Globalization, Multinationals and Institutional Diversity

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Abstract

This paper aims to explore the impact of globalization and in particular multinationals on diversity *within* national varieties of capitalism. Do the actions of multinationals create more diversity within national systems, do they reduce diversity or do they have relatively little impact on diversity within national systems? Drawing on Whitley (2005) the paper argues that there are distinctive structures of institutional diversity across different national systems. Therefore, the question is not how do MNCs impact on institutional diversity per se but how do they impact on these different structures of diversity? In order to develop this argument, the paper also differentiates types of multinational. The paper uses Dunning's 'eclectic' paradigm (Dunning 2001) and his distinction between market seeking, resource seeking, efficiency seeking and strategic asset seeking in order to identify a range of different MNC activity across manufacturing, professional and financial sectors. These different sorts of MNC activity vary across time and contexts in terms of their significance. The paper looks in detail at four different models of capitalism and examines how the entry of different sorts of multinationals with distinctive objectives impacts on the relationships between key social actors which underpin and reinforce these models. In this way, it suggests how institutional diversity within different types of capitalism may evolve under the impact of MNCs and globalization

Key words: institutional diversity; multinationals; models of capitalism

Introduction

This paper aims to explore the impact of globalization and in particular multinationals on diversity *within* national varieties of capitalism. Much of the literature examines the impact of globalization from a different perspective. It considers whether differences *between* national systems are declining, increasing or staying the same. This convergence debate has a powerful hold over much research on national varieties of capitalism. However, in recent discussions (Hancke et al. 2007; Morgan et al 2005; Streeck and Thelen 2005; Whitley 2007), there has been a gradual shift towards an increasing interest in the internal diversity of such systems; how and why does diversity survive and with what consequences for institutional change? One major potential influence on diversity within national systems emerging from the process of globalization is the growth of multinationals. Do the actions of these organizations create more diversity within national systems, do they reduce diversity or do they have relatively little impact on diversity within national systems? In order to examine this question, the paper firstly examines the idea of institutional diversity and how it has been analysed in recent debates. This section argues that there are distinctive structures of institutional diversity across different national systems. Therefore, the question is not how do MNCs impact on institutional diversity per se but how do they impact on these different structures of diversity? The second section addresses the issue of multinationals. What sorts of factors drive their location decisions and how might these interact with institutional systems? The third section looks in detail at the four different models of capitalism and examines how multinationals might impact on particular forms of institutional systems.

Diversity within national systems: initial considerations

The concept of institutional diversity has emerged in the analysis of national varieties of capitalism as an antidote to over deterministic accounts of structure and resistance to change. In this sense, it acts as a counterweight to other versions of the trajectory and development of varieties of capitalism where institutional diversity is seen as negative from the point of view of economic performance. This approach is most clearly seen in Hall and Soskice (2001) and Hall and Gingerich (2004). Hall and Gingerich report that 'Where the political economy allows for higher levels of market coordination or higher levels of strategic coordination, estimated growth rates are higher than they are when there is more variation in the types of coordination present in the political economy' (Hall and Gingerich 2004: 29). High performance may come equally from either of the two coherent but very different types (the principle of 'equifinality'), the liberal market economies or the coordinated market economies. Low performance arises where economies are incoherent and diverse. As Kenworthy notes about this perspective, 'for economic performance outcomes the decisive question is not 'Which group are you in?' but rather 'How coherent are your institutions?'' (Kenworthy 2006: 72). These authors tend to assume that over time institutional systems will either sustain a coherent set of institutions or, *ceteris paribus*, will migrate towards one of the poles of coherence in order to improve their economic performance. Although there is recognition that resistance to this shift is possible, the result is to downplay internal diversity as a permanent feature of institutional settings in favour of characterising societies in terms of dominant and distinctive modes of coordination. Change emerges from modifications to existing practices within the dominant system of institutions. As Hall explains, 'Varieties of Capitalism are constituted not by static sets of institutions but by distinctive trajectories that are institutionally conditioned, as new practices are developed to cope with the problems generated by past practice and integrated into a network of interacting institutions, some of which remain stable as others change' (Hall 2007: 76). Thus change emerges from within the adaptive processes of the dominant institutional pattern and has little to do with any broader diversity in the system.

