A Critique of the “Varieties of Capitalism” Approach

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Abstract

The objective of this paper is to critically review the so-called “varieties of capitalism” (VoC) approach. This is a meaningful exercise given the popularity of the VoC approach across wide ranging disciplines, from political economy to economic sociology to management studies, and especially taking into consideration, the recent show of interest in the approach by the writers of corporate social responsibility (CSR) seeking to explore varieties of CSR institutions and practices across nations. This paper discusses the merits and shortcomings of the VoC approach, focusing on five key issues, namely, the VoC’s approach to studying national diversity, its focus on the firm as the key actor, its core concepts, “system coordination” and “institutional complementarity”, its potential for analysing institutional change, and finally, the policy implications that can be drawn from its framework.

Keywords:

Comparative capitalism, state-centred analysis, pluralism, neo-corporatism, varieties of capitalism, regulation theory, flexible specialisation, and business-systems.

The author:

Nahee Kang is a visiting scholar at the International Centre for Corporate Social Responsibility (ICCSR) at Nottingham University Business School, and a doctoral student at the Faculty of Social and Political Sciences at University of Cambridge. She has a M.Phil in Development Studies from University of Cambridge, and a M.A. in International Studies and a B.A. in Sociology from Ewha Womans University, Seoul, Korea. Her current research interests include the theory of institutions and institutional change, varieties of capitalism (particularly East Asian capitalism), comparative corporate governance, industrial relations, and corporate social responsibility.

Address for correspondence:

Nahee Kang, International Centre for Corporate Social Responsibility, Nottingham University Business School, Nottingham University, Jubilee Campus, Wollaton Road, Nottingham NG8 1BB, United Kingdom. Email: nk235@cam.ac.uk.
Introduction\(^1\)

Since the collapse of the Soviet Union in 1989 and the demise of the “contested alternative”, writers of comparative political economy turned their attention to diversity within capitalism. The ‘varieties of capitalism’ (VoC) approach has risen to become the dominant institutional approach to the study of comparative capitalism with the publication of a seminal work by Hall and Soskice (2001). More recently, writers of corporate Social Responsibility (CSR) have shown interest in the VoC approach as a way of exploring varieties of CSR practices and institutions that exist across nations (Matten and Moon 2004, Chapple and Gond forthcoming).

As a means of providing a firm ground upon which the discussions on national variations in practices and institutions can take place, this paper provides an in-depth analysis of the VoC approach. It begins by providing an overview of the VoC approach, and then goes on to discuss some of its merits as well as shortcomings. It focuses on five key issues, namely, the VoC’s approach to studying national diversity, its focus on the firm as the key actor, its core concepts, system “coordination” and institutional “complementarity”, its potential for analysing institutional change, and finally, the policy implications that can be drawn from its framework.

The ‘Varieties of Capitalism’ Approach: An Overview

The scope and variety of work associated with the varieties of capitalism school is so vast that without some delimitation, the discussion would lack coherence. Hence, this study concentrates on a small number of most recent and representative works that, firstly, share broadly similar assumptions about institutional underpinnings of national economies, and secondly, gives focus to the issue of their continuity and change. The VoC camp includes works such as Hall and Soskice (2001a, 2001b), Streeck and Yamamura (2001), Yamamura and Streeck (2003), Schmidt (2003), Amable (2004), Morgan et al. (2005), and Hancké et al. (forthcoming) to name a few. Given that the most representative and oft-cited work is the edited volume by Hall and Soskice (2001a, 2001b), this paper is largely in response of their work.

\(^1\) I would like to thank the International Centre for Corporate Social Responsibility (ICCSR) for the generous financial and institutional support provided whilst writing this paper.
At the core of the VoC perspective is the importance of “system coordination”, and the idea of “institutional complementarities”. In simplest terms, institutional sub-systems – which govern capital and labour – mould capitalist models, and when present in the “right” form, mutually reinforce each other. The VoC approach posits that the presence of “correctly calibrated” sub-systems (i.e., financial system, labour market, training system, and inter-firm relations) increases the performance, or the so-called “comparative institutional advantage” of the firm. Taken from the economic concept of comparative advantage in trade, the basic idea is that the institutional structure of particular political economy provides firms with advantages for engaging in specific types of activities (Hall and Soskice 2001a:37). The presence of comparative institutional advantage enhances the survival chances of the system as a whole, producing specific adjustment paths to pressures for change.

The core insight of the VoC approach is portrayed in terms of two major types of capitalist models distinguished by the degree to which a political economy is, or is not, “coordinated”. The coordinated market economy (or CME) – dependent on non-market relations, collaboration, credible commitments and deliberative calculation on the part of firms – is diametrically opposed along all of these dimensions to the liberal market economy (or LME), whose essence is described in terms of arms-length, competitive relations, competition and formal contracting, and the operation of supply and demand in line with price signalling (Hall and Soskice 2001a).

