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Is Globalization Making Us All the Same?

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When I first began teaching organizational sociology to undergraduates in the late 1980s, the students could not get enough of Japan. It was obvious to them and (to come clean) to their teachers that Japan was the way of the future and that the American corporation would need to remake itself radically to compete in the global economy. Japan had, for reasons of culture or history or politics, happened on a model of corporate organization that was more stable, more innovative and more productive than the warmed-over Fordism found in American firms. Change or rust, that was the lesson for America.

Fast-forward a decade or so and the period of Japan worship is regarded as folly, as misplaced American self-doubt. Japan was the model for us; now we are surely the model for Japan. The new generation of undergraduates cannot get too little of Japan. It is now the poster child for crony capitalism and all that went wrong in Asia. It is obvious to the students, and (again) to their teachers, that the United States is now the way of the future. We are in the midst of a period of mass amnesia of the sort usually seen only in science fiction movies.

Sanford Jacoby has written an erudite and accessible book that looks at what is really going on in corporate America and corporate Japan through the keyhole of the human resources (HR) function. Through background chapters on the history of HR in each country, in-depth studies of a handful of matched companies and a survey of HR practices and corporate roles, Jacoby paints a picture of two business communities that have retained their distinctive characteristics even as they have responded to common global pressures. The big question here is whether national management approaches are converging on America's market-orientated shareholder-value model. And the big answer is no, they are not. Corporations in the United States and Japan alike now embrace market principles, but differences have not narrowed. Moreover, the drift towards market co-ordination of careers has come about not because market co-ordination is superior but because America has once again become the country to follow. Every country tries to be more American, even America.

Jacoby is a historian teaching in a business school, and from his vantage point we see the role of history in shaping early corporate HR and governance

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practices. Early choices by management, labour and politicians established institutions that would not change course with a shift in the wind. Jacoby's historical lens for examining the origins of these practices also serves as a crystal ball, for the past is prelude to the future. What we get from Jacoby's account is not a two-by-two table categorizing all of the world's economies but a historical account of how national business characteristics emerged. Jacoby offers a way of thinking about corporate governance and business strategy that is path-dependent and contingent. Early decisions set each country on its course, and those decisions were contingent rather than determined by broad economic laws.

This comes as a refreshing counterpoint in a world where what is true this week has always been true, such that history gets rewritten every time a different country comes out on top. It was not so very long ago that France's remarkable post-war growth belied the superiority of the laissez faire ideals that Britain and the United States had, in word if not in deed, lived by. (America's industrial revolution owed thanks, after all, to massive public subsidies to railroads, banks, breweries.) Andrew Shonfield (1965) sold many books on the theory that France had it right. Now, the world faces the regulatory dogma of the Washington Consensus that Alan Greenspan, Robert Rubin and Larry Summers forged in the heat of the Mexican and Asian crises, which advises homogenizing national regulatory regimes to suit the preferences of investors. The firm-level prescription is shareholder-value management and a market-orientated HR system.

Both sides in this debate expect globalization to produce homogenization. Some even conflate the two ideas, using globalization to mean movement towards the American system. From the classical liberals we hear projections of market-induced convergence around a single set of 'best practices'. From the naysayers we hear projections of a homogenizing 'race to the bottom' in which global product competition forces nations and corporations to cut worker wages, benefits and protections. Jacoby's book challenges these predictions, suggesting that there is much to keep national traditions in place. Perhaps his most compelling argument is that idiosyncratic business practices can offer distinct advantages. Countries have things to learn from each other, and thus Jacoby points to learning from East to West and West to East alike. But if a country like Japan tries to replicate the American business model, it may lose what made its products and services globally competitive in the first place. Jacoby's book is a call to recognize what is distinctive about each nation's business system and what about that distinctiveness confers real advantage. If the conventional wisdom is that economic laws make one narrow set of business practices efficient, *The Embedded Corporation* makes a compelling case that conventional wisdom has it wrong. There are many efficient ways to organize firms and national economies, each with different advantages. On many counts, the Japanese firms that Jacoby describes are highly efficient, innovative and competitive. Market forces are no more extinguishing the Japanese approach now than they were extinguishing the American approach twenty years ago.

