

# INCAS

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Toward a Conceptual Framework for Understanding Institutional Change in Japanese  
Capitalism:

Structural Transformations and Organizational Diversity

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INCAS

Understanding institutional change in Asia: a comparative perspective with Europe

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## ABOUT THE INCAS PROJECT

INCAS is a Marie Skłodowska-Curie Actions R.I.S.E funded project under the European Commission's H2020 Programme.

The project INCAS aims at creating a top-level research and advanced training network on institutional change in Asia, in comparative perspective with Europe.

The coordinator, Ecole des Hautes Etudes en Sciences Sociales (France), promotes this network together with Oxford University (UK), Freie Universität Berlin (Germany), and in collaboration with Waseda University (Japan). The aim of the proposed mobility scheme is to give birth to a European consortium and network of faculties and advanced graduate students specialized in the comparative analysis of institutional change in Asia and Europe. The partners have chosen Japan as a reference point because of its comparability with Europe as shown by previous studies, its historical influence on development and further institutional changes in Asia, and the expertise accumulated within our research team.

Analyzing current economic dynamics in Japan and later expanding this analysis to other Asian countries promises to generate insights that might be help to better understand challenges for Europe and to prepare relevant policy proposals. Our purpose is to compare the results obtained in the case of Japan and few other Asian countries (South Korea, Taiwan, China, and possibly Thailand, after having checked the data availability), not only to previous results on Europe but also to original results we will get on European countries (primarily France – which will be our reference country in Europe – and then the UK, Germany, and Italy) in mobilizing new historical data and applying our theoretical framework.

## 1. Introduction

The literature on comparative capitalism sees institutions largely as a set of incentives and constraints on rational behavior of business enterprises. Institutions constrain economic action, but also create new opportunities for economic action. For example, any market order needs the support of basic property rights and the rule of law (Khanna & Palepu, 2006), which both constrain certain uses of property and thereby enable other ones. Institutions may also solve certain collective action problems through different modes of governance over transactions – such as markets, hierarchies, networks, associations, state regulation and so on (Hollingsworth & Boyer, 1997). Consequently, many scholars have argued that different countries may have comparative advantages for different kinds of economic activity based on the diversity of their institutional frameworks (Amable, 2003, Hall & Soskice, 2001, Whitley, 1999).

In understanding institutions as both constraining and enabling particular business strategies, a large literature has sought to classify capitalism into various national typologies—most famously between liberal and coordinated market economies, but also using more elaborate classifications based on the Nordic, Germanic, Anglo-Saxon, Mediterranean, or Asian models. The framework has also been applied extensively to emerging and transitional countries in Asia, as well as Japan as a leading exemplar of the coordinated market economy (Mizobata, 2012). However, these typologies tend to neglect the dynamics of institutional change (for an overview, see Deeg & Jackson, 2007). By stressing their assumed economic advantages and strong internal coherence, these institutional typologies have faced criticism on several counts: too much stress on the coherence of institutional arrangements, confusing of ideal-types and real world cases, a static view of institutional systems being in equilibrium, etc (among many early critiques, see Allen, 2004, Blyth, 2003, Deeg & Jackson, 2007, Howell, 2003).

It is not the purpose of this paper to rehash these arguments. Rather, underlying these criticisms lurks an implicit, but central analytical point: namely, the comparative capitalism literature has adopted a rather deterministic view of how institutions influence economic actors and their strategies. Institutional scholars have given an ‘oversocialized’ account that one-sidedly stressed the isomorphic character of institutions.

Over the last decade, comparative capitalism scholars have sought to address these critiques through a more systematic analysis of institutional change (Campbell, 2004, Crouch, 2005, Hancké, Rhodes, & Thatcher, 2007, Streeck & Thelen, 2005). In particular, these works stress the ‘gap’ between institutions and action that make possible reinterpretation and change of institutional rules. However, the diversity of business organizations within national economies remains seriously neglected (Brewster, Wood, & Brookes, 2006, Lane & Wood, 2009).

This paper reviews several macro-level concepts describing institutional change in advanced capitalism: financialization, dualization and transnationalization. The review shows that these perspectives may complement one another, but also suffer from a common limitation—namely, the failure to conceptualize and explain the relationship between institutional change and the diversity of organizational forms. Each of these key concepts describes the fact that institutions may have different kinds of effects for different kinds of firms. But this diversity of organizational structures, strategies and practices remains several understudied. This gap in the literature also limits our understanding of how firms are important drivers of institutional change. The paper concludes with a central message: namely that the study organizational diversity and its implications for strategic responses to institutional pressure is an important agenda for the comparative capitalism literature.

This paper is developed in conjunction with the INCAS project “Understanding institutional change in Asia: A comparative perspective with Europe” (INCAS). In reviewing the relevant literatures, the further focus of this paper is to review the empirical literature related to East Asia, especially Japan.

## 2. Macro-level concepts and their limitations

Comparative capitalism scholars generally agree that the direction of institutional change during the last two decades is toward more liberalized forms of governance through markets. The claim that liberalization is something of a mega-trend does not preclude arguments that freer markets may indeed need more rules, either through the state or private forms of governance (Vogel, 1996). Nor does this general trend assume convergence of national economies onto a single institutional model. For example, Thelen (2014) has persuasively argued that liberalization itself comes in different ‘varieties’ based on the diversity of institutional legacies and distinct political dynamics of different countries.