VoC argues that institutional complementarities deliver different kinds of firm behaviour and investment patterns. Hence, in the LMEs, fluid labour markets fit well with easy access to stock market capital and the profit imperative, making LME firms the “radical innovators” they have proven to be in recent years, in sectors ranging from bio-technology through semi-conductors, software, and advertising to corporate finance. The logic of LME dynamics revolves around the centrality of “switchable assets”, i.e., assets whose value can be realised if diverted to multiple purposes. In the CMEs, by contrast, long-term employment strategies, rule-bound behaviour and durable ties between firms and banks underpinning patient capital provision predispose firms to be “incremental innovators” in capital goods industries, machine tools and equipment of all kinds. In contrast to the LME, the logic of the CME revolves around “specific or co-
specific assets”, i.e., assets whose value depends on the active co-operation of others (Hall and Soskice 2001a).

The strengths of the VoC approach have been underscored by the writers themselves (Hall and Soskice 2001a). This is a good starting point for discussion given that one way of providing a critical discussion is to examine whether the promises made has been delivered. As stated by Hall and Soskice (2001a:4-6), the VoC approach distinguishes itself from, and seeks to go beyond, the existing approaches in several respects. Indeed, the greatest merit of the VoC approach is that it is an ambitious undertaking; the VoC approach a good “synthesis” of the major approaches, having consolidated half a century of works and used them as building blocks. In the last quarter of century, there have been three key streams of institutional approach aimed at exploring variations in national institutional arrangements.2 At this point, prior to discussing these approaches in relation to VoC, some description of the approaches is warranted as a way of situating the VoC approach in the wider political economy literature – after all, the VoC approach did not emerge in isolation (see table 1 for description and critique of each approaches).

[Insert Table 1 about here]

The state-centred approach which emerged in the mid-1960s, is most notably marked by the ground-breaking work of Andrew Shonfield (1965), which is a comparative study of France and Britain. It focuses on the state’s capacity (often supported by state apparatus such as the elite bureaucracy) to devise and implement economic policies aimed at modernising industries (e.g., Cohen 1977, Zysman 1977, Kuisel 1981, Hall 1986, Hayward 1986). As Japan and Korea demonstrated unprecedented economic growth to become world’s leading economies in matter of three decades, there was an outpouring of Shonfield-like studies on the two economies from 1980s (e.g., see Johnson 1982 on Japan, and Amsden 1989 and Evans 1995 on Korea).

The society-centred approach, like that of the pluralist and the corporatist studies, emerged in response to the lack of attention paid to the role of non-state actors in explaining national variations in institutional arrangements. Both pluralists and

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2 Hall and Soskice (2001) similarly identifies three streams of approaches to comparative capitalism, namely, the modernisation approach, neo-corporatist approach, and social systems of production, which can be approximately aligned to three main approaches identified in this study, state-centred, society-centred, and production- (or firm-)centred.
corporatists abandon the ‘state’ as an explanatory concept and choose to focus on the ‘political system’ in which societal interests constrain the government action in either a pluralist or corporatist fashion (Schmidt, 1996: 15-16). The difference between the two, in most simple terms, would be that in the former, a full range of interests have access to policy formation, whereas in the latter, only a certain organised interests, i.e., employers associations and trade unions, have the privileged access to both policy formation and implementation. Pluralist analysis is heavily grounded on the theory of interest groups, and has served its purpose well in the mainstream of American political science as it well reflects the characteristics of private interest representation and group associationalism that are so much the predominant and accepted pattern of societal organisation in the U.S. (Schmidt, 1996: 20). Corporatist approach came to being as a ‘European’ response to the ‘American’ pluralist approach, and has been effective in examining the small European democracies such as the Netherlands, Sweden, Norway, Denmark, Switzerland, Austria, and to lesser extent, Germany (see Schmitter and Lehmbruch, 1979, Berger 1981). Whist both pluralist and corporatist approaches are a systematic study of interest representation, they differ in their perception of the institutional form of the interest representation. As described in Schmitter and Lehmbruch (1979: 16), the pluralist approach stresses a “spontaneous formation, numerical proliferation, horizontal extension and competitive interaction.” In contrast, corporatist approach emphasise a “controlled emergence, quantitative limitation, vertical stratification and complementary interdependence” (see table 2).

[Insert Table 2 about here]

Both state-centred and society-centred approaches are essentially public policy models of the comparative political science literature. In other words, whilst their focus differs, their common interest lies in explaining the process of policy making and the policy networks linking the state to the economic groups. However, there have been attempts to address capitalist system as an organisation of economic activity by the political economists and economic sociologists, including organisational sociologists. They include the French Regulation theory (the American variant is known as the “social systems of production”), theory of flexible specialisation, and business-systems approach. These theories and approaches accord firms a central role and links the organisation of production to the support provided by the external institutions at many levels of the political economy. In this sense, they can be grouped under the broad rubric of production- and/or firm-centred approach.
To elaborate very briefly, the regulation theory was pioneered in France by Marxist political economists – i.e., Michel Aglietta (1998) and Michel Boyer (2000, 2003), to name a few – and it was an attempt to explain the dynamics of long-term cycles of economic stability and change. The approach has had a huge international impact and has emerged as a major theorisation of the patterns of post-war economic growth until the mid 1970s and of its crisis thereafter. It is best known for its term “Fordism”, which describes a mass-produced production regime (i.e., modes of accumulation and regulation) that became dominant in the early 20th century in the advanced economies.

