinds of national economy are compared and examined. These include the banking and finance systems of the countries (to what extent nations' economies are open to financial risk-taking), their education and training systems (what kinds of skills are generated and retained by firms and by educational institutions) and the innovation systems of these nations (how firms in these countries develop and apply new ideas and technologies). Many authors have presented

[4] For an excellent introduction to the notion of 'neoliberalism' see Steger and Roy (2010).

these comparisons in tabulated form. An early and fairly straightforward example is provided by Will Hutton (1995: 282). Hutton does not use the terminology of LMEs and CMEs and he outlines four distinct VoCs rather than just two. However, clearly under his explanation the US and British systems are similar in many ways and could be grouped together as LMEs, as could the German and Japanese models as CMEs.

Table 1.1, along with many others like it that feature regularly in the VoC literature, demonstrates that LMEs and CMEs exhibit different sub-features. According to Hutton (1995: 283), these sub-features interlock and become mutually re-enforcing. This concept is known as *complementarity* in the VoC literature. As he explains:

> In Britain, profit-maximising firms that give the building of market share a low priority have to be run autocratically in order to produce the kind of shareholder returns that the financial system demands – and that in turn has consequences for the way the labour market is run: the less committed the financial system, the less the firms are able to offer lifetime employment and the less willing they are to undertake training. (1995: 283).

Hutton's table indicates that under the UK version of capitalism the financial system is 'uncommitted' and 'marketised', which means that short-term, share-driven financial demands on firms dominate, to the extent that UK firms struggle to develop a long-term focus on human or physical capital. Conversely, for Japan, the table indicates that the financial system of that country is 'personal' and 'committed', meaning that large Japanese firms have long-term, trusted relationships with banks, which provide them with long-term finance on relatively soft terms. This enables Japanese firms to invest for the long run in technology, industry and in lifetime employment for skilled staff. To use Japanese parlance, the relationships between banks and firms in the UK are *dorai* (dry – meaning reserved, rational, instrumental and arms-length) whereas in Japan the relationships between banks and firms are *uetto* (wet – meaning personal, sentimental and trusting).

Large firms operating under LME or CME conditions are affected by these national institutions in different ways, developing different forms of competencies and weaknesses accordingly. Other, much more complicated comparisons of economies and their subsystems are made by other authors and some of these will be discussed in Chapter 2. Hall and Soskice argue very convincingly that these different institutional practices 'are not distributed randomly across nations' (2001: 18). Instead, one can see clear clustering effects that delineate liberal from CMEs. They provide several figures that illustrate clear general effects of the different economic models (Hall and Soskice 2001: 19, 42–3). Figure 1.1 plots stock market capitalization (the market value of stock market listed domestic

Table 1.1 A comparative overview of broad models of capitalism

Characteristic	American capitalism	Japanese capitalism	European social market	British capitalism
Basic principle				
Dominant factor of production	capital	labour	partnership	capital
'Public' tradition	medium	high	high	low
Centralisation	Low	medium	medium	high
Reliance on price-mediated markets	high	low	medium	arms-length
Supply relations	arms-length price-driven	close enduring	bureaucracy planned	price-driven
Industrial groups	partial, defence, etc.	very high	high	low
Extent privatised	high	high	medium	high
Financial system				
Market structure	anonymous securitised	personal committed	bureaucracy committed	uncommitted marketised
Banking system	advanced marketised regional	traditional regulated concentrated	traditional regulated regional	advanced marketised centralised
Stock market	v. important	unimportant	unimportant	v. important
Required returns	high	low	medium	high
Labour market				
Job security	low	high	high	low
Labour mobility	high	low	medium	medium
Labour/management	adversarial	cooperative	cooperative	adversarial
Pay differential	large	small	medium	large
Turnover	high	low	medium	medium
Skills	medium	high	high	poor
Union structure	sector-based	firm-based	industry-wide	craft
Strength	low	low	high	low
The firm				
Main goal	profits	market share stable jobs	market share	profits
Role top manager	boss-king autocratic	consensus	fulfilment consensus	boss-king hierarchy
Social overheads	low	low	high	medium, down