Other authors take a very different perspective from that of Hall and colleagues. Crouch, for example, is sceptical of the institutional coherence argument, suggesting that 'mixed institutions are always likely to be more useful for change and innovation, and more resilient than those that reproduce similar characteristics over a wide institutional range' (Crouch 2005: 59). Crouch emphasizes the heterogeneity and diversity of institutions in particular societies and envisages that actors will respond to change pressures by engaging in experimental behaviour which will draw on combinations of institutions rather than adapting the single dominant institutional logic. Firms tend to be seen as active in developing institutional supports and therefore central to processes of institutional reform and change. This process of what Crouch terms 'recombinant governance' and institutional entrepreneurship is open-ended and under-determined, shaped by the skilful use of firstly existing institutions, secondly new emerging technologies and market opportunities and thirdly, power resources. Institutional diversity is the very heart of change. It is through using diversity and engaging in processes of recombinant governance that localities, regions and nation-states can be institutionally innovative. Crouch's argument reflects a broader trend favouring the role of historical analysis, contingency and politics which can ‘incorporate social compromises rather than either functionalist or purposive logic [and]are likely to describe societies containing much internal diversity and unresolved contradictions and tensions’ (Crouch 2005: 64; also see e.g. Djelic and Quack 2007; Morgan et al 2005; Morgan 2005; 2007a; 2007b; Streeck and Thelen 2005; Thelen 2003; 2005). A further impetus to this argument has been research on transitions in Central and Eastern Europe which has revealed the role of politics, the impact of international actors, the influence of pre-transformation institutions and actors in developing a variety of models of capitalism in these areas (e.g. Bohle and Greskovits 2007; Lane 2005, 2007; King and Szelenyi 2005; King 2007) and the way in which institutional recombination and diversity is constructed (Stark and Bruszt 1998; Stark 2001).

The problem with simply asserting institutional diversity, however, is that it potentially dissolves into a set of historically specific descriptions of how particular contexts have evolved. It therefore begins to lose the theoretical value that the varieties of capitalism approach has for applying common concepts and frameworks across contexts and enabling systematic comparative study. One way out of this has been developed by Whitley (2005: 2007). He suggests that the establishment of what he terms ‘cohesive and distinctive business systems at the national level’ varies across contexts in a way which can be systematically related to historically emergent characteristics of particular societies. Three factors which emerge from his analysis are relevant here. The first is the degree and nature of the role of the state in economic life. The second is the way in which key economic actors relate to the state and in particular whether they are incorporated into the state and organized or influenced by the state. Associated with this is the way in which the collective organization of economic actors is sponsored, shaped or undermined by state action. Finally, there is focus on the degree to which the state and/or collective actors create nationally binding systems of institutions that shape and standardize the organization of markets – for capital, for goods and services and for labour.

Whitley distinguishes four types of systems with varying degrees of institutional cohesion and diversity. He suggests that liberal market economies have regulatory states which concentrate on setting the rules of economic action but are not strongly interventionist in other areas. They do not engage in strong institutional design processes, partly because actors are decentralised and poorly organized into peak level associations, preferring to retain the autonomy to respond to market changes quickly and without wide consultation and cooperation with others. Sanctions and rewards encouraging actors to follow a dominant institutional design are weak, tending to emerge from market processes rather than regulative or state level activity. Such societies are likely to be characterised by a variety of institutional clusterings of varying strengths, defined by a combination of sectoral or geographical specificity. This clearly reflects the dominant role of market relations in these contexts. Weak central institutions allow the survival, emergence, or development of diverse institutional patterns so long as market failure is kept at bay. This explains, for example, why a number of authors (see e.g. Campbell et al, 1991; Herrigel and Wittke 2005; Taylor 2004; Whitford 2005) have seen considerable institutional diversity and innovation in the USA which in other contexts is treated unproblematically as the paradigm case of dominant liberal institutions.

By contrast, Whitley argues, other societies constrain institutional variety and diversity in distinctive ways. He identifies 3 main types. In societies with strong interest group representation (which he labels ‘inclusive corporatist’), dominant actors such as the state, peak level associations of large firms and trade unions have sought to avoid the emergence of a cheap wage, differentiated sector by developing regulations and rules which apply across the society as a whole. They thus create a relatively standardized and high platform, particularly of wages, taxes, working conditions, skills and rewards together with a welfare and training system that buttresses these firm level characteristics. As a result, institutional diversity is relatively low in such systems. This model has traditionally characterised Germany and Sweden and, with certain important variations, other Nordic states.

By contrast, Whitley identifies what he terms a ‘business corporatist’ model. In these systems, the dominant actors consist of the state and big business. Big business is linked to the state through a set of relationships that are organized through firms and through various peak associations of business where a strong collective voice for business exists. Labour organization, on the other hand, is weakly developed and labour is kept away from the main levers of power. The weakness of labour means that ‘the national standardization of labour representation and bargaining systems across sectors and firm type remains restricted’ (Whitley 2005: 201). Large firms operate closed internal labour markets which in return for long-term employment guarantees set high standards of training, performance and commitment for their employees. The state in conjunction with the banking system shares part of the risk of these long-term guarantees by managing the competition process and facilitating forms of cooperation over large scale projects. Firms tend to cohere into groups which also reduces potential risks from specialization. Finally, part of the risk is laid off to small firms which act as buffers for the large firms, expanding and contracting according to market demand. Such systems are characterised by a strong segmentation between big business and its networks supported by the state and the banking system and a periphery of small, unstable and marginal firms struggling to survive. Such systems have a form of internal diversity but it is of a limited nature. Japan is the main example of this model.