The theory of flexible specialisation was first formulated by American sociologists, Piore and Sabel (1984), and further developed by Hirst and Zeitlin (1989). It attempts to describe and explain a new form of manufacturing organisation which emerged with the decline of Fordism. Its use of abstract theory is less pronounced than in the Regulation theory, and focuses primarily on the area of production in manufacturing sector. Flexible specialisation refers to the production of a wide and changing variety of products in small volumes (including single items) for specialised markets, using general-purpose machinery and skilled and adaptable labour; it can be viewed as a modern form of craft production. Here, “flexibility” refers to the nature of production system, i.e., new technology, and especially computerisation, which permits general-purpose machines to be programmed to produce many different productions. Therefore, multi-skilled workers, often with an understanding of computer applications, are needed to get the best out of flexible machinery. “Specialisation”, on the other hand, refers to the nature of product markets, i.e., mass markets that have fragmented into a multiplicity of specialised markets, as customers’ tastes and preferences evolve and seek more variety, individuality and innovation.

More recently, business systems emerged (and to certain extent, can be viewed as the early variants of the VoC). The term ‘business-systems’ was first devised by Richard Whitley (1992, 1999) in an attempt to create a way of systematically analysing different varieties of capitalism that have developed over the course of the twentieth century based on the organisation of the firm. However, some earlier examples include Chandler’s (1990) distinction between ‘competitive managerial’ capitalism of the U.S. and the ‘cooperative managerial’ capitalism of Germany.
As an essentially, firm-centred approach, the VoC approach can be situated within this camp, along with Michael Gerlach’s work (1992) where the writer makes the distinction between liberal capitalism of the western capitalist economies and ‘alliance’ capitalism of Japan; and more recently, Ronald Dore’s work (2000) that distinguishes between the so-called ‘stock market’ capitalism of the U.S. and U.K. and the ‘welfare capitalism’ of smaller European economies. At the core of the VoC perspective is the importance of “system coordination”, and the idea of “institutional complementarities”. In simplest terms, institutional sub-systems – which govern capital and labour – mould capitalist models, and when present in the “right” form, mutually reinforce each other. The VoC approach posits that the presence of “correctly calibrated” sub-systems (i.e., financial system, labour market, training system, and inter-firm relations) increases the performance, or the so-called “comparative institutional advantage”. Taking the economic concept of comparative advantage in trade, the basic idea is that the institutional structure of particular political economy provides firms with advantages for engaging in specific types of activities (Hall and Soskice 2001:37). Therefore, the presence of comparative institutional advantage produces specific adjustment paths to pressures for change.

The core insight of the VoC approach is portrayed in terms of two major types of capitalist models distinguished by the degree to which a political economy is, or is not, “coordinated”. The coordinated market economy (or CME) – dependent on non-market relations, collaboration, credible commitments and deliberative calculation on the part of firms – is diametrically opposed along all of these dimensions to the liberal market economy (or LME), whose essence is described in terms of arms-length, competitive relations, competition and formal contracting, and the operation of supply and demand in line with price signalling (Hall and Soskice 2001). Germany and Japan have been oft-cited as examples of a CME and the U.S. and U.K. as a LME.

The proponents of the VoC approach argue that institutional complementarities deliver different kinds of firm behaviour and investment patterns. Hence, in the LMEs, fluid labour markets fit well with easy access to stock market capital and the profit imperative, making LME firms the “radical innovators” they have proven to be in recent years, in sectors ranging from bio-technology through semiconductors, software, and advertising to corporate finance. The logic of LME dynamics revolves around the centrality of “switchable assets”, i.e., assets whose
value can be realised if diverted to multiple purposes. In the CMEs, by contrast, long-term employment strategies, rule-bound behaviour and durable ties between firms and banks underpinning patient capital provision predispose firms to be “incremental innovators” in capital goods industries, machine tools and equipment of all kinds. In contrast to the LME, the logic of the CME revolves around “specific or co-specific assets”, i.e., assets whose value depends on the active co-operation of others (Hall and Soskice 2001).

**Varieties of Capitalism: A Critique**

The VoC has received much scrutiny over the years. This section critically reviews the VoC approach in five areas, namely the VoC’s approach to the issue of diversity, its emphasis on the firm at the focal point of analysis, its key concepts, system coordination and institutional complementarity, its claim that it is a “dynamic” approach, and finally, the policy implication of its framework.

**The issue of ‘diversity’**

The greatest merit of the VoC approach is that it is interested in explaining “diversity” that goes beyond the so-called “modernisation theory” (Hall and Soskice 2001b), i.e., the notion of “comparative institutional advantage” in both LMEs and CMEs, which highlights the raison d’être of different capitalist systems.