The game of economic follow-the-leader bears a striking resemblance to the phenomenon of the cargo cult. Countries build shrines to the management practices and macroeconomic policies of global leaders without really grasping the keys to success. Is it the shape of the cargo ship that magically produces the goods inside? It is worth a try. Now that the United States is again the leader, policy makers and managers again look there for 'demonstration effects' and for models to copy. Jacoby points to epistemological and practical problems facing copiers. On the one hand, it is impossible to know what makes the United States successful this week. Without a controlled experiment, how can we adjudicate between arguments about corporate governance, low wages, internet first-mover advantage, the dollar's role as reserve currency and the plenty supply of lumber? On the other hand, can corporate institutions be imported like Toyotas? Will they work the same in the new setting? Imports often fail to work in the new setting. Jacoby points out that corporate governance is part of a larger institutional puzzle. Japan could change governance rules, making Japanese boards stronger, but to get the desired effect it would have to create an external labour market for CEOs, reduce the role of labour unions, increase the power of finance managers and diminish the power of HR managers. Attempts to revolutionize national institutions in one fell swoop have rarely met with success. And by the time you take two steps in that direction, as America's 1980s Japanophilia demonstrated, there will be another leader to copy.

The Washington Consensus suggests that previous economic fads that identified the 'one best way' were often wrong-headed but that we now have it right. Global competition in products and services is now leading change. This time, the invisible hand of the market is at work and that hand does not make mistakes. Jacoby challenges the thesis that global competition is forcing firms towards the 'one best way', or in economese, the single-peak optimal equilibrium. Instead he argues that there are any number of efficient ways to manage and regulate corporations. The power of the single-peak view is that it conforms to the Enlightenment worldview, in which science seeks universal truths. Economic life should be comprehensible in the same terms, for if economic laws are uniform, then they can no more allow multiple efficient corporate governance systems than physical laws can allow multiple speeds of light. Exposure to global competition should uncover the system that is truly optimal.

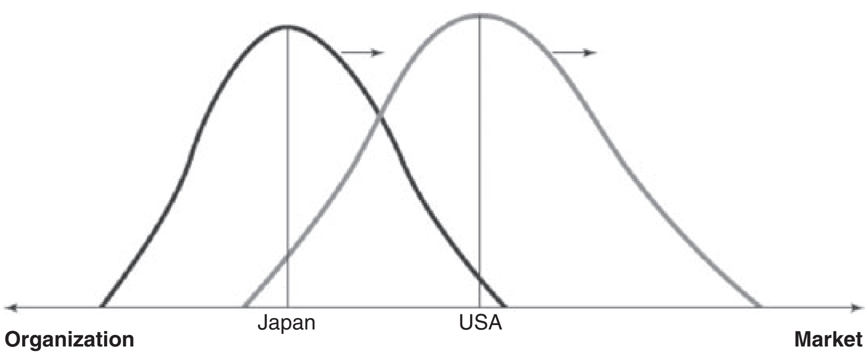
Japan's miraculous post-war growth seemed to challenge the singularity of the Anglo-American view by the 1980s. For some, Japan proved that there could be multiple equilibria. Others thought it represented the true single peak. Those who continued to believe that there must be one best way to organize economies had glossed over gaping differences between the British and American systems and wilfully ignored the economic miracles to be found in Germany, France and Sweden. Their refrain: 'Ah, but how might they have prospered under laissez faire!'