(Continued)

Table 1.1 (Continued)

Characteristic	American capitalism	Japanese capitalism	European social market	British capitalism
Welfare system				
Basic principle	liberal	corporatist	corporatist social democracy	mixed
Universal transfers	low	medium	high	medium, down
Means-testing	high	medium	low	medium, up
Degree education tiered by class	high	medium	medium	high
Private welfare	high	medium	low	medium, up
Government policies				
Role of government	limited adversarial	extensive cooperative	encompassing	strong adversarial
Openness to trade	quite open	least open	quite open	open
Industrial policy	little	high	high	non-existent
Top income tax	low	low	high	medium

Source: adapted from Hutton (1995: 282). By permission of Random House, UK.

companies as a percentage of the nation's GDP) against the strictness of the countries' labour laws (to what extent laws protect and support employees, such as statutory redundancy compensation and maternity leave). This graph shows two distinct clusters with CMEs grouped together in the top left-hand corner, demonstrating that they share strict labour laws and that the stock market value of their firms is somewhat moderate relative to the size of their economies (in other words, in a typical CME the stock market is generally less important relative to the rest of the economy). The LMEs, in contrast, are grouped in the bottom right-hand corner of the graph, suggesting low levels of employment protection and high stock market value of firms relative to the GDP of these economies (meaning that the trading of stocks and shares makes up a central part of economy as a whole). This indicates that stock market capitalism (the LME model) is associated with short-term employment practices, reflecting its open, flexible, fast-moving tendencies.

Hall and Soskice (2001) go on to describe the industry sector specializing effects of these societies. They argue that the VoC approach can explain many features of contemporary economic organization. Patent application data, for example, shows that the USA tends to specialize in

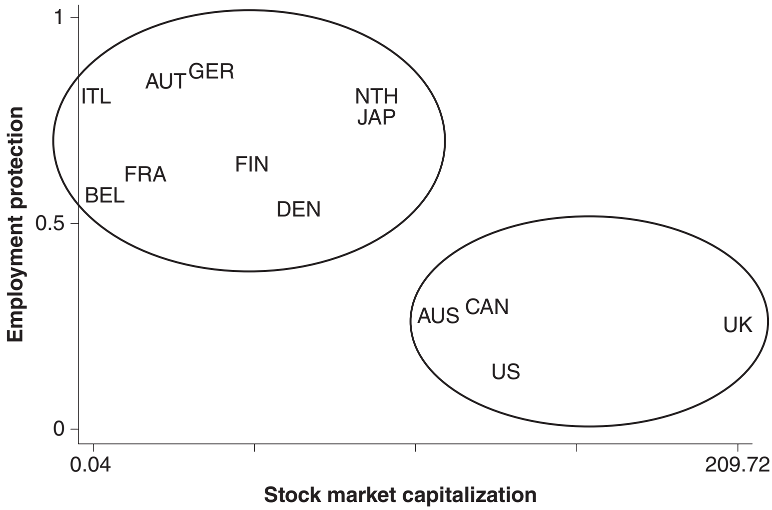

Figure 1.1 Institutions across sub-spheres of the political economy

Note: Employment protection refers to the index of employment protection developed by Estevez-Abe, Iversen, and Soskice in *Varities of Capitalism*. Stock market capitalization is the market value of listed domestic companies as a percentage of GDP.

Source: Hall and Soskice (2001: 19). By permission of Oxford University Press.

highly fluid and flexible industries in which radical innovations and sudden breaks with the past are common, such as the biotechnology and IT sectors, whereas Germany has tended to focus on industries in which longer-term, cumulative, incremental innovations are required, such as machine tools, transport industries and engines. Hall and Soskice therefore powerfully demonstrate the importance of differences in country models. National economies are structured differently and tend to specialize in different industries and services, just like the UK and Japan railways example in the prologue.