At the same time, its greatest weakness – one which has been pointed out repeatedly (e.g., Howell 2003, Blyth 2003) – is the very lack of variety in varieties of capitalism. Despite having attempted to move away from “one capitalism” thought, its binary classification gives rise to a spectrum depending on the degree of market coordination with LME at one end and CME on the other. How is this different from state-centred approach that examines variety in terms of strong and weak states, and society-centred approach that focuses on the degree (or form) of interest intermediation? For instance, France is described as “limited pluralism” and/or “weak corporatism”, and Japan, “corporatism without labour” (Pemple and Tsunekawa 1979). The danger of such binary distinction is that it falls in the trap of the modernisation approach, for it suggests that countries like France and Japan are an anomaly or deviant as they do not conform to the ideal-type pattern, be it pluralist or corporatist. Furthermore, despite arguing that each type of capitalism has its distinct comparative institutional advantage and no one model is superior from the other, it appears LMEs have comparative institutional
advantage in industries that are high-growth and value-added. How is this to be reconciled?

Finally, whilst the use of innovation as a measure of competitiveness can not be held to fault, the notion of radical and incremental innovation is too simplistic; most innovation process requires both radical and incremental aspects and the separation is probably not so clear cut as the VoC writers seem to suggest.

**Firm as a focal point of analysis**

In the context of growing economic openness, the VoC approach tends to seek a basis for comparison more deeply rooted in the organisation of the private sector, and in particular, large firms. The emphasis on large firms is a worthy endeavour given that large firms remain dominant still in the world economy and they are the main source of innovative products and processes. Moreover, despite the claims made by flexible specialisation theorists, firm size and dominance is growing, due to the highly successful combination of flexibility and rigidity as well as quality and price competitiveness within mass production in Japan (Dore 1986). The supporters of large firms as key actors point to Japan and argue that it offers a unique industrial paradigm that pulls together the scale economies and industrial advantages (e.g., industry-government links, inter-sectoral and inter-firm ties) of mass production and corporatist regulation, and the flexibility of scope and scale guaranteed through subcontracting, loose interdependencies within organisations, labour flexibility, team working, cultures of consensus and cooperation and so on. Also, industrial districts such as the regional and sectoral success of the sort found in Silicon Valley, Baden-Württemberg and Third Italy remain as small pockets of wider economy.

Although a firm-centred analysis, the VoC approach is somewhat different to business-systems theory, for VoC’s “relational view” of the firm allows the approach to bring in other actors, i.e., financiers, employees, unions, and other firms (including suppliers as well as competitors). Yet, at the same time, the VoC approach does not go far enough, and underestimates the role of other economic actors, particularly labour and the state.

First, the VoC approach overlooks labour, viewing it to be passive agents. Hall and Soskice (2001) contend that whilst society-centred approach, and in particular neo-corporatist studies, re-direct the inquiry to the organisation of society, but its
emphasis on political resistance, especially the trade union movement in the case of neo-corporatist literature, underplays the role that firms and employer (or business) organisations play in the coordination of the economy. For instance, Thelen (2001), in a VoC perspective, argues that the common trend in decentralisation of industrial relations can be sought ultimately in managers’ preferences, which are shaped by existing comparative institutional advantage. Granted that the rapid decline of industrial working class and the intensification of world competition has weakened labour unions (albeit to varying degrees) across nations, this cannot justify lack of attention paid to labour given that distributive concerns are at the centre of all capitalist systems, and even weak labour has implications.

Second, the VoC approach underestimates the role of the state. Whilst the VoC approach focus on variation among national economies, under the premise that the state is the ultimate regulator of business and shapes business environment, they nevertheless ignore the state, arguing that adjustment today is firm-led (Hall and Soskice 2001a). The importance of the state in the globalised era has been much discussed, particularly since the late 1980s. One could argue that in recent years, with the adoption of market-oriented reforms, the concept of the state as traditionally conceived in the state-centred literatures can be no longer held to apply, yet state’s involvement is still greater than is widely perceived. This is because there has been a reorientation, not reduction, in the state’s involvement in the economy, i.e., from less direct intervention to more indirect intervention, to less intervention in the markets to more involvement in the reconstruction of the welfare state, and so on. Vogel’s comparative study (1996) of regulatory reforms in Britain and Japan makes the compelling case that the states have responded to similar market pressures of deregulation in the 1970s and the 1980s in remarkably different ways, “reorganising rather than abandoning control of the private-sector behaviour.” (1996: 3). Vogel (1996: 257) finds that in most cases of ‘deregulation’, governments have combined liberalisation with re-regulation, the reformulation of old rules and creation of new ones. In the case of Japan, the MITI and the MOFE turned liberalisation to their own ends by determining the timing and conditions of new market entry. More generally, this indicates that regulatory reform has been fundamentally shaped by pre-existing institutions, and thus has reinforced, rather than weakened national differences between capitalisms.
In support of Vogel’s (1996) views, Weiss (1999) argues that given the fact that market-oriented policies are advanced through the state and that the state exhibit considerable adaptability and variety in their responses to change and in their capacity to mediate international trends and domestic needs, the state needs to be brought back into analysis.

**Key concepts: Coordination and complementarity**

Theoretical approaches like the VoC that are able to demonstrate clear inter-institutional link – or what Crouch (2002) refers to as “multi-institutional” theories – have strong influence in discussions on comparative capitalism because they present powerful devices that allow expansion of scope in analysis (in is holistic and systematic ways), and thereby lend theoretical rigour and legitimacy. The concepts “system coordination” and “institutional complementarity” have been particularly useful for this reason; it can be used to explicate the strong links that are considered to bind complexes of institutional ensembles, or more simply capitalist ‘subsystems’, therefore giving national capitalsm coherenence as a model.