Jacoby's picture of Japanese management in the wake of the Asian crisis gives the lie to the globalization argument that economic forces are producing substantial convergence in corporate structure and strategy. There is overlap in the corporate systems of the United States and Japan, as William Ouchi pointed out in *Theory Z* and as James Lincoln and Arne Kalleberg (1985) found in their survey of management practices. Some American companies invest in workers, plan for long-term employment and organize their business strategies around their human assets. Some Japanese firms do the opposite. Jacoby's finding that there is overlap between the countries but that there is no discernible movement towards convergence reinforces the recent findings of Ronald Dore (2000), whose 1973 *British Factory — Japanese Factory* inspired Jacoby. What Jacoby does find is that the average firm in each country has moved towards market-centric policies. American firms always managed their HR through markets and they do so to an even greater extent than they used to. Japanese firms have lowered their commitments to lifetime employment and training.

In Jacoby's schematic, firms' employment systems are arrayed across an organization-market continuum (see Figure 1). Firms in each country form a bell curve on that continuum. The curves overlap, but the Japanese bell is distinctly closer to the organization end of the continuum. Each country's curve has moved towards the market end of the continuum, but the gap between the country distributions remains.

The schematic also highlights another difference between the countries: Japanese employers are of one mind, whereas some Americans adhere to the shareholder-value, external labour-market view and others adhere to the high-performance, resource-based stakeholder view. In Jacoby's schematic, then, the distribution of Japanese firms forms a narrower bell. As in his earlier books, *Employing Bureaucracy* (1985) and *Modern Manors* (1997), Jacoby talks not of garment sweatshops, satellite component suppliers, itinerant farm labour, fast food or noodle shops, but of core service and manufacturing firms. Because his focus is on leading employers, he probably underestimates the range in each country.

FIGURE 1
Corporate Employment Systems in the 1980s
(reproduced with the Permission from Princeton University Press).



Jacoby draws on the intellectual foundations of the resource-based view of the firm to explain the comparative advantage of Japan's organization-centric approach to managing employees. Under the resource-based view (Barney 1991; Mahoney and Pandian 1992; Pralahad and Hamel 1990), the firm's future lies not in its market position but in its inimitable resources. Firms that have cultivated rich HR can out-innovate and out-manoeuvre their competitors. They can count on their employees to go the extra mile for the company. By contrast, firms that treat their employees as expendable factor inputs — those that do not invest in training and teamwork — have difficulty surviving the rigours of global competition. When employees see a storm brewing or a better opportunity on the horizon, they jump ship. Jacoby makes a compelling case that this resource-based view of the firm, now so popular in business school curricula, is what made Japanese industry competitive. It is easy to see how this resource-based approach contributed to the industrial flexibility and innovation that characterized Japanese industries from electronics to automobiles (Piore and Sabel 1984).

In keeping with the view that there is a range of employment systems in each country, Jacoby points to the rise of (human) resource-based management in American firms. There has been something of a quiet revolution over the last two decades, as employers adopted high-performance work practices. This is partly a result of American firms copying 'best practices' from firms in Japan and Europe, and partly a result of Americans building on existing strengths. Notwithstanding the rhetoric of project-orientated careers, downsizing, outsourcing and shareholder value, a remarkable number of medium and large firms have adopted high-performance practices designed to broaden workforce skills and to elicit collaboration. Ichniowski *et al*. (1997) find the change among steel mini-mills, and they discover that the new work practices lead to measurable increases in productivity. In Alexandra Kalev's study of medium and large American employers, 37% had set up self-directed work teams and nearly 90% had job cross-training designed to build broad-based skills (Kalev 2004). While the commitment to these new work practices varies across employers, the numbers bespeak a significant change in American industry that has been masked by the hype of shareholder value. Jacoby finds that firms insulated from shareholder pressures are more likely to invest in employees, following this resource-based approach. While publicly held firms embrace shareholder-value principles (Zorn 2004), executives in privately owned firms and in those still run by founders invest in training, teamwork and workforce commitment strategies.