Aside from these macro-level comparisons that crop up frequently in the literature, there are numerous other ways in which VoC authors make valid and important points. While many of the features of different nations can be compared in terms of their difference by degrees of quantity, there are is also much to learn about national and region differences on a more qualitative level. For example, the German business historian Sigurt Vitols has written extensively on the nature of various nations' banking systems, showing that the fundaments of German, Japanese and North American financial structures developed along quite different lines from each other since the 1929 Wall Street Crash and 1930s Great Depression (Vitols 2001). Similar comparative historical analyses have been undertaken by the contributors to Streeck and Yamamura's (2001) book *The Origins of Nonliberal Capitalism*.

An appreciation of historical differences in the national institutional rules of the game remains centrally important to a serious and detailed understanding of how the global economy functions. However, VoC authors need to be sensitive to the ways in which all economies are subject to change and destabilization. The historical formation and contemporary reproduction of national versions of capitalism are powerful, but there is also very strong evidence to suggest that global and domestic pressures for change and convergence are very real. The debate between a 'VoC' position, which tends to emphasize the continued diversity of country models, and between a 'globalization' position, which emphasizes dramatic change, disruption and convergence of systems, is the subject of the next section.

One economy or many? Globalization theory versus international and comparative business approaches

Although international comparisons of economies, work and organization have been central to much economic analysis for many years, the specific rise of the VoC literature can probably be traced back to 1991 and the dramatic and, to many, unexpected collapse of the USSR. With the demise of state socialism, many authors rushed in to proclaim the power, inevitability and success of globalization. Globalization was described as a set of processes that were bringing about a new world order, involving much closer economic, social and political linkages between nations. The end of the USSR was both one of the drivers of globalization and one of its end-results. Political theorist Mary Kaldor suggested that with the collapse of the Berlin Wall, 'the last barrier to globalization was removed'.[5]

Globalization arguments are therefore often associated with the concept of *convergence* – the notion that economic and business practices are becoming more similar as the physical, economic, political and cultural distances between regions and countries fade away. It could be reasonably assumed that business practice across the world, once very different and based on unique historical traditions, might be becoming more uniform as the boundaries between nations are disrupted or, to use the language of bestselling globalization author Thomas Friedman (2006), as the world is 'flattened' by economic and technological change.

However, many regard such a view as simplistic, politically motivated and superficial. The VoC (Hall and Soskice 2001) and NBS (Whitley 1999)

[5] 'The New Ideas that Freed Europe', *The Independent*, 22 October 1999.

literatures emerged as a powerful counterweight to mainstream globalization arguments, such as those of Friedman and many others. An early statement of the anti-convergence position was laid down by the French author Michel Albert in his widely cited book *Capitalism Against Capitalism* (1993). This was one of the first works to claim that the demise of the USSR entailed the emergence of a new era in which competition would not be between capitalism and communism, but between many versions of capitalism. The VoC approach has since the late 1990s become a major growth area in academic analysis. It has tended to argue strongly that convergence towards a singular form of 'global best practice' is exaggerated or mythological. Although processes of globalization themselves may be largely real, different nations still demonstrate quite different forms of economic and business practice, and we can expect these differences to remain powerful for the foreseeable future.

VoC authors base a lot of their arguments on the ideas advanced by authors in the field of *institutional theory* or *institutional economics*. These authors (one of the most famous being Douglass North [1981, 1991]) have long argued that the now mainstream, neoliberal view of economic behaviour – based on abstract, universal and to a large degree mathematic 'laws' of supply and demand – is inaccurate because it fails to note that economic behaviour takes place within a larger set of *social* features. These social features are often labelled *institutions*, defined as 'the rules by which the economic game is played and the beliefs that generate these rules and people's adherence to them' (Mokyr 2009: 7). These rules and beliefs include customs, laws and ideologies, some of which are official and explicit, whereas others are informal and implicit. In other words all kinds of economic behaviour taken by individuals, firms and governments are not free-floating and universal phenomena but are *embedded* into the institutions of particular societies.[6] This idea is part of the bedrock of VoC analysis – social institutions have powerful structuring effects on national economies, and these are not being dissolved by the supposedly homogenizing effects of globalization.