However, despite the importance of the concepts, more theoretical specification is required. For instance, the concept of institutional complementarity first emerged when analysing a narrow set of issues concerning technology and industrial strategy in economic organisations (Milgrom and Roberts 1990, 1995). Gradually, it came to be more widely applied to national-level institutions (Aoki and Dore 1994), and eventually further developed, to explicate functional links between subsystems of national models of capitalism (Hall and Soskice 2001a). Whilst transplanting the concept of complementarity to macro-level analysis of a political economy requires making some adjustments to the initial concept, Hall and Soskice (2001a) have done very little in this regard.

Yet, drawing from Jack Knight (1993), Amable (2004) in particular has made important contribution. Taking a more ‘historical’ view to institutions, Amable (2004:10) underscores the fact that institutions – in general, but particularly so at a macro-level – represent “a compromise resulting from the social conflict originating in the heterogeneity of interests among [various] agents” (see table 3).

[Table 3 about here]
This observation has important implication for institutional complementarity, for it suggests that complementarity in national models of capitalism embody not merely an economic function (i.e., increasing returns and economic performance), but also that which is social and political (i.e., social cohesion, political stability, etc.) For instance, one oft-cited example is Germany where the ‘patient’ capital of bank-based financial system and co-determination in industrial relations reflect not only her comparative advantage in world markets (or production regime based on ‘incremental innovation’), but also post-war settlement of social compromise (Yamamura and Streek 2003).

Moreover, as Deeg (2003:15) points out, macro-level change generally require actors to change the higher-order formal institutions, or ‘rules of the game’, which are politically constituted or codified – either in a statutory form or in formal political regulation – and this process more than ever involves not just economic actors whose interests are primarily (and overwhelmingly) about economic efficiency, but also political actors whose interests are far more complex (also see Amable 2003). In short, the concept of institutional complementarity as that which merely encompasses the notion of ‘increasing returns’ may work – for the sake of argument – in a more limited context such as firm relations, but social and political purpose must be taken into account in a broader, political economic context (Morgan and Kubo 2005).

VoC as a dynamic approach

According to Hall and Soskice (2001a:65), the VoC is “an approach to political economy designed not only to identify important patterns of similarity and differences across nations, but also to elucidate the processes whereby national political economies change. It anticipates institutional change in all the developed democracies, as they adjust to contemporary challenges, but provides a framework within which the import of those changes can be assessed.” In this regard, one significant contribution of the VoC approach is that it calls into question certain assumptions underpinning the conventional view of globalisation – or the “globalisation thesis” – that has thus far informed the interpretation of change in national political economies, i.e., the homogenising pressures as forces of change and the persistence of diversity attributed to political resistance (see table 4).

[Table 4 about here]
Furthermore, Hall and Soskice (2001:62) claims that the VoC approach offers a more dynamic conception of national political economies (than earlier approaches) in the sense that it anticipates change in them and contains specific propositions about the processes through which it will occur (some of these should already be apparent from their account on globalisation above) (Hall and Soskice 2001a:63-64). For instance, institutional complementarities should play an important role in the process of change (Hall and Soskice 2001:64). On one hand, the prospect that institutional reform in one sphere of the economy could snowball into changes in other spheres as well. If financial markets of a CME are deregulated, for instance, it may become more difficult for firms to offer long-term employment. That could make it harder for them to recruit skilled labour or sustain worker loyalty, ultimately inspiring major changes in production regimes. Financial deregulation could be the string that unravels CMEs. On the other hand, institutional complementarities generate disincentives to radical change. Firms and other actors may attempt to preserve arrangements in one sphere of the economy in order to protect complementary institutions or synergies with institutions elsewhere that are of value to them. Thelen (2001) points out that many German firms have devoted energy to revising rather than abolishing their vocational training schemes because they operate production regimes that demand particular types of skills.

Whilst the use of institutional complementarity as a key concept is the greatest strength (and appeal) of the VoC perspective (as discussed above), its hasty use of the concept is also its greatest weakness. Whilst the concept and the VoC approach in general is good at explaining change in terms of continued diversity (or on-path change), it offers little in the sense of explaining – and acknowledging the possibility of – fundamental change (or path-off change). This is because there is an inherent bias against radical change embedded in the concept of complementarity. The common view institutional complementarity is that which is embedded in the concept of path dependency, i.e., a powerful mechanism of reproduction, which allows very little possibility for institutional change. It is, therefore, not very surprising that most of the VoC studies argue for continued divergence.