Whitley's final category is that of the 'developmental state'. Developmental states tend to discourage the emergence of strong intermediary associations amongst both business and labour. Instead the state tends to focus on particular firms and sectors in order to generate internationally competitive capabilities. These firms are given access to advantageous credit arrangements and generally provided with a protective home environment in which they can build and develop their capabilities, usually based on mass production. Firms and individuals that are trusted by the state are likely to develop hierarchically organized business groups, which link together a number of diverse business areas. The state is also central to the education and training system which becomes framed in terms of a national mission and supported through strong nationalist symbolism. However it is a nationalism in which a particular definition of national economic interest associated with the large business groups is dominant whilst small firms (and labour) are excluded. As a result, Whitley argues that 'there are likely to be considerable differences between companies and sectors supported by the state and those that are relatively neglected' (Whitley 2005: 207). Such systems are therefore characterised by significant institutional and firm level diversity within a context where the ability to control the state and access to the resources of the state is a key issue. This model has been associated to varying degrees with the development of Asian economies, most obviously South Korea but also Malaysia, Indonesia and Taiwan (Wade 2004).

These processes can be summarised in the following table:

(TABLE 1 ABOUT HERE)

From this perspective the nature and degree of institutional diversity within a society is predominantly shaped by the power of three groups of actors (the state, business and labour), their degree of collective organization and their ability to enter into alliances and credible commitments. In order to understand whether institutional diversity is likely to increase or decrease, therefore, it is necessary to understand how these features may be reconstituted, in the current example, by the actions of multinationals.

Multinationals

Why might multinationals have an effect on the relationships between these actors and in this way on processes of institutional diversity? Multinationals are essentially market actors; their goals and strategies are driven by issues of market positioning not by issues of institutional change and redesign. This is not to say that multinationals may not engage in forms of lobbying that are directed explicitly to institutional change, but rather that what is of interest here is the indirect impact of their actions on the reproduction of the dominant model of institutional diversity. For this purpose, it is necessary therefore to draw on some basic insights into why multinationals develop. In a recent overview of literature on international business, Dunning summarised his 'eclectic' paradigm in which MNC activity

"rests on the juxtaposition of three inter-related factors.

(1) The competitive (or O specific) advantages of existing or potential MNEs….

(2) The locational (or L specific) advantages of particular countries in offering complementary assets…

(3) The propensity of the firms possessing the O specific advantages to combine these with foreign based assets, by fdi, rather than by (or in addition to) the market mechanism." (Dunning 2001: 43).

From this he suggests that there are four main types of MNC activity: 'market seeking, resource seeking, efficiency seeking and strategic asset seeking' (Dunning 2001: 44). 'Market seeking' refers to accessing new markets for the MNC's products and services. Resource seeking (which is of less concern in this paper) is primarily the act of ensuring access to key material resources such as oil, minerals and agricultural products. Efficiency seeking refers to the task of reducing the costs of factors of production such as labour but also land as well as achieving economies of scale through developing large scale facilities concentrated in particular geographical areas. Strategic asset seeking refers to the securing of key assets for the development of the firm; these include access to knowledge, skilled labour, ancillary services and capital. The degree to which any one of these types of activities outweighs any other will clearly be highly variable. The decisionmaking of a multinational is seldom driven by simply one of these factors but rather as the ‘eclectic’ paradigm suggests by varying combinations of these factors.

In the development of these ‘seeking’ strategies, MNCs have been supported by broader developments in the world economy. It is worth briefly recapitulating on the two phases of this process since the 1950s. From the 1950s through to the 1970s, the global economy was characterised by an effort to open up national markets for competition and FDI. Backed by the dominant power of the US, the Bretton Woods international institutions and the use of the dollar as an international currency, overt protectionism was reduced in many countries and FDI (mainly via US based multinationals) increased. New markets for manufactured goods were opened up and US multinationals in particular established production facilities outside their home base. However, many goods and services remained protected in particular countries and regions. Moreover capital flows were controlled inhibiting extensive use of FDI.

The second phase of the global economy reflects a steady and concerted effort on the part of public and private actors to consolidate and extend this opening up process. Under the rules of GATT and now WTO, it became increasingly difficult for states to maintain protectionism as a formal policy. Capital flows were liberalized and the deregulation of financial markets, the floating of currencies and the opening up of markets to foreign investors all facilitated a greater marketization of economic life. In recent work, Djelic has examined how marketization has moved from being an ‘intellectual agenda to global policy-making’. She argues that ‘since the early 1980s, the spread of marketization has meant, in reality, deep transformations with economic, social and political dimensions. Market-oriented macro-economic policies – privatization, deregulation and liberalization – have spread rapidly….Trade liberalization also progressed…Marketization has also translated into financial liberalization…The same happened with the idea of competition. The fight for competitive markets has become a nearly global one' (Djelic 2006: 71).