De-regulation and establishment of new market-enabling rules is a long-term political project. In theoretical terms, liberalization is therefore seen as an incremental process. Incremental change may take the form of institutional layering or conversion of existing institutions to new purposes, among others (Streeck & Thelen, 2005). Liberalization also increases the salience of private forms of self-governance (Vogel, 2006). Much attention has been placed on questions of “how much” liberalization is taking place, what institutional domains of the economy are most affected, and the implications thereof for both social inequality and institutional competitive advantage. For example, as part of an EU funded project, Jackson and Deeg (2012) (with collaborators) mapped the trajectories of institutional change across a number of major European economies over the last three decades. More recently, scholars have stressed the surprising persistence of neo-liberalism as a guiding policy framework despite the massive economic upheavals following the Great Recession, brought on by both financial crisis and a wave of debt-driven public austerity (Amable, 2011, Beramendi, Häusermann, Kitschelt, & Kriesi, 2014, Crouch, 2011, Schmidt & Thatcher, 2013).

While the literature on liberalization has done much to “bring politics back in” to comparative capitalism research, the impact of liberalization on the institutional structure of the economy remains less systematically studied. The remainder of this section focuses on three strands of literature that seek to conceptualize institutional change as a macro-level process of structural change: dualization, financialization, and transnationalization. Each literature assumes liberalization as a political context, but focuses attention of how liberalization influences selected types of economic activity such as labor markets, social welfare, financial markets or global value chains.

## 2.1 Dualization

Conceptually, **dualization** refers to “the division between insiders and outsiders to be essentially related to the unemployment vulnerability of different actors in the labour market” (Rueda, 2014). Whereas insiders have highly protected jobs, outsiders are unemployed or hold more precarious jobs with fewer rights, lower salaries, and fewer social benefits. This concept evolved from earlier conceptualizations of dual labor markets. In particular, countries such as Japan were described as having dualistic labor market structures with more stable employment and social benefits at large manufacturing firms compared to the less favorable conditions at smaller supplier firms. This concept was extended to describe the broader structural transition from manufacturing to services, where labor market dualism was manifest in the lower wages and generally precarious position of service workers (Standing, 2011).

The dualization literature posits a bifurcation of conditions for firms and employees along the lines of global competitiveness in different industrial sectors and/or kinds of firms. While high-end manufacturing firms may maintain high wages and focus on quality markets, other firms will get pushed toward a lower wage and cost-sensitive production strategy. In particular, many firms have gravitated toward very flexible forms of production characterized by lower investment in skills, more extensive use of sub-contracting and outsourcing, and atypical forms of employment. This pattern also characterized firms in the service sector, where services are largely provided for the domestic market and face some barriers to increasing productivity. In sum, firms have become more vulnerable to price competition in international markets and face downward pressure of wages and working conditions.

Contemporary literature on dualization theorize duality along three interrelated dimensions: the labour market, social rights and political integration (Emmenegger, Häusermann, Palier, & Seeleib-Kaiser, 2012). Changes in labor markets, discussed above, are only one element. Here labor market conditions are reinforced in relation to social rights. Dualization is associated with increasing risks of becoming employed in atypical work or becoming unemployed (Schwander & Häusermann, 2013). Other studies also show that the negative effects of dualization in certain countries are strongly influenced by institutional characteristics, particularly high levels of employment protection (Fervers & Schwander, 2015). In Japan, labor market dualization goes hand in hand with non-standard forms of work (Keizer, 2008). Thus, recent studies have linked dualized labor markets to political dynamics around institutional reforms. In terms of institutional change, while many countries are undergoing liberalization, different trajectories can be characterized in terms of being more “dualizing liberalization” or more “solidaristic liberalization” (Thelen, 2014). As firms changed strategies toward core labor unions, in many countries these changes spilled over to labor market forms promoting expansion of non-standard work and finally into the area of welfare state reform (Palier & Thelen, 2010). This dualizing pattern seems very salient in Japan, where political coalitions with core workers have led to great expansion of non-standard work with lower social protection (Lee, 2016, Song, 2012).

Dualization is thus an economic, social and political concept, but remains closely tied to firm-level organization dynamics as a main driver of change. The segmentation of the workforce should be understood with regard to the heterogeneity in characteristics and strategies by different kinds of firms. In Germany, some firms demonstrate a growing reliance on internal flexibility for the skilled core workforce, but other firms also show increasing use of

non-standard types of employment in less specifically skilled occupations, in particular in the private service sector (Eichhorst, 2015). In some cases, the dynamics go hand in hand. For example, during the latest economic crisis, Korean firms used high flexibility in reducing non-standard employees, using these as a buffer to protect their core workforce (Cheon, 2014). This pattern is evident in numerous comparative studies of the telecommunications industry (Batt, Colvin, & Keefe, 2002, Doellgast, 2010, Sako & Jackson, 2006). Sako and Jackson (2006) find that as NTT responded to new competitive pressures by transferring employees to lower-wage subsidiary firms, sometimes also diversifying into new lines of business. While these measures protected employment stability for core workers, pay became more heterogeneous across different business units.

In sum, dualization has been an important for studying the contemporary developments in the Japanese labor market and welfare state. Nonetheless, too little is understood about organizational dynamics, particularly what factors help explain variation in firm strategies.

## 2.2 Financialization

A large literature has discussed the institutional transformation of advanced capitalist economies as a process of **financialization**. The term financialization describes a set of discrete structural changes in the economy, not unlike ‘globalization’. In simple terms, this process involves a growing dominance of financial sector of the economy relative to manufacturing industry or service sectors. Lapavitsas (2011) suggests that financialization describes a process whereby large corporations rely less on banks, banks have shifted their activities toward open financial markets, and households have become increasingly dependent on finance. However, this transformation has led to some distinct strands of literature of financialization—as a regime of capitalist accumulation, as an organizational ideology of shareholder value, or as a transformation of the everyday (van der Zwan, 2014).