A closely related idea to this is the concept of *path-dependence*. This notion has also been widely adopted in the VoC literature. This idea, which has been written on extensively by the economist W. Brian Arthur, suggests that history has a very powerful influence on current events. Choices taken in the past affect the choices available to people now and in the future. Certain features of national economies have become established, long-term systems that are unlikely to change. They have become 'locked-in' to the system, and actors have to live with these features, whether advantageous or otherwise. An excellent example of lock-in is the QWERTY keyboard layout. As Arthur (1989)

[6] On the concept of 'embeddedness' see Granovetter (1985).

explains, the earliest typewriters were liable to jam if their operators typed too fast. Therefore, the inventor of the first typewriter in 1874 Christopher Scholes came up with a partial solution to this problem with what became known as the QWERTY layout. Although this arrangement is logically confusing, the system became standardized with the success of the typewriter. A 'lock-in' effect took hold, whereby even though the keyboard layout is illogical and difficult to learn, it is now pretty much commercially impossible to produce computer keyboards and laptops with different, more straightforward, layouts (David 1986). If typewriters or computers were invented at a later point in history, with the supporting technology that would have allowed them to perform quickly without malfunction, then the world would have had a better system on which to build for the future. But unfortunately, as the path-dependence idea suggests, the world is awkward and stubbornly refuses to work this way.

Path-dependent action has entailed the development of all kinds of sub-optimal, strange and seemingly illogical organizational forms, but given the path-dependent context, this is fully understandable and logical (see, for example, David Stark's [1995] work on the development of confusing and compromised forms of capitalism in the former communist societies after the collapse of the USSR). Ideas such as path-dependence, lock-in and institutional configurations over time demonstrate that economic action and decision making are not as logical, 'rational' and as 'self-interested' as mainstream thought would like to suggest, but are instead deeply and intimately connected with social and 'non-economic' structures and actions, such as political compromises between actors with limited options and bound by unequal power relations. Moreover, it also suggests that the world economic system actually tolerates a wide array of different practices that exist because of historical accident rather than by rational design, and that they are likely to stay.

Globalization theorists and mainstream business media usually project a much simpler but largely superficial (and politicized) viewpoint of markets and action. Publications such as *The Economist, Financial Times, Fortune*, *Business Week* or *Forbes* usually present the straightforward view that the world is built in the image of Anglo-Saxon economies. They seem to suggest that if something differs from the LME model it must somehow be wrong, anomalous, backward and likely to be changed soon to reflect more 'normal' (read 'Western') practice. Mainstream academic textbooks on international business/international management tend to share this tone (such as the multi-million selling Hill [2008]). For example *The Economist* produced a special report on the Japanese economy in November 2007.[7] While it contained plenty of

[7] 'Japan's hybrid model of capitalism', *The Economist*, 29 November 2007.

detail and some interesting ideas, its approach – like many other neoliberal publications – was condescending towards Japan. Western literature on Japan (and other powerful non-Western nations such as Korea and China) often contains a subtext that their economic successes have somehow been improperly earned. US literature can also sometimes be highly critical of co-ordinated models, such as the various modes of European social-market capitalism. For example work by Bailey, Farrell and colleagues (as cited in Baumol et al. 2007: 214) advocates a string of neoliberal reforms (such as 'reduce barriers to hiring and firing of employees') that would 'wake up' Europe. Arguments like these are somewhat patronizing and highly questionable, especially as they were made on the eve of the subprime-mortgages relative financial crash of 2007–8 which has its roots in the USA.[8]

The VoC approach thus builds a much more detailed and diverse picture of the world economy than the globalized image created by mainstream neoliberalism; a picture that suggests that there are viable alternatives to Anglo-Saxon neoliberal economic models and that differences in economic and organizational structures are not 'wrong', inefficient, anomalous or backward, but can be just as efficient and rational as the more business-friendly structures of LMEs.

