The Open University

Perspectives on International Management - Audio

Institutional Differences

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[Music]

MFO: Many of the facts which we know to be true, are, in fact, social facts. They are only true as long as enough people believe them.

If I go into this building and exchange some paper for a cup of coffee and some metal discs, we'll all understand I've used money in a café. Money, though, only works so long as we all believe in it. The idea of a café is another social fact and the same is true of many of the facts of our daily lives. They are only facts so long as we have a shared set of beliefs. These self-perpetuating clusters of shared beliefs are referred to by sociologists as institutions and institutions may vary from country to country.

The idea of a manager too is an institution. Like many institutions, you can find different versions of this idea in different locations. For example, in the UK, people commonly understand management skills as transferrable between different contexts. In Germany though, the assumption tends to be that skills are specific to particular context and industries. The idea of management skills which transfer, say, from an engineering setting to a financial setting seems very strange in Germany. In Japan, the situation is even more extreme, as Ron Dore of the London School of Economics and Political Science explains.

RD: Japan is a very different society in many respects. The typical career pattern is that you join when you leave school and you become a regular worker with an open contract. And becoming a regular worker in Japan now has conventionally come to mean that the firm doesn't sack you until retirement.

MFO: So how do these social facts come to be so solid for us? Richard Scott has developed a framework to answer just this question. He talks of three pillars of institutions: the regulative pillar highlights the way that laws and other coercive forces regulate social life. The normative pillar highlights the role of social norms and expectations. The cultural cognitive pillar highlights the role of cultural mindsets. Strong institutions are underpinned by these three pillars, mutually reinforcing each other, producing a taken for grantedness about many of the social facts in our lives. So management, as an institution, would be affected not just by the cultural mindset in a particular country, but by local values and norms often embedded in the education systems and, very importantly, by the regulatory constraints within which managers function.

Whilst capitalist economies dominate in the world of business, the flavour of capitalism varies wildly.

RD: One might even question whether Japan is a capitalist society at all.

MFO: Ron Dore again.

RD: You see, managers move in Britain and the United States and to a lesser extent in Europe from firm to firm and their talents are bought by the board which thinks that these will be the best people to serve the interest of the shareholder. And that phenomenon, which I think drives the whole strategy of business firms, is one of the major things which determines that the United States and Britain are genuinely capitalist societies, that is to say, corporations are there to serve the owners of capital.

Now in Japan there is no executive labour market. The people who run Japanese firms are people who have worked the whole of their life in them and they can see themselves, not as being the agents for the shareholders because they pay a standard dividend which they keep the same whatever their profits are, not as being the agents for the shareholders but them being something like the elders of an employee community.

MFO: The varieties of capitalism approach to understanding national differences builds on the idea of institutions in different countries around the world. A key distinction is made between liberal market economies and co-ordinated market economies. Liberal market economies like the USA and UK co-ordinate firms' activity primarily through markets. Employment protections are relatively weak. Firm governance is focused on accountability to shareholders and within industries, firm relationships are characterised by competition with limited collaboration. In coordinated market economies like Germany or Austria, things are quite different. Helga Zitsen of the Gates Corporation explains how things work in Germany.

HZ: The pay is determined two ways: one way is the basis of regional tariff contracts and we being part of the Employers Association as employers' representatives, we give inputs to the negotiators of the employers side on what we believe would be an acceptable compromise for increases. There are, in the tariff contract of the chemistry industry, for example, thirteen different levels of pays.

MFO: These differences are often reinforced by other aspects of economic organisation. For example, whilst in the USA and UK, a high proportion of business and financing is through equity markets. In Germany, banks play a much stronger role often making significant investments in multiple firms in the same industry. A consequence of these differences in the institutional arrangements is that firms in coordinated market economies are faced with greater constraints on the choices they can make compared to those in liberal market economies. For example, in relation to employment contracts. Helga Zitsen again.

HZ: Our workers, they have a lot of say in whom we can hire or not. They would, of course, leave it up to management to decide on the qualifications. However, if, for example, an internal qualified person wanted the position and we could not explain why we would not offer this position to an internal person, they would need a justification from us why we would not ask the person to do the job. This then would have to be negotiated or even more important, is if you made people redundant the workers council would have a week's time to agree or disagree to such a redundancy.

MFO: In practice, many countries shoe a mixture of liberal market and coordinated market approaches and it by no means encompasses all forms of capitalism. For example, a new form of state controlled capitalism seems to be emerging in China, what the Chinese call capitalism with Chinese characteristics. While the institutional perspective incorporates ideas of cultural mindset, change in national institutions is assumed to occur over rather shorter time horizons than changes in culture. For example, Japan's corporations changed very quickly as a result of the Second World War.

RD: A lot of people say this peculiarly Japanese structure is rooted in Japanese culture. Well, it is in a way, but if you go back to the 1930s, you find that Japanese firms were behaving then very much like British and American firms do now. They were run by… a lot of them were still run by owner managers, again, you know, who wanted to get as much out of them as possible. And even the big corporations had on their boards people who were representatives of the stockholders and, by God, you know, they took their directors' bonuses in fat lumps and they insisted on dividend payout ratios out of profits which were very high and fluctuated, of course. It was typical Anglo Saxon capitalism in the 1930s. What changed that was the war and the post war process. The war, because the ministry of war production and the ministry of ammunitions insisted we're not going to win a war with these shareholder representative bastards running the firms and chucked them all out and insisted on it being people who thoroughly new the business because they worked in them.

MFO: A number of countries are currently going through very considerable institutional change, not least the rapidly emerging brick economies of Brazil, Russia, India and China, each developing quite individual approaches to building a capitalist economy.

As we've heard, institutions can change more quickly than cultures. The experience an international manager has may often be the consequence of a particular point in history. For example, some Eastern European countries have been going through quite rapid changes.

SC: When I first moved to Eastern Europe, which was Hungary, and we moved there from India…

MFO: Sanjeev Choudhury.

SC: And it was a completely different world, for two reasons: one is that this was the mid to late 90s, and after the fall of the Berlin wall, the Eastern European countries were adjusting to the post communist era. So there was this wave of people feeling liberated and free and everything else and yet, essentially, one generation had been lost to anything modern in terms of education or training. You had fantastic physicists but you had no managers.

MFO: This lack of skilled managers was a moving picture.

SC: Here was a situation where a generation of individuals were not seeing anything great happen to their parents' lives but expecting something great to happen to them because the world had changed around them but they were still kind of got in the past. So I think the managerial challenge and opportunity was to really, kind of, unleash them to what the world had to offer, open the world to them. And as a result, again, happy to report that what I could really see was that over the years now in country after country in that region – Hungary, Poland, Russia, Czech Republic, we are seeing a new cadre of managers who are globally mobile, very unlike managers in Western Europe who are very happy to stay in their own country because life was good, not necessarily so now, but we have got some of our best managers now globally who have basically grown up in those markets.

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MFO: Many important features of national institutions are less easy to characterise in terms of a liberal market versus coordinated market distinction. Things like the strength of the informal economy, the proportion of small versus large firms, the nature of educational systems, the level of reliance on family and social networks for firm financing, the nature of supply chain and distribution networks all contribute to very distinctive forms of economic organisation in different countries with important implications for business and management practices. Further, not only do countries vary in the kind of business regulation firms face but they vary significantly in the extent to which laws and regulations are enforced.

Managing between countries with different forms of economic organisation requires real skill. Those who can take knowhow from their home country and make the implementation work in a host country are of great value to firms and it is these kinds of transnational skills that are required to do this that are focused for the next and final podcast in our series.

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