A first stream of literature has understood financialization as a specific regime of accumulation, which allows for the institutional reproduction and change of capitalism (Williams, 2000). In her seminar article, Krippner (2005) charts the growing volume of speculative financial transactions and credit relative to tangible assets and wages in the U.S. economy. Financialization is widely considered to have emerged historically in the US and UK, as more liberal types of capitalism. Indeed, most empirical studies have focused on the United States (Brennan, 2014, Orhangazi, 2008, Tomaskovic-Devey & Lin, 2011). Some initial comparative studies have started to explore how financialization is shaping European economies, such as Germany (Darcillon, 2015, Duenhaupt, 2012, Lapavitsas & Powell, 2013). The decline in manufacturing competitiveness relative to Germany and Japan (and later to the new Asian Tiger economies and China) was both triggered and accelerated by the rise of finance. Many other economies were slower to financialize, rather pursuing export-led growth and pursuing different aims in the international policy arena (Kalinowski, 2013).

Nonetheless, it is evident that economies worldwide are experiencing financialization—the question between to what extent and whether there are any variations therein. Financialization has diffused through a delayed or partial emulation of financial deregulation across many countries. In particular, financial intermediaries such as banks have developed strong structural links to financialized forms in investment, such as securitized financial instruments. For example, the financial crisis revealed a highly globalized patterns of investment into mortgage backed securities in the U.S. (Fligstein & Habinek, 2014). Similarly, the structure interdependence of the financing of US debt and trade with China points to important transnational dynamics of financialization (French, Leyshon, & Thrift, 2009). Thus, extending the research agenda on financialization to the Asian context is certainly a worthwhile agenda.

Few studies have tried to assess the degree of financialization in Asian forms of capitalism. Indeed, no comprehensive comparative assessment has been made about the degree of financialization or its impact in East Asia relative to other countries. In one recent article, Morgan (2016) offers an initial summary and assessment in this regard, drawing quote cautious conclusions:

“Is financialization penetrating into these East Asian forms of capitalism? Overall, the answer seems to be that this is not the case. Financial institutions are not the dominant players, and in Japan and Korea in particular have been relatively weak over the recent years. In the Chinese case, the government has massive financial resources which it directs internally and externally for its own interests. Perhaps the most interesting aspect of financialization in the Asian case is the expansion of credit and debt to the population as a whole. It would be interesting to understand this further and more specifically how financialization is related to changes in regulation, changes in wages and salaries, changes in state and corporate welfare and changes in expectations.”

A second stream of literature has focused on changes in business firms linked to the ideology of shareholder-value (Lazonick & O’Sullivan, 2000). The corporate pursuit of shareholder value has been widely associated with a change

on managerial logics. Here scholars have examined the impact of financialization by focusing on the level of individual business firms.

Several works have examined the diffusion of shareholder value ideologies to Germany. Indeed, many new practices such as stock options proved to be highly controversial (Fiss & Zajac, 2004, Jürgens, 2000). One stream of literature suggests that shareholder value has been adapted and localized to the more stakeholder-oriented institutions of corporate governance in Germany, thus limiting the true influence of diffusion for bringing about institutional change (Boersch, 2004, Vitols, 2004). These arguments echo the literature on hybridization, which suggest that multiple institutional logics may coexist. However, other research emphasize the aspect of change, showing the shareholder value may be a radical departure from past corporate strategies, even where these fall short of U.S. practices (Casey, Fiedler, & Erakovic, 2012, Chizema, 2010, Faust, 2012, Höpner, 2003).

More broadly, shareholder-value has been associated with particular forms of corporate restructuring and forms of internationalization into Asia. For example, large pharmaceutical firms have pursued vertical disintegration in order to shed risks related to high R&D investments, and increase their returns to capital (Gleadle, Parris, Shipman, & Simonetti, 2014). Milberg (2008) argues that financialization encourages corporate restructuring by allowing firms disintegrate production vertically and internationally in order to maintain cost mark-ups even in a context of slower economic growth. However, the offshoring of production to China has failed to produce dynamic gains, since financialization pressures have reduced re-investment of profits into fixed capital and long-term development of capabilities. Froud, Johal, Leaver, and Williams (2014) have linked the structure of global value chains in Asia to the logic of shareholder value: even large suppliers like Foxconn International Holdings are unable to pass on rising labor costs to branded firms like Apple, who aggressively pursue very high earnings.

In the case of Japan, the topic of shareholder value was studied most extensively during the period of the late 1990s and early 2000s. Most studies found that shareholder value principles diffused more slowly and had generally a lesser impact than in many European economies (Carr, 2005, Jackson, 2005). For example, stock options were increasingly used in Japan, but had distinctive characteristics relative to UK firms, suggesting something of hybridization (Kubo, 2005). Foreign institutional investors such as CALPeRs became increasingly engaged with Japanese firms, and engaged in soft forms of activism (Jacoby, 2007). Foreign investors have indeed been associated with many changes in business practices, such as growing numbers of outside directors and adoption of stock options, as well as corporate downsizing (Aoki, Jackson, & Miyajima, 2007). More recent studies have confirmed that shareholder activism play an important role in monitoring Japanese firms, largely supplanting the role played previously by Japanese main banks (Aoki, 2014, Yeh, 2014).

Despite the growing influence of financial investors, particularly from abroad, shareholder activism remains focused on a relatively narrow segment of the largest Japanese firms, leaving a very broad segment of firms relatively free from foreign shareholder influence (Judge, Gaur, & Muller-Kahle, 2010). Moreover, the influence of foreign institutional investors has also encountered substantial resistance. In particular, Japanese firms have used poison pills and other techniques to largely avoid the threat of hostile takeovers—a key governance mechanism associated with shareholder value (Buchanan, Chai, & Deakin, 2012, Milhaupt, 2005, Whittaker & Hayakawa, 2007). Yorozu, McCann, Hassard, and Morris (2013) examine the transformation of Shinsei Bank following the restructuring led by US investors and show the strong opposition to changes in the employment system among mid-level managers. Most studies agree that employment practices in Japan remain long-term oriented relative to those in other countries (Morris, Hassard, & McCann, 2008).