Yet the VoC literature has many weaknesses of its own. I will turn to these in more detail in Chapter 2, but for now it is worth paying attention to a very important issue at the outset. A major problem with the VoC literature is that it tends to focus almost exclusively on the richest Organisation for Economic Co-operation and Development (OECD) nations, essentially just six to eight or so countries in a world of more than 200 nations. This clearly is a problem, and it is one I return to in Chapter 2. Another possible weakness is the political agnosticism of many VoC authors. They spend a lot of time comparing and defining the differences in institutional forms in the abstract, but the more concrete social and political issues inherent in these discussions often fall away. What exactly is the point of all this comparison? We can establish that things are different in Japan from in USA, but why does this matter? I have heard frequent complaints around these issues among students and academics reading VoC literature.

In response to the first complaint this book will attempt to cover a wide range of countries, including some that have mostly remained outside of attempts to categorize and compare varieties of capitalism – most notably Russia, India and China. The book tries to do this by consulting

[8] Diana Farrell was writing while at the US consultancy McKinsey, so perhaps had an interest in popularizing neoliberal reforms. Elsewhere she expresses frustration at the slowness at which multinationals have embraced offshoring's possibilities for 'value creation' (Farrell et al. 2006).

a wide range of in-depth country-specific literature in addition to the more general comparative work that tends to take place at a higher level of abstraction. In doing so – and this relates to the second complaint mentioned above – this book will discuss some of the political and social features of different versions of capitalism, discussing not just economic and managerial outcomes, but ethical, political and human ones. Recently more attention has started to be paid in the macro-level literature to issues of environmental degradation, the quality of working life and general human well-being. Some economists have started to suggest that economic growth should not be the sole indicator of national success, but that other 'non-economic' factors should be considered such as the 'happiness' of its citizens (Layard et al 2006). These factors could be used to judge the comparative performance of different versions of capitalism. The new economics foundation (a liberal British think tank, published a report on 24 January 2009 in which the UK sat a very disappointing 15th out of 22 countries as regards indicators of social well-being (new economics foundation 2009: 22). This is a very poor outcome given that the UK is the fifth largest economy in the world. Other countries with smaller economies appear to perform much better on the social well-being index, such as Denmark (in first place) and Spain (in third). A thoroughgoing international comparison of these issues was provided in a provocative book by the UK epidemiologists Wilkinson and Pickett (2009), *The Spirit Level*. Their argument is that differences in financial and social inequality have serious effects; the more unequal the society, the worse it performs. VoC literature clearly has something potentially important to say to these debates on inequality and the socio-economic performance of various economic models.

Indeed there already exists a very wide and detailed literature on precisely these issues – those that the VoC literature often ignores. There are, for example, some fascinating sociological studies of various regions of the world being confronted by socio-economic upheavals. For example, Kathryn Marie Dudley's (1994) book *The End of the Line* is a classic study of the de-industrializing US city of Kenosha, Wisconsin. It articulates the subjective arguments, experiences and aspirations of different types of people as they confront the probable shutdown of the Chrysler plant in the city. Obviously car workers and the United Auto Workers union are deeply threatened by these developments and they do all they can to save the plant, including attempting to sue Chrysler top management. But others, such as property developers and town planners, had quite different views about the city and the region's future, and are secretly pleased that the well-paid autoworkers will soon be in search of new employment, and that their trade union which had 'artificially' defended them for so long has been defeated. While the factory was in turmoil, someone somewhere was making plans for Kenosha. Such stories of disruption that unhinge and confuse traditional structures are central to capitalism given its incessant drive for change and adaptation.

A key issue here is the level of analysis that the observer wants to take. It is common to talk of three levels of analysis, macro (the global 'big picture'), meso (the level of national institutions) and micro (the behaviour of firms). VoC tends operate at the meso-level. My view is that the meso-level needs to be closer connected to the micro, where the clearer impacts of these system effects can be noted; their effects in terms of firm behaviour and regional development, and their costs and benefits to people who live and work in those firms and regions. My main motivation for writing this book was to provide an accessible introductory text for this field of study, but also to look critically at its weaknesses. The central VoC argument – that the world economy tolerates a very wide array of business systems – is extremely powerful. However, I suggest that VoC could benefit from closer connection to political concerns, and to other traditions of writing that have more human, personal detail on what these socio-economic systems might mean for employees and citizens. This is especially true when one considers the problems that can occur when systems and models break down and change, as we shall explore further in the next section.