In this context, MNCs have faced far fewer state level barriers to their various strategies than previously. However, as Djelic herself recognizes, there are limits to the marketization process;

'Limits stem from political and ideological resistance….Limits stem from also from local translation, editing and hybridization….Limits are also visible in processes of 'decoupling': the marketization revolution does not always go down from discourse to implementation. One naturally has to add a geographic if not cultural dimension to that mapping of limits' (op.cit.: 73)

This idea of limits can be useful linked back to the previous analysis of institutional diversity within national systems. National systems will differ in terms of their resistance to this marketization according to how the interests and capabilities of their leading coalitions and other less powerful actors are affected.

Two points are worth making before proceeding further. Firstly, much of the literature on MNCs and varieties of capitalism is concerned to argue that the way in which MNCs act is fundamentally shaped by their home institutional context (see e.g. the contributions in Morgan et al. 2001; Ferner et al. 2006; Geppert and Mayer 2005). This is relevant to the discussion here and will be referred to but it is not the central theme. Secondly, there is a tendency in these discussions to define multinationals predominantly from the point of view of manufacturing industry and to examine their impact in terms of the effect of the MNC in developing, changing or adapting to current regimes of production within factory-lie settings. However, this is an unhelpful and restrictive definition of MNCs in the current period. The growth of multinational firms in professional, financial and business services is a particular feature of this second phase of the global economy as discussed earlier (on international law firms, see Morgan and Quack 2005; Dezelay and Garth 1996; on management consultancies see Kipping and Engwall 2004; McKenna 2006; Morgan et al. 2006; on business services, see Miozzo and Grimshaw 2006; on global financial services, see Clark and Wojcik 2007; Knorr Cetina and Preda 2005; Porter 2005. Cases on international professional services also appear in Almond and Ferner 2006; Pettigrew and Fenton 2001). From a market-seeking perspective, one of the most important trends of the last decade has been the way in which financial and professional service firms have internationalized to seek out new markets. Indeed, this goes hand in hand with creating the conditions for new markets to emerge in contexts where existing firms have little expertise or interest. This is a strong theme in the discussion which follows.

Institutions, diversity and multinationals

In this section, each of the four types of institutional diversity described by Whitley are examined in terms of how multinationals are likely to impact on relations between key actors and through this on institutional diversity.

Liberal Market economies

As has already been suggested, liberal market economies have potential for the greatest diversity. In these systems, the collective organizations of employers and employees are weak. The state sets the rules of the game by setting the standards for how markets operate. These standards are primarily driven to maximize market processes whilst avoiding potential market inefficiencies. Rules on competition and collusion aim to provide a common platform for market processes to work. Labour markets are constructed to be flexible and reduce constraints on employers' ability to restructure firms. Capital markets are based on underpinning rules that determine who is able to trade and how they can do so. These rules are constructed on the logic of making markets work more efficiently. 'Special interests' are in theory excluded from this process through 'special expertise' may be included. The result is that whilst labour is effectively kept out of the process, the interests of various non-labour actors, e.g. the senior managers of large companies, lawyers, bankers and consultants, are incorporated.

In formal terms, a rule based system which aims to facilitate competition in product markets, labour markets and financial markets enables any firm to compete for market share or strategic assets subject to conformity with the rules. For example, the relative openness of labour markets means that the strategic asset of expertise is relatively easily available to a multinational. In such systems, expertise tends to be individualised and marketized. Internal labour markets are not powerful and individuals are generally willing to move around, selling their skills to the highest bidder and building short term teams and project groupings for specific tasks. It is therefore relatively easy for a multinational to construct teams of experts in industries simply by paying high salaries and bonuses. Thus the financial markets of Wall Street and the City of London are increasingly populated by banking institutions based in very different national systems. This occurs even in market segments that are considered to be highly advanced and liberalized. For example, the French banks Societe Generale and Credit Lyonnais have been highly active in derivatives trading in the City of London as have Deutsche Bank from Germany and UBS from Switzerland. They have been able to enter the markets and purchase expertise on derivatives markets in a way which was much more difficult and uncertain when, for example, US and European banks sought to develop an institutional investment banking nexus in Japan in the period 1995-2003 (Morgan and Kubo 2005).