In other Asian countries, scholars have also sought to explore the firm-level impacts of financialization and related concept of shareholder value. Financialized firms in Korea have been shown to reduce investments in R&D over time (Seo, Kim, & Kim, 2012). Moreover, indicators are financialization are associated with an increasing elasticity of labor demand, and thus linked with growing inequality in Korea (Hwan-Joo, Lee, & 김한성, 2013). At the same time, changes brought about by financialization also face resistance from organizational stakeholders, particularly where shifts toward shareholder value principles follow logics that conflict with prevailing institutions. Thus, the diffusion of new managerial ideologies has led to complex changes in the institutional landscape, as particular sets of ideas are mobilized by corporate stakeholders to justify, criticize and adapt organizational practices in incremental and often contested ways (Kim, Amaeshi, Harris, & Suh, 2013).

Changes in firm strategies may also have more macro-level impact on institutional change. For example, Hein and Van Treeck (2010) track how shareholder-value strategies pursued by firms translate into changing macroeconomic dynamics. The concept of shareholder value has important ideological effects, shaping policy discourse and efforts

at corporate law reform in significant ways (on the UK case, see Collison, Cross, Ferguson, Power, & Stevenson, 2014). In Asia, financialized concepts of corporate governance have also influenced policy debates around the idea of “economic democratization” in South Korea (Doucette, 2015).

Dore (2008) pointed out the potential for negative consequences of financialization, which are quite far reaching. First, it is associated with a growth of top incomes for financial professionals and increasing inequality (see also Alvarez, 2015, Darcillon, 2015, Flaherty, 2015, Lin & Tomaskovic-Devey, 2013). Second, insecurity may increase through the privatization of risks, most notably pensions (Berry, 2016). Third, labor markets may be adversely affected by brain drain, since the extremely high rewards in finance may draw talent away from the public sector or science and engineering occupations. Financially, the disintermediation of financial transactions may weaken more relational forms of coordination in finance by creating depersonalized market-driven options (see also Widmer, 2011).

In sum, the financialization literature has explored a variety of material and symbolic transformations of advanced capitalist economies. However, more recent research is needed to examine how (partial) financialization is linked to other concepts like hybridization or dualization. Morgan (2016) argues that “What’s at stake in this scholarship, therefore, is not just doing justice to these ‘varieties of financialization’, but also explicating the possibilities for agency by local actors, when financial imperatives are gradually becoming more important in the political economy.”

### 2.3 Transnationalization: Global Value Chains and Multi-Level Governance

The comparative capitalism has stressed the importance of national boundaries. These studies assume a strong regulatory authority of the nation state and rules set out in law. Enforcement is conducted by administrative agencies of the state. Private actors may prompt regulatory enforcement in cases of restitution, where they may sue each other in court with the force of law behind them. Legal rules of the game are created by governments, and in most European societies endowed with some legitimacy based on the democratic process. These rules are broadly aimed at the public interest—however that may be constructed in political terms within a particular time and place. Increasingly, this model has developed well known limitations in the context of global markets.

A large social science literature laments the declining regulative capacities of nation states, which are horizontally influenced by cross-border economic transactions flows of people, and attempts at regulatory harmonization—not least of which through the European Union (Le Galès, 2014). Where economic transactions take place across multiple jurisdictions and faces a growing complexity across the supply chain, for example, national law faces limits to creating binding norms for labor or environmental standards. Globalization thus poses a new and dual challenge for regulators: existing national legal standards face pressures for erosion through the growing opportunities for ‘exit’ from existing jurisdictions, whereas the establishment of new global regulations face challenges of coordination in a global political domain absent a sovereign state.

Looking at the structure of business firms, a key literature has examined **global value chains (GVC)**. These studies tend to take a product or sectoral focus, and trace the global interdependencies in the production process. Today, when production and services are increasingly coordinated across both countries and firms, global value chain theory suggests that different value chain configurations will evidence different patterns of governance. The theoretical framework of GVC analysis suggests three important determinants of governance structures for GVCs: (1) the complexity of transactions, (2) the ability to codify transactions, and (3) the capabilities in the supply-base (Gereffi, Humphrey, & Sturgeon, 2005). These factors predict five different types of global value chain governance, which range from high to low levels of explicit coordination and power asymmetry. In particular, lead firms within global supply chains play a critical strategic role here. However, the GVC framework has also been extended to include the analysis of institutional factors—including both institutions of the home country where multinational firms are headquartered, as well as institutions in the host countries of their subsidiaries or suppliers.

On the basis of their institutionally embedded strategies, multinational enterprises organize and interact with supplier firms that are often spread across different countries and shaped by a diversity of local institutions. In particular, the specific form of integration of geographically dispersed locations into the global value chain has important implications for distributional questions and inequality (Kaplinsky, 2000). Thus, GVC theory attempts to take into account the institutional diversity between the home and host countries of firms, as well as the strategic elements of their interaction—including the ways in which firms strategically locate production in relation to these institutional factors, such as when firms move production to countries with weak labor rights or seek to avoid such contexts due to reputational risks related to labor problems.

The GVC framework is globally focused by nature, but has also been applied specifically to understand economic activities in East Asia. Here the internationalization of firms has not led to convergence, but reinforced cross-national divergence depending on countries' positions in the value chain and market niches (Sturgeon, 2007). For example, Japanese firms utilize relatively little direct control over foreign subsidiaries, but rely extensively on expatriate staffing relative to U.S. or German firms (Pudelko & Tenzer, 2013). Within these relatively decentralized structures, corporate R&D remains very tightly held in the Japanese headquarters (Edgington & Hayter, 2013). Perhaps not surprisingly, Japanese firms have internationalized to a different extent depending on a number of factors. For example, members of horizontal keiretsu groups have tended to internationalize to countries with fewer legal protections and lesser transparency (Landi, 2011). Internationalization has also been favourable for Japanese firms by increasing demand for exports on those markets (Lipsey & Ramstetter, 2003).