Are all forms of capitalism 'in crisis'? What is the 'best' model?

In September 2008 the shocking collapse of the US investment bank Lehman Brothers triggered intense panic in world financial markets. By the end of the year it had become clear that the subprime financial crisis that first emerged in the summer of 2007 was an extremely serious problem. This is important for this book for at least two reasons. First, it revealed how closely interlocked the different economies of the world are. Although this crash is rooted in the easy credit and lax regulation of the US model, the problem rapidly spread to other economies. In fact, it was not simply about 'spreading'; many of the other models were already implicated in this system, notably France, Germany and even Japan – countries that were supposed to be much more risk-averse, and bank-led rather than the high-risk, capital-market led USA. Second, countries nevertheless experienced this crisis differently, and their reactions to the crisis often differed. This issue of policy reactions to the crisis was most clearly demonstrated when President Sarkozy of France and Chancellor Merkel of Germany spoke of the need to develop a 'more moral capitalism' on the eve of a G20 meeting in

January 2009, suggesting the continued influence of a 'social-market' capitalism.[9] Britain's Prime Minister Gordon Brown warned against excessive re-regulation – a typically Anglo-Saxon reaction.

The crisis stimulated a major growth in introspection and discussion of the nature of capitalism, and especially of neoliberalism, which had become so dominant since the 1980s.[10] The world of comment is awash with discussion about what capitalism is, how it works, how it fails (especially in its neoliberal variant), how fair it is, to what degree it should be regulated and how it might be changed. Although subprime is simply the latest in a string of financial crises (Japanese crisis 1990, Nordic crisis 1991, Asian crisis 1997, Russian crisis 1998, US dotcom crisis 2000–1), it is by far the most disastrous of recent years, probably the worst since the Wall Street Crash of 1929. Some have predicted an economic recession as deep and as long as the Great Depression of the 1930s and as Barack Obama was inaugurated as the new President of the USA in January 2009, many discussed the need for him to announce a New Deal as significant as Franklin D. Roosevelt's original version in the 1930s.

Capitalism has always been prone to crisis periods. However, it is becoming concerning how regular these events are becoming. Frank Partnoy (2003), in one of several insider exposés of the sharp realities of financial trading, describes in close detail how the pressures for rapid financial growth result in the development of all kinds of weird and wonderful new financial instruments, just like the mortgage-backed securities and collateralized debt obligations that were behind subprime. These products are near-impossible to understand, value accurately or regulate effectively. This point was made by the legendary US investor Warren Buffet, in his 2003 letter to Berkshire Hathaway shareholders, when he described such high-risk derivatives as 'weapons of financial mass destruction'.[11] But there will always be the temptation, even the compulsion, for financial traders to invent new products such as these in the future. The producers of new financial instruments are unavoidably one step ahead of the regulators, like computer hackers or software pirates. Insider exposés such as Partnoy's, while probably sensationalized,

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[9] 'Sarkozy and Merkel Tell US that Europe Will Lead Way Towards "Moral" Capitalism', *Guardian*, 8 January 2009.

[10] Such was the level of turbulence the UK's *Financial Times* ran a series of articles from March 2008 onwards entitled 'The Future of Capitalism'. Martin Wolf, who just two years prior had proclaimed in the pages of the *Financial Times* that globalization had 'won the day', was a regular contributor to the 'future of capitalism' series. 'Seed of its Own Destruction', *Financial Times*, 8 March 2008; 'Forces for Globalization Win the Day', *Financial Times*, 12 September 2006.