Whitley argues that firms in such systems are 'isolated hierarchies'; they are not embedded in strong institutional settings and are reliant on their own resources and market processes for survival rather than in a risk-sharing situation with the state, long-term banking capital or networks of suppliers and customers. However, it is clear that there are no formal barriers to them setting up what might be termed 'weak' institutional solutions to their coordination problems, e.g. creating longer term relations with suppliers and employees in particular geographical or sectoral locations (on the processes in the US see Hecksher and Adler 2006; Herrigel and Wittke 2005; Whitford 2005; Zeitlin and Whitford 2004; on the example of how Japanese MNCs developed their own supporting institutions in the UK see Elger and Smith 1994; 2005; Oliver and Wilkinson 1992; Morgan et al. 2002; Whitley et al. 2003). These are described here as weak because they are often time limited existing in a context where actors (including the MNC itself) may have opportunities to withdraw from credible commitments and move on. However, there may be gains for the actors under certain conditions to develop within this weak institutional order because it provides relative stability in an uncertain world.

In summary, liberal market systems are open to multinationals from outside so long as rules are followed. These outsiders have a certain amount of freedom about how far to go in terms of conforming to these rules. Certain strategic assets may be denied to them if they do not conform to particular rules (most obviously in the capital markets) but others will still be accessible (such as expert labour). In theory they can pick and choose how far to integrate with this system but one possibility is that in their adaptation process, they may evolve weak institutional orders. In this sense, institutional diversity in these systems is reinforced by the entry of MNCs from different institutional systems.

Inclusive corporatist contexts

These contexts are resistant to diversity and supportive of standardisation and homogenisation of institutions. The traditional terminology of the 'social partners' reflects the balance of power that has existed and that has been embedded in the model of inclusive corporatism. What is attractive about inclusive corporatist systems to MNCs and what relevance might this have for institutional diversity?

Clearly there are certain aspects that are not attractive. Broadly speaking, inclusive corporatist systems have high built-in costs of doing business in terms of the regulatory system and the labour market system. The regulatory system tends to be extensive and unlike liberal market economies, prescriptive in its nature, with rules specifying what must be done and what must not be done. Associated with this, the rights of labour and the responsibilities of employers towards labour are extensive. Internal labour markets are relatively strong and external labour markets not deeply developed. Multinationals are therefore unlikely to come to such systems in order to establish more efficient systems since costs are likely to be high and accessing expert knowledge difficult. Inclusive corporatist systems are characterised by strong linkages between groups of firms in localities and in employers' associations which also makes it difficult for outsiders to access strategic assets. Where MNCs do enter for these sorts of reasons, they are under pressure to adapt to the existing system and therefore do not enhance institutional diversity but rather reinforce its existing low level.

Germany illustrates many of these tensions. On the one hand, it is a large market and is well know for the quality of its products derived from high levels of training and close inter-firm relationships. It therefore has some attraction to foreign investment which is interested particularly in accessing skills and high level of expertise in engineering and manufacturing. 60% of employment in FDI into Germany in 2004 was in manufacturing with transport equipment accounting for 15% (Deutsche Bundesbank 2006: 46). However, the same report argues that in terms of recent inflows, FDI made up less than 2% on average of domestic non-residential private fixed investments on average in the period 1990-2004. Germany's position in terms of inward FDI was barely changing over this time. It seems therefore that the changes which were occurring in Germany at this time towards more decentralised bargaining, towards concession bargaining and towards various forms of flexible labour were not sufficient to change the general perception that the German labour market remained coordinated and relatively inflexible (Streeck and Hassel 2004; Hassel 2007; Hall 2007). Those US MNCs which did locate in Germany ‘challenged the German system of employment relations on a number of counts and simple conformance with the German system was rare’ (Almond and Ferner 2006: 285). There was therefore change occurring in the German system of manufacturing and MNCs were contributing in a minor way to debate and discussion on this issue but the primary constraints and primary actors were endogenous to the system. Institutional diversity is still weak as far as institutions surrounding manufacturing are concerned.

However, this underestimates the market seeking activity of particular sorts of MNCs, specifically those in finance and in professional services. Inclusive corporatist systems have been relatively weak in terms of the development of capital markets. Capital has traditionally been supplied on a relatively long term basis by a variety of types of financial institutions, often with strong local roots and ownership structures that are public or cooperative as much as private. Firms have been owned by dominant coalitions of banks and other firms who have tended to keep their shares over the long term. The auditing responsibilities of firms, whilst extensive, have been primarily directed at the state rather than shareholders and company accounts have given sparse information to enable small investors or more short term investors to judge about buying and selling shares. These have all been vital ingredients in systems which have enabled firms to plan over the medium to long term but also provide insiders with the benefits of private control over public resources, something that can be expected to particularly exercise trade unions in such systems. The capital markets, in terms of stock market activity, bond markets and other associated actors such as investment banks, brokers and corporate lawyers have played a relatively minor role compared to banks and insurance companies.