GVCs are both a cause and consequence of existing forms of firm organization, thus being deeply intertwined in the pressures for Japanese firms to restructure their operations. For example, watchmaker Seiko had substantial difficulty in reorganizing internationally to lower production costs, while missing the opportunity to upgrade into luxury market segments (Donze, 2015). In their study of mobile phone production, Lee, Kim, and Lim (2016) find that Korea and Taiwan specialize on different parts of the global value chain with relative success. Meanwhile, Japanese industry experienced substantial hollowing out of core manufacturing as focus of firms on sometimes very narrow product market segments with high value-added. Despite some success, employment in core manufacturing firms has continued to decline and may thus increase tensions between corporate 'insiders' that benefit from GVCs and those for whom these changes in production threaten jobs. Nonetheless, studies of offshoring by Japanese firms show that offshoring may have complementary effects on employment for certain groups of employees—namely, services offshoring tends to benefit highly skilled occupations more, while materials offshoring tends to benefit production workers instead (Agnese, 2012). This finding suggests the need to carefully differentiate the effects of GVCs according to different types of organizations and occupations.

The changes of firm organization associated with GVCs also have innovative potential that may spur institutional change. For example, social interactions across borders along the supply chain has led to adaptation and hybridization of management practices between Japanese firms and Chinese suppliers, as well as incorporating Western management practices (Jia, Gao, Lamming, & Wilding, 2016). Yahagi and Kar (2009) show the largely successful internationalization of Seven-Eleven into the U.S. and China, largely based on very creative forms of localization. Moreover, expatriate managers from Japan are exposed to new business models, which has triggered firms to re-think existing practices in Japan, such as those related to CSR (Fukukawa & Teramoto, 2009). Similarly, inward foreign direct investment has created new sorts of employment opportunities in Japan, most remarkably opening more flexible career pathways for women into managerial positions (Bozkurt, 2012).

Other scholars have dedicated attention to understanding the development of **multi-level governance** institutions. Here national institutions are embedded within newly emerging transnational governance regimes (Djelic & Quack, 2003, Djelic & Sahlin-Andersson, 2006, Mayntz, 2010). Across many different fields of policy and standard-setting, supra-national governance play a growing role within the global economy. Transnational governance institutions have been partially driving, partially coordinating and partially normalizing GVC-based production networks (Gibbon, Bair, & Ponte, 2008). Thus, the institutions reflect political contestation over GVCs, which have their own political dynamics (Levy, 2008). Equally, financialization has also been a driver of transnational governance through the diffusion of accounting standards and corporate governance practices aimed to cope with cross-border interdependence of financial flows (Helleiner & Pagliari, 2011, Young, 2012). Both GVCs and financialization have also led to greater efforts to create transnational forms labor standards and worker representation, albeit with only limited success (Jackson, Kuruvilla, & Frege, 2013).

As a theoretical concept, multi-level governance seeks to capture both a vertical dimension of increased interdependence between governance mechanisms at different levels (for example, national level and the EU level in Europe), as well as a horizontal dimension via the growing interdependence between government and nongovernmental actors. Multi-level theories are important to studying international phenomenon by mapping the two-directional nature of interactions across levels—both top-down processes and bottom-up dynamics, as well as the horizontal relationships among different actor groups across these levels (Callaghan, 2010, Keune & Marginson, 2013, Scharpf, 2000).

For business firms, transnational governance is closely associated with the rise of corporate social responsibility (CSR) as a new institutional field of corporate activity (Jackson, Kuruvilla, & Frege, 2013). CSR generally refers to policies and practices adopted voluntarily by individual corporations with the aim of addressing social or environmental responsibilities vis-à-vis its stakeholders. Many definitions stress that CSR is constituted by activities that go beyond the

legal duties of corporations to those stakeholders. Alternatively, however, CSR can be more accurately conceptualized as a distinct mode of private governance, embedded in diverse institutional environments and often layered upon them (Brammer, Jackson, & Matten, 2012). In contrast to state regulation, private governance denotes the ability of private actors to devise and implement behavioral norms that regulate their activities. CSR may encompass both unilateral corporate policies and multilateral agreements between firms and stakeholders in relation to different social and environmental issues, particularly for MNCs (Toffel, Short, & Ouellet, 2015, Wijen, 2014).

Seen as a form of *private self-regulation*, CSR constitutes a very different mode of regulation that typically relates to different types of norms, has different sources of legitimacy, and utilizes different modes of enforcement (see Table 1 in Jackson, 2014). First, in setting standards for behaviour, CSR must refer to certain norms, which define the scope of responsibility for what and to whom. Unlike more rule-based norms found in law that define specific rights and duties, the development of CSR has tended to stress the application of broad principles, often expressed in terms of codes or formalized sets of “best practices.” These principles emphasize the positive sum aspects of responsibilities toward stakeholders, such as when promoting gender diversity in the workplace leads to higher productivity or adopting green products leads to greater consumer loyalty. A good example is the UN Global Compact, which is based on ten principles. For example, Principle 7 states that “businesses should support a precautionary approach to environmental challenges” and does not thereby designate a specific rule for behaviour. Notably, the principles of private regulation often seemingly shift away from public interest toward just those areas in which one can define a positive sum relationship between private and social goals. More credence is given to private goals or point toward acts of discovery about where the private and the public overlap. Second, norms are legitimated through their voluntary adoption by the corporations themselves, rather than being imposed by external agencies. These norms are the basis for competitive evaluations of corporate reputation. Third, unlike enforcement by state agencies, CSR is enforced based on its potential consequences for the reputation of the company among market participants and its other stakeholders. The actors here are essentially private ones, and their actions may reward or sanction company policies related to CSR. For example, adopting extensive CSR policies will have a positive effect on corporate reputation and the failure to do so may lead the corporation to suffer a negative reputation. Reputation may translate into higher transaction costs with stakeholders, or lead stakeholders to end their relationship with the company (e.g. declining customer loyalty, employee turnover, etc).