Faced with empirical observations in advanced capitalisms that suggest profound changes without an exogenous shock, writers interested in institutional change – particularly those who take a ‘historical-political’ approach to institutions – have
pointed to the limits of such a picture and have called for the re-introduction of the possibility of change in the theory of path dependency (see Crouch and Farrell 2002; Thelen 2003; Deeg 2003; Djelic and Quack 2003; 2005).³

**The policy implications**

As pointed out by Culpepper (2001), the diagnosis generated by the VoC framework is indeed compelling, given that many modern problems of economic policy making are in fact problems of coordination among economic actors, such that the goals of state policy-makers will frequently involve convincing actors (be it through the provision of incentives or state fiat) to act in concert to achieve desirable policy outcomes. Yet, the prognosis of the VoC framework is institutionally deterministic. If a country lacks the institutional framework necessary for sustaining non-market coordination, then the VoC framework dictates that it sticks with the policies that are compatible with the existing institutional framework of the country even if that means abandoning goals that could improve competitiveness of firms in the long-run. This is because, firstly, firms will attempt to sustain or restore the forms of coordination on which their competitive advantages have been built after an economic shock, although these efforts may entail changes to existing institutions or practices in the economy. Second, the importance of shared knowledge to successful strategic interaction implies some asymmetry in the development potential of these systems; for instance, because LMEs have little experience of such coordination to underpin the requisite shared (or common) knowledge, they will find it difficult to develop non-market coordination of the sort common in CMEs, even where the relevant institutions can be put into place. However, such prognosis can be challenged – there have been attempts by governments in non-LMEs to create coordination in policy areas where it has previously not existed with successful outcomes (e.g., see Culpepper 2003 on France).

In regard to change towards a LME, Culpepper (2001) contends that since market relations do not demand the same levels of common knowledge, there is no such constraint on CMEs deregulating to become more like LMEs. Yet, given the enormous amount of social tension and conflict associated with de-regulation worldwide, one must question whether building market institutions is any easier than building non-market institutions for coordination.

³ Some, like Djelic and Quack (2005) goes as far as to argue that life and evolution of institutions – generally speaking – have more to do with processes of path generation than with patterns of path dependency.
**Conclusion**

With the aim of providing a critical review of the VoC approach, this paper began by situating the VoC framework in the broader literature on comparative capitalism, and then went on to discuss some of its merits as well as shortcomings. It argued that some of the more notable merits of the VoC approach lies in its attempts to (1) go beyond the modernisation approach in the way diversity is perceived, (2) place large firms at the centre of its analysis, (3) use the concepts of system coordination and institutional complementarity to build a multi-institutional framework, (4) provide a “dynamic” (as opposed to “static”) analysis factoring in the difficult and complex problem of system-wide change, and (5) highlight coordination problems faced by today’s policy-makers. At the same time, this paper drew attention to some of VoC’s shortcomings, highlighting problems associated with (6) lack of variety in VoC, (7) over-emphasis on the firm (at the expense of other actors), (8) strong rational-choice view of institutions, (9) the use of the concept of institutional complementarity to analyse change, and finally, (10) policy prescriptions that are institutionally deterministic.
References


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<td>Focus of analysis</td>
<td>Policy-making and state structures (State vs. market debate)</td>
<td>Interest group politics in policy-making (pluralism vs. neo-corporatism); welfare capitalism</td>
<td>Regime of production, firm organisation (Regulation theory, flexible specialisation theory, business-systems, early works of VoC*)</td>
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<td>Main Writers</td>
<td>Shonfield (France), Schmidt (France), Johnson (Japan), Amsden (Korea), Evans (Korea)</td>
<td>Schmitter and Lehbruch (pluralism and neo-corporatism), Esping-Andersen (welfare capitalism)</td>
<td>Aglietta (Regulation), Boyer (Regulation), Charles and Sabel (FS), Chandler (BS), Gerlach (BS), Whitley (BS), Lane (BS), Albert (early VoC). Marco et al. (early VoC), Crouch and Streeck (early VoC), Hollingsworth and Boyer (early VoC), Hall and Soskice (VoC), Yamamura and Streeck (VoC), Morgan et al (VoC), Hancké et al. (VoC)</td>
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<td>Critique</td>
<td>Merits: Highlights the importance of the state as an “actor” (as oppose to an arena); insight on the structural conditions for successful state intervention (e.g., the notion of developmental stage, and embedded autonomy); underscores the importance of “smart” economic policies; shifted attention to “state-led” (often catch-up) economies, and as result, greater focus on NICs and developing economies. Limits: Promotes one best way (modernisation approach?); underestimates the role of other economic actors (particularly, the role of the firm in the era of globalisation)</td>
<td>Converse arguments apply (to state-centred approach). Merits: Acknowledges the possibility of more than one best way; highlights the importance of economic actors (esp., in relation to globalisation, diversity in terms of political resistance); underscores the importance of distributive concerns, esp., the welfare capitalism literature (as oppose to production) Limits: Reduces the state as an arena in which various organised interests are played out; less able to explain “state-led” economies where interest representation is less important (in this sense, again, modernisation approach?)</td>
<td>Merits: Shifts the discussion from policy-making to economic organisation (interesting way of analysing capitalism); gives stronger analytic (interdisciplinary) edge of the political economy approach by bringing in production and the firm, and thereby bridging the political science, organisational sociology and economics literatures; takes a more holistic “systemic” view to capitalism (esp. regulation theory and its concepts of regime of accumulation and mode of regulation); firm-centred approach has an appeal in the era of globalisation and gives micro-foundations to a more general theory on the different make-up of national political economy. Limits: Over-estimates the role of the firm (after all, the state provides regulatory framework); underestimates the role of politics, esp. distributive concerns.</td>
</tr>
</tbody>
</table>