However, it can be argued that this is changing in some fundamental ways as a result of multinational activity and this will affect the nature of institutional diversity inside inclusive corporatist systems. This can be seen from a 'market-seeking' perspective. Inclusive corporatist systems have lacked strong capital markets or strong actors with expertise and resources in those markets. In market seeking terms, this offers an opportunity to global investment banks, international law firms and others to leverage their existing assets and engage in a process to build this market and benefit from its expansion. For example, UNCTAD reports that Germany is the third most favoured location for foreign affiliates of the top 50 financial TNCs in 2005 (UNCTAD 2007: 27). Similarly, German corporate law firms became a very important target for UK based law firms as they sought to develop their global reach; the largest global law firms are now increasingly those UK and US based firms which have built their internationalisation process on mergers with German law firms (Morgan and Quack 2005; 2006). The largest German banks in alliance with their corporate lawyers have reconstituted themselves inside Germany and in global terms into the spheres of investment banking and corporate finance and away from the traditional universal banking/patient capital model. In doing so, they have started to reshape the financial sector by creating a clearer division than ever between international banks and their international clients (German MNCs) and regional and local banks with their continued strong trust based relationship with *mittelstand* sector firms (Deeg 2005). This space has also opened up the German context for new sorts of international investors though the impact of these is more complex than can be subsumed simply under the heading of the victory of shareholder value (Goyer 2007).

In terms of the exogenous global policy making environment, formal constraints on the presence of foreign banking institutions and other professional services have declined. It is effectively impossible to keep MNCs out of these sectors purely on grounds of protection of existing home based firms and to make the case on broader grounds of public policy is also increasingly difficult. For the financial and legal MNCs themselves, therefore, expanding into these markets is an effective expansionist strategy. It is doubtful that in itself this would be enough to bring about change in the system (as can be seen from the subsequent contrasting case of business corporatist models). It is how this interacts with potential fractures in the dominant alliances that is crucial. Essentially if outsiders can enter the inclusive corporatist system and begin to build a new institutional complex around financial markets, existing actors in this sort of territory face a challenge of adaptation. Do they leave this new development to the outsider, risking the danger that their existing institutional complex will simply decay as other actors transfer their allegiance to this new model or do they engage with the new model (see for example the different models of institutional change discussed in Streeck and Thelen 2005)? Clearly this depends partly on expectations about whether the new model will attract other actors towards it. This may well be the case where the existing model is failing to reproduce itself effectively because of changed global conditions (e.g. reducing the ability of firms to conform to the expected standards of remuneration, stability of employment and skill based training). In such contexts more dynamic capital markets may seem to offer to firms new opportunities for restructuring that were not available previously and this seems to be the case in relation to German financial and legal organizations which have moved towards a new model. This process in turn could be reinforced where these firms also believe that they can gain markets in other contexts if they learn about this new model and begin to compete outside its home base. If this is coupled with a demand from their clients for them to be present in markets outside their home base in order to maintain their business relationships, the pressure may become overwhelming. Even the representatives of labour may see this as a positive development since corporate governance processes in such systems whilst in theory involving employees may actually be controlled by an elite of insider managers and their business allies on the board. Labour may therefore see increased transparency coming from more active capital markets as an opportunity to reduce the power of insiders and hold them more accountable for decisions.

The consequence of all this may be a fracturing in the uniformity that characterised the original inclusive corporatist system. Outside financial and legal MNCs together with insider firms in the same sectors encouraged by large corporate clients may gradually migrate towards the new capital market model, effectively splitting off from other actors in the system and building their own institutional setting. Labour's role in this may be ambiguous, concerned about the potential effects of growing shareholder value rhetoric and actions emerging from the capital markets but supporting the shift towards greater transparency and accountability that may emerge. The result is the expectation of greater institutional diversity being introduced into the inclusive corporatist system as a result of the active presence of more financial and professional service multinationals. This diversity is occurring more rapidly and effectively in Germany in the financial and legal arenas than it is in manufacturing where many of the institutions still remain strong.

In summary, the argument suggests that inclusive corporatist systems are not conducive to MNCs seeking to access new strategic assets or seeking efficiency enhancing gains from relocation. However in the current context, they do offer possibilities for particular types of MNCs to expand their markets. These are MNCs that are essentially seeking to leverage their assets from experience and knowledge of the working of capital markets. Inclusive corporatist systems have been traditionally weak in these areas but external and internal pressures are creating new market opportunities which financial and legal MNCs are taking advantage of. Local firms are being forced by this pressure as well as their own clients to also develop these skills at home and abroad. Thus capital markets are likely to continue to grow rapidly in inclusive corporatist systems, in effect bringing institutional diversity into a system that was uniform and standardised. The consequence of this is to create one more pressure on the dominant alliance and potentially to split off the more capital market oriented firms from firms which are more local and more financed through self investment and the traditional banking system as well as placing the role of labour under new conditions and potentially changing how it responds to managements.