**Table 1: Contrasting Modes of Regulation**

	<b>State regulation based in law</b>	<b>Voluntary or private self-regulation</b>
Type of Norms	Rules aimed at public interest concerns	Principles aimed at positive sum dimensions of private and social goods
Legitimacy	Imposition through a democratic process, Rule of Law	Voluntary Adoption, Competitive Reputation
Enforcement	Enforced by administrative agencies of the state or private actors with support of legal coercion	Enforced by private actors with support of market mechanisms

Source: Based on Jackson 2014.

Turning to the case of Japan, foreign investors have been shown to be an important driver of CSR adoption by Japanese corporations (Suzuki, Tanimoto, & Kokko, 2010). Despite being driven by internationalization, the normative elements of CSR are largely consistent with the employee-focused and long-term nature of Japanese management (Hosoda & Suzuki, 2015). Despite this general congruence between international and local norms, CSR has not developed evenly across all issue areas and reflects some institutionally specific features. In particular, even among the most global Japanese corporations, Eweje and Sakaki (2015) found that some aspects of CSR remain very limited, such as volunteering, diversity in the workplace and work-life balance. Looking at the role of investors, Bird, Momente, and Reggiani (2012) find a substantial gap between the high stock market valuation of CSR activities in Europe compared to both the U.S. and Japan. Overall, it is perhaps not surprising that Japan lags behind many OECD countries in

adopting CSR in relation to social issues (Jackson & Bartosch, 2016). Indeed, after controlling for firm characteristics, Japanese firms also lag behind Korean firms in the extent of their CSR activities. In this regard, the development of CSR in Japan remains distinct from other Asian economies, such as the more state-led institutionalization in Korea (Kang & Moon, 2012).

A flip side to responsible behaviour also concerns corporate scandals related to irresponsible behaviour, and possible reactions by investors, stakeholders and other civil society actors. Tanimura and Okamoto (2013) find that corporate scandals in Japan lead to stock market penalties that are similar or higher to those suffered by U.S. firms. Indeed, Japanese firms seem keenly attuned to avoiding corporate scandals and experience lower rates of controversies than in most other OECD countries (Jackson & Bartosch, 2016).

### 3. Intermediate Reflections: The Organizational Implications of Heterogeneity within Capitalism(s)

Liberalization and associated changes discussed in Section 2 have strong implications for organizations. In particular, these structural changes have in common the fact that they are driving a growing heterogeneity of organizational forms. Deinstitutionalization of older forms of organization does not always mean the transition to a single new model, but may lead to more ambiguous and diverse patterns. Here I highlight two of these: converging divergence and hybridization.

One of the earliest conceptual interventions in debates on globalization and institutional change was the idea of **converging divergence**. Based on a comparative study of employment relations in the telecommunications industry, Katz and Darbishire (2000) find an increasing divergence of employment relations *within* countries. Given the disruption of vertically integrated organization and monopolistic state-owned industry structure, it is perhaps unsurprising in hindsight that these changes were associated with growing heterogeneity of working conditions. As telecommunications underwent privatization and market deregulation, new firms entered the field and old firms transformed their structures. On this basis, the authors posit a simultaneous convergence *between* countries toward a similarly diverse set of organizational forms.

Following from this, many authors have noted an elective affinity between more liberal market-oriented types of institutions and greater organizational diversity. For example, Jacoby (2004) shows that human resource management practices are more diverse among U.S. firms than in Japan. One reason is that liberalization removes coercive regulatory restrictions on firms, giving greater degrees of freedom for strategic decision making. Similarly, weakening of employee protection and declining collective representation of workers mean that managerial decisions are more unilateral and may thus become more varied in response to similar market conditions. Similarly, weakening of stable relational forms of finance lead to greater heterogeneity of ownership and financing patterns, as Aoki, Jackson, and Miyajima (2007) have shown for the case of Japan.

A path dependent implication of organizational diversity is that further institutional change impacts different organizations in different ways. Sako (2005) has compared the strategies of incumbent firms with new entrants in Japan, showing strong divergence on their interests and strategies. This framework resonates with political approaches to institutions such as Fligstein and McAdam (2012), which focuses on different actor groups as “defenders” and “challengers” of existing institutions in a more conflict-driven and coalitional view of institutional change. These cleavages need to be conceptualized and mapped empirically—between manufacturing and services, global and local, finance and real economy, etc.

Other scholars discuss institutional change in terms of **hybridization** involving the recombination of two or more institutional elements in ways that generate a new whole. Hybridization has long been associated with the concept of globalization (Pieterse, 1994), but later extended to describe trends in work organization, where elements of presumed discrete models become combined (Boyer, Charron, Jürgens, & Tolliday, 1998). When extended to the level of national business systems, the concept of hybrid suggests that not all institutional sub-systems or domains in the economy necessarily follow the same logic.

The varieties of capitalism literature long assumes that country-level institutions tend to cluster around two polar types of liberal market economies (LMEs) and coordinated market economies (CMEs). Mixed types that combine both market and coordinated elements were presumed to suffer from incoherence and produce less positive economic results. The concept of institutional complementarities was largely argued based on coherence or a similar logic

between institutions. Here, more market in one domain is assumed to lead to increasing returns for adopting the market in another domain. However, this perspective on complementarities has proved very limiting analytically.

By contrast, more recent analyses now suggest that conflicting institutional logics may be beneficial, at least under certain conditions. Many studies have remarked on the hybrid character of the Danish model, where public policy supports ‘flexicurity’ based on a combination of fairly liberal labor markets with strong external mobility together with strong social protection (Campbell & Pedersen, 2007). Likewise, other recent studies suggest that competitive advantage in sectors characterized by radical innovation depends on ‘hybrid’ combinations of liberal and coordinated institutional features (Schneider, Schulze-Bentrop, & Paunescu, 2009, Schneider & Paunescu, 2012, Witt & Jackson, 2016).