Note: * The distinction between early VoC and VoC is made to distinguish between works prior to the publication of Hall and Soskice’s edited volume and works thereafter.
Table 2. Interest Organisation and the Process of Policy-Making in Pluralist and Neo-Corporatist Political economy

<table>
<thead>
<tr>
<th>Interest organisation (i) degree of concentration (ii) degree of centralisation of representative power</th>
<th>Pluralism</th>
<th>Neo-Corporatism</th>
</tr>
</thead>
<tbody>
<tr>
<td>(i) A large number of small voluntary associations, which compete b/w themselves. They generally express representation of specific and sectoral interests (e.g., those of firms or workers of a given sector, such as metal goods, textiles, etc). (ii) These voluntary associations are also loosely linked, and have weak capacity to coordinate. Therefore, they have weak centralised and peak organisations</td>
<td>Pressure group politics: High level of competition between interest organisation influencing political parties, members of parliament and state agencies. They also have little direct involvement in implementation of policies.</td>
<td>(i) A small number of large representative associations which gather those belonging to wider economic sectors and professional categories (e.g., industry as a whole) under their umbrellas. Their power is reinforced by state recognition as negotiating partner and through delegation of public functions to interest organisations (ii) Several peak organisations have a strong power of negotiation with other representatives and the state.</td>
</tr>
<tr>
<td>Process of policy-making</td>
<td>Concertation: Large encompassing interest organisations –particularly business associations and trade unions – interact more closely with the government and other public actors in negotiation. They are also involved directly in the implementation stage, esp. in the fields of labour policy, training and social policy.</td>
<td></td>
</tr>
</tbody>
</table>

### Table 3. Three Variants of New Institutionalism

<table>
<thead>
<tr>
<th></th>
<th>Historical Institutionalism (HI)</th>
<th>Rational-Choice Institutionalism (RCI)</th>
<th>Sociological Institutionalism (SI)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Origin</strong></td>
<td>Group theories of politics and structural functionalism</td>
<td>New economics of organization</td>
<td>Sub-field of organisational theory</td>
</tr>
<tr>
<td><strong>Definition of Institutions</strong></td>
<td>Formal and informal procedures, routines, norms and conventions embedded in the organisational structure of the polity and political economy.</td>
<td>Rules of the game that guarantee complementary (and socially-optimal) behaviour by others.</td>
<td>Broader definition than that of HI to include symbol systems, cognitive scripts and moral templates.</td>
</tr>
<tr>
<td><strong>Relationship between institutions and individual behaviour:</strong></td>
<td>Use of both calculus and cultural approaches to specify the relationship between institutions and individual behaviour.</td>
<td>Calculus approach: 1) Human behaviour is instrumental and based on strategic calculation. Actors' goals and preferences (i.e., self-seeking utility maximisers) are given exogenously to the institutional analysis. 2) Institutions affect behaviour primarily by providing actors with greater/lesser degrees of certainty about the present/future behaviour of other actors (i.e., setting the rules of the game). Hence, strategic interaction plays a key role in the analysis. 3) Institutions originate through voluntary agreement by relevant actors to serve specific functions (i.e., reduction of transaction costs, inducement of cooperation, etc.). Institutions persist because they embody something like a Nash equilibrium—deviation will make the individual worse off than will adherence.</td>
<td>Cultural approach: 1) Without denying that human behaviour is rational or purposive, it emphasises the extent to which individuals turn to established routines or familiar patterns of behaviour to attain their purposes. Choice of a course of action is dependent on the interpretation of situation (rather than on purely instrumental calculation). 2) Institutions provide moral or cognitive templates for interpretation and action, and strategically-useful information. Institutions affect very identities, self-images and preferences of the actors. 3) Institutions originate spontaneously through an interactive process of discussion, usually to enhance social legitimacy (rather than efficiency as suggested by RCI) of organisation. Institutions persist because many of the conventions associated with social institutions cannot readily be the explicit objects of individual choice.</td>
</tr>
<tr>
<td><strong>3) How do institutions originate and why do institutions persist over time?</strong></td>
<td>Other distinctive features of HI are: · Prominent role of power and asymmetrical relations in the analysis, i.e., ways in which institutions distribute power unevenly across social groups (rather than the scenario of freely-contracting individuals of RCI). · View of institutional development that emphasises 'path dependence' and unintended consequences (in contrast to images of institutions are more purposive and efficient as in RCI). · Role of institutions typically involves constraining and facilitating other factors that determine political outcomes.</td>
<td></td>
<td></td>
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### Table 3 (continue). Three Variants of New Institutionalism