Business corporatist forms and the impact of multinationals

Business corporatist forms leave firms to organize their own labour management policies whilst bringing together large firms and the government in supportive networks. Large firms provide individuals with material, symbolic and cultural meanings over long time periods. Small firms and their employees, on the other hand, are left to survive as best they can in a system where they are relatively powerless except in local pork-barrel politics.

Business corporatist systems share some features with inclusive corporatist systems in terms of their attractiveness (or rather lack of attractiveness) to MNCs from outside. The disincentives to MNC investments are quite high in relation to efficiency seeking behaviour and strategic asset seeking activity. The dominance within the large firm sector of internal labour markets and the existence of firm specific skill sets means that there is a very weak external labour market for any sort of skilled or professional labour. In their study of the entry of US and European investment banks into the Japanese context, Morgan and Kubo showed how difficult it was initially to lure expert analysts away from lifetime employment in Japanese banks and to get them to join the more highly paid and more specialized foreign banks (Morgan and Kubo 2005). Market incentives alone would be insufficient to pull individuals out of internal labour markets since it is hard to develop reward systems that would compensate for the loss of the promise of long-term employment. So it is very difficult for overseas MNCs to attract labour on shorter term more flexible contracts without paying exceptionally high salaries, a strategy which can only begin to be viable in high value sectors such as investment banking.

In these systems, knowledge is deeply embedded in long-term relationships between employees and firms and between firms in business group networks, sometimes formal, at other times informal. Overseas MNCs are unlikely to be able to access this expertise. It is also characteristic of such systems that whilst final product market competition may be intense, getting access to these final markets is not an open process. Here, long term informal relationships between business group firms at different points in the value chain up to the point of retail sale as well as intricate connections between the state, regulators and big business make it difficult for newcomers to get into the market. Overall barriers to outside MNCs remain high even though formal mechanisms of market protection may have been dismantled. Not surprisingly, Japan which most resembles this model, receives very low levels of inward FDI and on the UNCTAD composite measure for transnationality is the lowest of all the developed countries.

Is the business corporatist system subject to the same sort of pressure for opening up and change that exists for the inclusive corporatist system? Certainly there are some similarities. The global environment for the development of capital markets is the same. Similarly business corporatist economies like inclusive corporatist economies have weakly developed capital markets. In theory, therefore there is an opportunity for overseas MNCs in finance and law to gain a significant role in establishing a new institutional order around capital markets. But there are also some significant differences and these relate to endogenous features of the business corporatist system.

Because labour has been so much weaker and the system is characterised not by uniformity and standardisation but by segmentation (the large firms separated from the small ones) and the existence of business groups, there is already a degree of flexibility and differentiation built into the system. The weakness of labour means that firms do not have prolonged negotiations with unions over the distribution of surpluses. The weakness of the capital markets means that they also do not have to negotiate with shareholders. In effect, the senior managers retain strong control over the distribution of these funds. So long as the firm's social contract at the point of production is working effectively (and generating the high levels of quantity and quality that generally characterise this system), firms are not likely to seek to constrain themselves by going to capital markets, particularly where they have a working banking system that can also provide some patient capital if necessary. As a result it is not so strongly in their interests to split from other groups of actors and support the growth of capital markets and outside financial multinationals. In fact, quite the contrary, as the growth of a strong capital market threatens the firm and the business group centred model of consensus and surplus distribution, and thus senior managers are likely to be very cautious about encouraging it. Similarly the banks that are intricately connected into this system will be cautious for fear of how such developments may impact on existing formal and informal networks of cooperation and support. There also seems no obvious reason why the state, whilst complying with formal rules about the opening of markets, would seek to weaken its networks and the system of informal consultation with business by encouraging overseas multinationals to enter when such firms may not feel the same level of loyalty or deference to state bureaucrats. Labour, in turn, is weakly organized and excluded from these processes so any concerns such as those in inclusive corporatist systems that corporate governance benefits the private interests of insiders is not likely to emerge.

On the other hand, it is no doubt the case that the relative weakness of the capital markets in these systems will appear as a highly attractive market opportunity, particularly for multinational investment banks. It can be expected that such multinationals will make tentative forays into these contexts in the hope of opening up major market opportunities. Particularly where such multinationals buy into existing operations and therefore receive access to existing informal networks and connections with other firms, with regulators, with politicians and with the state, the chances of survival may be good but this will come at the expense of not seeking to aggressively remake the market on more liberal deregulated lines. It will be more difficult to start from scratch and grow beyond being a niche player.