In sum, liberalization has been associated with several concurrent types of institutional change in advanced capitalist economies—namely, dualization, financialization, and transnationalization. Conceptually, these processes imply two things. First, we can observe a growing heterogeneity of organizational forms within national economies. Second, we can observe new combinations of organizational characteristics, often based on different institutional logics. These new ‘hybrid’ forms of organization often appear ‘incoherent’ based on historical reference points from the post-war era. However, these combinations need to be studied in their own right, as economic actors negotiate and develop new forms of organizing related to these institutions.

#### **4. Micro-level concepts related to strategic action**

In response to the macro-level accounts of institutional change, recent scholarship has devoted greater efforts to reclaim a less deterministic view of how institutions influence the actions of business firms. Analytically, the core of this agenda involves a re-examination of the relationship between institutions and action. If institutions are coercive, normative or cognitively taken-for-granted rules that constrain action or enable ‘efficient’ strategies, why and how might actors change their relationships to those constraints in ways that transform institutions? The goal is to better account for organizational diversity and its role as a cause and consequence of institutional change.

Institutions have isomorphic effects on organizations due to various regulative, normative and cognitive pressures (Powell & DiMaggio, 1991, Scott, 1995). These three ‘pillars’ of institutions posit analytically separate mechanisms that explain similarities among organizations rather than variance between them. Roughly speaking, strong institutionalization will decrease the variance of organizational characteristics relative to the mean and often be associated with differences in average levels of a characteristic across institutional fields (for an illustration related to Japanese and US firms, see Jacoby, 2004).

Coercive isomorphism stems from political influence and issues of legitimacy. Coercion involves the imposition of rules by law or state authority (e.g. accounting rules) or reflects strong dependency between different types of organizations (e.g. industrial firms may depend on banks for external finance). Mimetic isomorphism results from standard responses to uncertainty. Here organizational actors may perceive only a limited number of models as powerful or successful, and thus seek to imitate taken-for-granted approaches to organizing. Such cognitive dimensions of institutions are based on taken-for-granted definitions of the situation and worldviews. Finally, normative isomorphism is associated with professionalism. Here similarities in groups that span the boundaries of organizations may exert more subtle isomorphic effect due to their education, particularly when related to processes of professional socialization that involve not only cognitive knowledge but also normative frameworks related to good work. Often such groups form boundary-spanning networks of individuals across organizations. These categories are analytically distinct, and imply different mechanisms of institutionalization and carriers of institutional effects. Empirically, however, a particular institution may be underpinned by all three dimensions to various degrees.

Given the focus on isomorphism, the gap between institutional context and intentional action remains a neglected aspect of institutional theory. Most social science theories rely on a teleological means-ends schema for understanding of human intentionality (Joas, 1992). Here action is conceived as the pursuit of pre-established ends or preferences that remain stable from context to context. Actions are “chosen” by their anticipated consequences—in what Whitford (2002) termed a “portfolio model” of the actor. Cognitive models of institutions also stress how actors enact preconceived and taken-for-granted worldviews (DiMaggio & Powell, 1991) —again bracketing how individuals might break with routine implicit understandings to change institutions.

As Jackson (2010) previously argues, a less deterministic theory of action would see institutions as just one element of a situation—a Durkheimian “social fact” within the situational horizon. No one-to-one relationship exists between an institution and its meaning in a specific situation (Friedland & Alford, 1991, p.255). Institutions represent situations only in a summary form as ‘typifications’ where under certain conditions X, a particular type of actor Y is expected to do Z (Berger & Luckmann, 1966). The resulting ‘gap’ or indeterminacy has important theoretical consequences. Mohr and White (2008) argue, “Interpretive frames at the institutional level are not immediate and specific; they are general and abstract; and they are collective rhetorics that are known, shared, and embraced as orienting devices for the construction, consumption, and bundling of stories across different netdoms [domains of social networks].” Institutionalized values must remain general enough to be transposed across diverse social situations, but specific enough for actors to mobilize control in enforcing an institution (White, 1992). This gap between institutional rules and situational contingencies means that actors may develop local styles or variations of an institution (White, 1993). Actors may interpret and utilize institutions in different ways, stretching their boundaries, adapting them to new contingencies, or avoiding them through deviant behavior (Clemens & Cook, 1999, Oliver, 1991). Moreover, actors may challenge institutions through active political contestation (Zilber, 2002). A key implication of the above, argued already by Jepperson (1991), is to see institutionalization as a *matter of degree*, rather than as a fixed structure.

To conceptualize such indeterminacy, the rest of this section briefly reviews three existing concepts: ambiguity, conflict of institutional values or logics, and actor capabilities.

**Institutions as ambiguous.** Institutions can take on two or more specific meanings depending on the situational context, suggesting that institutional rules are inherently ambiguous (Jackson, 2005). Such multiplicity of meanings is commonplace because institutions become part of every changing situational horizon of actors, who are pursuing different and changing ends-in-view. Actors may not even always know whether a strategy will be considered consistent with expected norms or values. If institutions are capable of being understood in more than one way, gaps between institutionalized expectation (e.g. rule or value) and strategic action must be filled (Clemens & Cook, 1999, p.448). While some institutions may be rigidly prescriptive (actors “must” follow a certain rule), others may establish more limited boundaries of what is not possible (actors “must not” do something), and others may provide only loose models around which actors engage in substantial improvisation (Crawford & Ostrom, 1995). These gaps allow scope for creative interpretation, application and enactment through processes of iteration, projection and evaluation (Emirbayer and Mische 1998).