[11] 'Buffett Warns on Investment "Time Bomb"', BBC News, 4 March 2003.

paint a terrifying picture of a lack of overall control of the financial markets. The Marxist author Jack Barnes, vilified as laughably behind the times by most observers, predicted the crash very well in 2005, describing a 'giant debt bubble built up by finance capital over nearly two decades' (2005: 134). He went on to ask:

> How sound are the institutions that stood behind all the forms of fictitious capital …? The pricking of the housing bubble will have substantial consequences for the entire capitalist financial system. Banks and other lenders slice up mortgages they've issued, package them according to risk, and then sell them to big, government-backed financial institutions such as … Fannie Mae and Freddie Mac. (2005: 135, 138–9)

With these criticisms in mind, it seems difficult to accept the mainstream, textbook, explanation of how economics functions, with its emphasis on equilibrium and rational self-interest. Part of the reason the growing subprime turmoil was ignored until it was too late was that a broader narrative was constructed by the investment community around the idea that stock markets, hedge funds, private equity and investment banks were not high-risk activities in need of some kind of regulation, but as 'providing liquidity' in the markets. A broader sense of contentment about financial market-driven capitalism was installed, and few eyes were looking in the places where signs of trouble might be found. Complacency in the supposedly 'self-correcting' nature of markets and with neoliberal ideas that government intervention and regulation must be 'minimal' and 'restrained' surely played some role in allowing the crash to occur. This provides another good reason to be sceptical of the view that all economies should follow the Anglo-Saxon 'best practice' of LMEs.

As the crisis deepened, other scandals started to reveal themselves, including the largest financial loss in French history at Société Générale (€ 4.9 billion) and the Bernard Madoff 'pyramid' scandal in the USA (a US$65 billion fraud). 2008 was the worst year for the UK's FTSE 100 index of leading shares since 1984, and the worst in New York's Dow Jones since 1931.[12] Estimates of total subprime losses amount to the horrendous figure of US$379 billion.[13]

It would be overplaying it to suggest that the neoliberal model is dead following subprime, but it is probably fair to say that confidence it has been shaken dramatically, and that the mainstream view appears less convincing than it has at since the early 1980s. Alan Greenspan, the long-serving former chairman of the US Federal Reserve (the central

[12] 'FTSE 100 Index Has its Worst Year', *BBC News*, 31 December 2008.

[13] 'Subprime Losses Top $379 Billion on Balance-Sheet', Bloomberg, 19 May 2008.

bank of the USA, and to some degree therefore, the world) was considered an economic policy genius by thousands of observers. Neoliberal economic policy was strongly advocated by the US economic establishment, and vigorously promoted by think tanks such as the American Enterprise Institute, the Heritage Foundation and the Cato Institute. It was widely regarded as the right policy choice – right up until the subprime crisis hit.

It is hard to 'future-proof' ones' theories and arguments given how quickly things can change (Dicken 2007: 547). Many VoC analysts have suffered from this problem, with Japan being probably the best example; it was hugely praised as a superior form of capitalism in the 1970s and 1980s then damned in the 1990s. Just as there are markets for products, markets for services and markets for corporate control, there are also markets for ideas – all have boom and bust cycles. It is very hard to disentangle the various elements of the theories in order to explain success, failure and changes of firm strategy and business environments. Literature on the world economy (whether in the VoC school or elsewhere) incorporates many different approaches involving a wide array of academic disciplines and political persuasions. Analysts write for different audiences, who have read, debated, accepted and rejected different ideas about the nature of things. As I explain below, this book attempts to plot some sort of a logical course through this complexity, to describe and explain to the reader the various versions of capitalist organization that exist throughout the major economies, and to suggest areas where we can possibly understand them better.

The need to study the foundations of political economies: the rationale behind this book

I have taught courses on international capitalism for over 10 years at the University of Manchester, and I have always been struck by the absence of a suitable textbook for any of these courses. This puzzled me as the paradigms of VoC were becoming very influential during this time. This book tries to address two areas of shortage: first, the general lack of textbooks available that give due attention to the differing institutional systems and socio-economic traditions of countries and their major firms and, second, the need for a counterweight to the highly optimistic, ethnocentric and prescriptive material usually provided in international management/international business textbooks.

The book attempts to achieve its first aim by supplying in-depth coverage of a number of different countries, mostly by introducing established academic studies of these regions and the make-up and behaviour of firms based in and across these territories. Wherever possible, I will try to critically engage with several diverse literatures, encouraging the reader to reflect on the usefulness of these academic texts for their comparative understanding of different national business systems.