The realization that national institutions do not adapt instantaneously to market pressures has led to a revival of institutional analysis in economics, political science and sociology (North 1990; Thurow 1992). *The Embedded Corporation* speaks to the current debate. The dominant theoretical model these days is based in evolutionary biology and what Steven Jay Gould termed 'punctuated equilibrium' (Krasner 1984). Institutions persist over long periods until a crisis, political or economic, punctuates the equilibrium and sets off a series of events that brings about a new equilibrium. Jacoby's account emphasizes inertia, challenging the view that new business rhetoric necessarily translates into new practices.

Jacoby's theory of institutional inertia builds on those of political scientists and sociologists, for whom business conventions generate both political constituencies and cognitive maps that carry them forward (Dobbin 1994). However, befitting his trade as a historian, he offers an account that is both more grounded and richer. National business institutions are self-reinforcing, so that long-term employment and in-house training go hand in hand with the absence of an external labour market for managers. Like Richard Whitley and his colleagues from the National Business Systems school, Jacoby sees the structural co-ordination of different elements of the economy as key to inertia (Whitley 1992; Whitley and Kristensen 1996). However, each system also depends on a (rational) belief system that reinforces it. Change comes with good evidence that another system works better, yet both the structural and the ideological aspects of institutions resist change. Power as well can impede change, as when shareholders (particularly institutional investors) prevent the lessons of the resource-based firm from taking hold in the United States. Efficiencies also reinforce institutions, and here Jacoby's multiple-peak optimality approach shares much with the sociological approach to comparative advantage sketched by Mauro Guillèn (2001) and Peter Hall and David Soskice (2001). Guillèn, for instance, asks why industries in Spain, Argentina and Korea can maintain distinct characteristics and finds that far from crippling firms in the global market, those characteristics were of advantage to them.

For Jacoby, change comes about when managers recognize new ideas about corporate efficiency and try to implement them. They assemble new institutions from both old and new components. Eleanor Westney (1987) argued that Japan's management system was an amalgam of practices from West and East and that the Japanese had deliberately imported Western management practices and made them their own. Cziarnawska-Joerges and Sevon (1996) argued that as management practices move around the globe, they are 'translated' locally into workable solutions. Djelic (1998) examines how France, Germany and Italy translated, and resisted, the American business model after the Second World War. This idea helps to explain institutional inertia because translation allows firms to maintain their core business identities by adapting innovations to them. Yet like sociological institutionalists, Jacoby finds that innovations are often little more than window-dressing. Firms jump on new bandwagons and then keep doing things as they have always done them, 'decoupling' day-to-day routines from formal practices (Meyer and Rowan 1977). Thus, Japanese firms talk the talk of abandoning lifetime employment but do not walk the walk (Dore 2000).

Are we moving towards a single global capitalist system with homogenous firms operating in uniform, frictionless markets? Many have predicted the spread of business and governance practices across borders and yet empirical studies demonstrate that existing differences show few signs of going away. Global exchange of management strategies has not proceeded nearly as far as we think it has (Fligstein 2001). In the end, the picture that Jacoby paints is more complete and more realistic than the received wisdom about globalization. Like Thelen (2004), he paints a picture of gradual change in which managers try to adopt successful foreign models but in which they face considerable political, structural and cognitive resistance. The innovations have to fit within the puzzle of existing institutions, so adapting an innovation from abroad means doing a lot trimming and retrofitting.

What may keep the Japanese system alive, ultimately, is its (human) resource-based approach. Nurturing and then making the most of your unique human assets is, for those in the resource-based school, key to 'sustained competitive advantage' (Barney 1991). In *The Embedded Corporation*, Jacoby has moved the resource-based view up a level from firm to nation. Countries with firms that do this well will succeed in a knowledge-based global economy. The resource-based view of the firm is itself a sort of microscopic version of David Ricardo's theory of comparative advantage, with inimitable resources at the organization level corresponding to immobile factors of production at the national level. Jacoby provides compelling evidence that the Washington Consensus may be wrong, and that it may be a bad plan for nations to try to mimic America's shareholder-value model precisely because it treats human beings as just another factor of production. There is no small irony in the fact that the core idea seems to have sprung from David Ricardo himself.

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