This line of argument has been developed in the institutional change literature related to conversion (Mahoney & Thelen, 2010). A pioneering study here examined the transition of Eastern European economies to market-oriented capitalism, where Stark (2001) demonstrated how past institutions become “ambiguous assets” used toward a variety of different ends. Thus, institutional legacies themselves contained multiple paths of future institutional development, as resources converted to new ends. This approach has been applied to understand very diverse cases of institutional change, such as employment relations during UK industrial decline (Lambert, 2016) or the effects of power imbalances for the institutional change of the legal profession in Korea (Taeun, 2009).

**Institutions as conflicting values.** Institutions frame action in terms of large narratives and reference certain values. Therefore institutional theorists often speak of institutions as embodying distinct ‘logics’ (Thornton, Ocasio, & Lounsbury, 2012). More interestingly, however, is that the fact that complex societies are made up of multiple institutional orders that reflect societal differentiation and increasing division of labor. Hence, different criteria of rationality may become institutionalized in different domains of society (Lepsius, 1990). One implication is that organizations may be exposed to different sets of institutions with conflict institutional logics. These contradictory pressures may create scope for action, while also confronting actors with the necessity to make dilemmatic decisions (Sorge, 2005).

Picking up the theme of multi-level governance, the extensive literature on diffusion and localization processes can be interpreted in the light of conflicting institutional logics (Simmons, Dobbin, & Garrett, 2008). Indeed, one only needs to look as far as the classic study of Westney (1987) about Meiji Japan to see the importance of creative local adaption for the process of diffusion. More recently, Redding and Witt (2015) examine so-called executive rationales as vocabularies of top managers, which reflect and interpret different institutional settings across countries. Conflicting logics may be assimilated or even subordinated within existing institutional frameworks, as argued with regard to performance pay practices in Japanese firms (Keizer, 2011). Here symbolic practices may be adopted, but largely decoupled from organizational practices as noted in neo-institutional literatures (Bromley & Powell, 2012, Crilly, Zollo, & Hansen, 2012, Westphal & Zajac, 2001). In other cases, manifest conflicts around different institutional logics are drivers of more substantive change, as discussed already with regard to the influence of foreign investors in

Japan (Olcott, 2008). Finally, conflicting logics may jump-start attempts at forging new hybrid forms of organizing, thus generating institutional innovation (Yoshikawa, Tsui-Auch, & McGuire, 2007).

Conflicting logics can lead to an interesting range of outcomes. However, relatively little literature has systematically examined the factors that shapes organizational responses to conflicts. Such studies would help to better understand the longer-term implications for institutional change across different areas.

**Actor capabilities and institutionalized action.** A flip side of ambiguity and multiplicity of institutional logics concerns the fact that actors interpret institutions not only with regard to exogenous elements of a situation, but vis-à-vis their own changing identities, interests, and capabilities for action. Actors require social skills to act within an institutional setting and thus to reproduce the everyday operation of an institution (Fligstein, 2001). Actors must be socialized into take-for-granted assumptions, and learn how prevailing norms are interpreted and applied by others. In particular, incumbents and challengers may take very different views of an institution based on the past experiences and resource endowments of an organization, which are in turn related to their age and degree of socialization into a particular institutional field (Fligstein & McAdam, 2012).

These points resonate strongly with the classic article by Oliver (1991), which provided a widely cited typology of strategic responses to institutional pressures. The core of her framework relates to the tension between institutional pressures, on one hand, and resource dependency theory, on the other. Resource dependency is grounded in the idea that organizations depend on certain resource inputs to survive, and thus advocates a view that considers the material and symbolic tasks of the organization, and the external dependencies that arise because of them. To the extent that institutional pressures dictate one thing and resource demands another, organizations will have highly variable responses to institutions. These may range from compliance to compromise or avoidance, and extend to attempts to defy or even manipulate institutions.

In sum, a research agenda for studying macro-processes of institutional change in Japan or in Asia more generally would do well to incorporate more action-theoretical perspectives based on varied organizational responses. Elements of such a theoretical framework would be:

Seeing institutional rules as ambiguous and in need of interpretation.

Taking account of the multiplicity of institutions across different fields, and how organizations interpret and act strategically vis-à-vis conflicting institutional logics.

A sensitivity that institutions are only one factor shaping organizations, and extend this view to the resource dependencies of particular organizations or more generally comparing different sectors of the economy.

## 5. Outlook for the INCAS project

In developing an agenda for the analysis of institutional change, this paper presented several arguments. First, comparative analysis of Asian economies such as Japan should make greater and more explicit use of structural concepts used to map institutional transformation of capitalism elsewhere. Dualization, financialization and transnationalization apply equally to the context of Asia, but relatively little systematic work has been done. Second, scholars must also go beyond these broad structural views of institutional change to better understand the role of organizational diversity. Diversity among firms is important both as a driver of change, as well as for understanding its consequences.

In the particular context of INCAS, this suggests several key questions:

To what extent have changes in key institutions led to changes in **organizational structures and practices** related to finance, employment, business strategy, and corporate social responsibility?

What role is played by institutional ambiguity, conflicting institutional logics, and resource-related contingencies in shaping the strategic responses of organizations?

How does the resulting organizational diversity within particular sectors or institutional fields create pressures, slow or channel processes of incremental institutional change?

This research agenda implies both a longitudinal and comparative element of research methodology. The former could be approached by comparing organizational practices before and after key critical junctures in the development of state and private regulatory institutions. The latter element would involve comparing organizations across countries in two ways. First, projects might compare Japan with European countries that undergo similar institutional pressures (e.g. introduction of international accounting rules or adoption of corporate responsibility standards such as Global Compact) and examining the similarities and differences in organization. Second, projects might adopt a backward looking strategy, whereby similar organizational outcomes (e.g. women on boards, firm start-ups, de-carbonization of business processes) in two countries may be explained by different organizational and institutional antecedents. This approach is well-suited to explore the equifinality of certain outcomes in light of institutional differences.

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