<table>
<thead>
<tr>
<th>View of politics</th>
<th>Historical Institutionalism (HI)</th>
<th>Rational-Choice Institutionalism (RCI)</th>
<th>Sociological Institutionalism (SI)</th>
</tr>
</thead>
<tbody>
<tr>
<td>As ‘struggle for power’.</td>
<td>As series of collective action dilemmas, e.g., prisoner’s dilemma, tragedy of commons, etc.</td>
<td>As a ‘process of social learning’.</td>
<td></td>
</tr>
</tbody>
</table>

| Explanations of political outcomes | Integration of institutional analysis with other kinds of factors (e.g., socio-economic development, ideas, etc.). | The role of strategic action and competitive selection | Culturally-specific concepts and practices |

| Weakness and strengths as analytical tool with respect to: | 1) HI as an eclectic model addresses the weakness of RCI and SI, but devotes less attention than other schools in developing a sophisticated understanding of exactly how institutions affect behaviour. Although emphasis on induction have produced some startling revisions to our conventional understanding, it also becomes a source of weakness in that HI has been slower than other to aggregate its findings into systematic theories about the general processes involved in institutional creation and change. | 1) RCI has developed a more precise conception of the relationship between institutions and behaviour. Since instrumental behaviour is a major component of politics, RCI highlights key aspects of politics that are often underappreciated by other schools of thought and provide tools for analysing them. On the other hand, the foundations of RCI rest on a relatively simplistic image of human motivation. | 1) SI is better placed to elucidate on the relationship between institutions and human behaviour—they specify ways in which institutions can affect the underlying preferences or identities of actors that RCI takes as given. However, focuses on culturally-specific repertoires can often lead to culturally-deterministic answers. |
| 1) Problem of specifying the relationship between institutions and behaviour | 2) Whereas RCI account of the origin of institutions seem to depend heavily on deduction, those of HI depend on induction. | 2) While RCI produce ideas of its origins, forces of change and continuity, its understanding of institutions are simply too ‘functionalist’, ‘intentionalist’ and ‘voluntarist’. | 2) SI best explains the presences of inefficiencies in institutions, but is blind to the power dynamics of competing interests in understanding change of institutions. |
| 2) Problem of explaining how institutions originate, change and persist. | | |

<table>
<thead>
<tr>
<th>View of the firm</th>
<th>Globalisation thesis</th>
<th>VoC</th>
</tr>
</thead>
<tbody>
<tr>
<td>Firm competitiveness</td>
<td>Firms are essentially similar across national at least in terms of basic structure ands strategy</td>
<td>Firms in different political economies develop distinctive strategies and structures to capitalise on the institutions available for market or non-market coordination in the economy</td>
</tr>
<tr>
<td>Firm competitiveness</td>
<td>Associates the competitiveness of firms with their unit labour costs, from which it follows that many will move production abroad if they can find cheaper labour there.</td>
<td>Firms derive competitiveness from the institutions in their home country that supports specific types of inter- and intra-firm relationships. Many firms are reluctant to give these up simply to reduce wage costs. However, there can be &quot;institutional arbitrage&quot;, i.e., firms may shift particular activities to other countries in order to secure the advantages that the institutional frameworks of their political economies offer for pursuing those activities.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Political dynamic associated with globalisation (Pressure, resistance, and outcome)</th>
<th>Globalisation thesis</th>
<th>VoC</th>
</tr>
</thead>
<tbody>
<tr>
<td>Political dynamic associated with globalisation (Pressure, resistance, and outcome)</td>
<td>Monolithic political dynamic: Pressure: In the face of threats from firms to exit the economy, governments are said to come under increasing pressure from business to alter their regulatory framework so as to lower domestic labour costs, reduce rates of taxation, and expand internal markets via de-regulation (i.e., race to the bottom). Resistance: What resistance there is to such steps will come from trade unions, seeking to protect the wages of their members, and social democratic parties, seeking to preserve social programmes. The diversity between national political economies will be determined by the amount of political resistance that labour and the left can mount to proposals for change. Outcome: Because international interdependence provides capital with more exit opportunities than it does for labour, the balance of power is likely to shift dramatically toward capital (the convergence hypothesis).</td>
<td>Disparate political dynamic: LME Pressure: In face of more intense international competition, business interests in LMEs are likely to pressure governments for deregulation, since firms that coordinate their endeavours primarily through the market can improve their competencies by sharpening its edges. The government is likely to be sympathetic because the comparative advantage of the economy as a whole rests on the effectiveness of market mechanisms. Resistance: Organised labour will put up some resistance, resulting in mild forms of class conflict. Outcome: But, because international liberalisation enhances the exit options of firms in LMEs, as noted above, the balance of power is likely to tilt toward business. The result should be some weakening of organised labour and a substantial amount of deregulation (much as the conventional globalisation views predict). CME Pressure: Governments are less sympathetic to deregulation because it threatens the nation’s comparative institutional advantage. Although there will be some calls for deregulation even in such settings, the business community is likely to provide less support for it, because many firms draw competitive advantages from systems of relational contracting that depend on the presence of supportive regulatory</td>
</tr>
</tbody>
</table>
Resistance: Firms and workers have common interests to defend because they have invested in many co-specific assets, such as industry-specific skills.
Outcome: Less class conflict, and conflict centre around the formation of cross-class coalitions, as firms and workers with intense interests in particular regulatory regimes align against those with interest in others.

Source: Hall and Soskice (2001a:54-60) with authors’ additions.
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