As for the second aim, the book will set out a more critical angle by showing that, contrary to the viewpoints of mainstream business and management textbooks, there is actually no 'one best way' for states and firms to behave in terms of regulation, finance, employment and strategy. Rather, the world economy features a wide range of different systems and philosophies. The book will argue that the powerful philosophy of neoliberalism – in the ascendant since the 1980s – has led to significant wealth creation, but at substantial costs as regards social inequality, the removal of employment security and the intensification of working life, not to mention sustained poverty in the majority of the world's regions. Furthermore, corporate restructuring, intended to make firms more flexible, 'lean', profitable and accountable to shareholders, has involved job cuts and pay freezes for thousands of staff (alongside skyrocketing salaries and bonuses for top management), while typically delivering modest financial results (Lazonick 2005; McCann et al. 2004). This critical angle will be employed in relation to discussions around giant firms' finance, innovation and labour systems, with the main emphasis on management, organization, work and employment, in order to provide readers with an idea of the realities of working life in the giant firms of different countries.

Conclusion: plotting a path through complexity

In taking this critical approach, the book will try to also provide adequate coverage of the enormous complexity of contemporary international capitalism. In much of the analysis of VoC, the emphasis is laid on national institutions and national influences. Moreover mainstream textbook understandings of these 'national' models are often based on misleading stereotypes (McCormick 2007). Thinking of firms as Japanese or German or American can be a trap (Smith 2005). Dan Coffey, an expert on the international car industry, notes the unhelpful 'tacit assumptions … about "national" – British, Japanese and German manufacturing attributes' (2006: 10). The reality, certainly when concerning sophisticated, high-value goods such as automobiles, is considerably more complex, involving firm-level, local, regional and trans-regional relationships and competencies. Although the Toyota Camry might be a 'Japanese' car, if one is purchased in the USA most of its assembly would have been performed in the USA, using American labour. So a Camry owner is in some sense 'buying American'. The supply chains that feed into car production are enormously internationalized. Many parts of the vehicle, some of its electronics, for example, are likely to be sourced from China. Its design team would have been drawn from many countries (mostly Japan, but increasingly highly skilled design work is being performed in remote, lower-cost regions [see Manning et al. 2008]). Moreover, company ownership is often tangled and confusing. Mazda, for example, is clearly a 'Japanese' brand, but for many years over 33% of Mazda's stock was owned by Ford meaning that the profits (or loss) from the sale of each Mazda contributed in some way to the balance sheet of a US multinational.[14] To complicate matters yet further the same car model is often given a different name in different countries and certain types of car are available in some countries but not in others (Maxton and Wormald 2004: 15–16).

In other industries such as consumer electronics there is even more complexity, due to the existence of complex webs of OEM ('original equipment manufacture') outsourcing which are largely invisible to the end-user. For example, a Samsung flat-screen LCD television purchased in Europe would almost certainly have been built in Slovakia, not Korea. In fact, the television might have had had little to do with Samsung at all, besides having a Samsung badge attached to the front, and Samsung branding placed into the labelling, packaging and instruction manual. The television could be identical in almost every respect to one produced under a different brand via OEM. This is even more likely for smaller, less design-sensitive parts of the product that were bundled with the TV package such as the remote control or the cabling.

This complexity is one of the key problems this book confronts. The closer one gets to the operations of firms and to the products and services that they offer, the more blurred the boundaries between systems and country models appear to be. The VoC literature in its various guises is often at great pains to classify and compare different 'national models'. The most instantly recognizable one is Hall and Soskice's (2001) binary division between LMEs and CMEs. But this works only at the most general level of abstraction. While there are certain truths in this basic two-way division (for example the USA pretty much 'works' as an LME and Japan 'works' as a CME), it fails to account for the complexities of multinational firms, or for the great variety of firm operation within Japan or the USA. Several analysts have got beyond the most simplistic categorizations by examining firm-level governance and competencies (Whitley 2007). But here confusion

[14] In light of its very serious financial difficulties in recent years, Ford sold 20% of this stake in 2008. At the time of writing it owns 13.4% of the company and no longer has overall management control.