In conclusion, given the broader international environment, it can be expected that business corporatist systems will open up in formal terms in order to meet their international obligations. However, the intricate connections between firms, regulators, politicians and state bureaucrats which characterise such systems are barely threatened by a formal process of opening up. These connections make it extremely difficult for overseas multinationals to gain any advantages from locating into business corporatist systems. One of the main significant weaknesses from a liberal market perspective is the poorly developed capital market system. This offers a potential market opportunity to financial multinationals but unlike inclusive corporatist systems, it is not clear why the informal ties linking actors together should begin to fragment and allow a rapid and significant expansion of capital markets supported by overseas financial institutions. Instead what seems more likely as in Japan is some limited market penetration through acquisition and small niche oriented organic growth strategies. However, in Japan, this market penetration is very subject to changes in international economic conditions and can ebb and flow according to the context rather than attaining a steady state of incremental growth. As a whole, therefore, institutional diversity in the system is barely affected.

The developmental state

This model of capitalism is characterised by a strong central state that sponsors particular individuals and firms (often closely allied to the dominant political party or faction) to create world class companies, based on the provision of cheap finance, subsidised infrastructure, careful use of barriers to trade in certain areas, use of coercion where necessary to subdue the demands of labour. Developmental states are likely to be highly focused on developing and sustaining national unity through the proclamation of national missions and the support of national champions. They are unfavourable to internal opposition, particularly from labour, ethnic or environmental movements and democratisation processes are constrained usually into one party states with opposition weak and subject to repression. In some contexts, this is linked to forms of crony capitalism, though in others, such as Singapore and Japan in the 1950s and 1960s, a strong nationalist and bureaucratic ethos seems to prevent corruption and enable the state to play a more ‘objective’ role in the development process (Wade 2004; Woo-Cummings 1999; Kim 1998; Low 1998)

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Developmental states tend to be resistant to MNC entry in their early stages since they are trying to build local industry. Their economic strategy is built on the development of large scale home based industry which predominantly exports its output. They therefore tend to protect the home market as a small but guaranteed part of their market. As these firms are built from capital supplied under favourable terms through the state, there is resistance to allowing outside firms access to the same rights. From the point of view of an MNC such contexts are likely to lack any strong locational assets such as high skills or knowledge generating institutions. In these early stages, local industry is often based on relatively simple technologies developed or copied from overseas models but put to use in ways which generate large economies of scale allowing exports that are competitively priced in the international market. One major asset which is required at this stage is capital but rather than draw in overseas capital which may lead to a loss of control of the process, capital is generated through mechanisms of extracting a surplus from the rural peasantry and keeping the share of labour and wages as low as possible, both of which are processes facilitated by the nationalistic and repressive nature of the state. As part of nationalistic developmental projects, these states have pushed money into improving basic education in maths, science and literacy and expanding higher education massively (Brown et al 2000) in order to facilitate industrial upgrading as well as investing more heavily in research and development.

These moves have been necessary as international institutions such as the WTO, the World Bank and the IMF have committed to liberalizing access to markets and competition for low wage and low skill jobs has become more intense. This has led to an effort to reach out to foreign capital in order to increase investment and to foreign MNCs as a way of speeding up technological and firm level development (Kim and Nelson 2000). In South Korea, this was an element of the response to the Asian financial crisis and the IMF bailout. Some of the chaebol business groups had parts of their assets sold off to US companies, most notably Daewoo which went bankrupt in 1999 and had its car manufacturing sold to General Motors. In other respects, however, the chaebols ‘continue to call the shots, accounting for 60% of exports. The economy remains dominated by large conglomerates to a degree greater than any other capitalist nation’ (Armstrong 2008: 123). This is reflected in the fact that in 2007, the former head of Hyundai construction, one of the country’s main chaebols, was elected President of South Korea. Thus the state remains entwined with the chebols in spite of some restructurings in the aftermath of the financial crisis and IMF involvement. Alongside this, however, the investment in education, training and R+D that has taken place in Korea has generated a thriving entrepreneurial economy (Webb 2007) but one that is broadly ignored and not directly supported by the state.

Developmental states are likely to take strategic decisions on the sort of multinationals which they encourage to enter their country. Firstly they are unlikely to encourage the entry of market seeking multinationals per se. This would damage the development of home industry and the business groups which are central to the objectives of the developmental state. However, they may be willing to encourage joint ventures or even acquisitions of home based companies when the purpose of such activity is to improve world class exporting capacity. As the developmental state seeks to move up the value chain, it is likely to engage in more intensive investment in its own human capital in order to bridge technology gaps but also to encourage such joint ventures as a way of accessing knowledge about world class manufacturing techniques and high level research and development. Encouraging this process has an impact on institutional processes. Overseas multinationals look for more transparency and accountability in firms and business groups than was characteristic of the situation previously. They look for more established and protected property rights which are transparent and clear. In this way, the developmental state may find itself pressured to move away from its reliance on personal linkages fuelled by hidden financial transactions and concealed under weak systems of political representation.

The internationalisation and modernisation of capital markets requires a number of changes. Firstly, they require an infrastructure of technology and expertise that is not available in the developmental state. Secondly they require a set of rules, regulations and regulatory expertise associated with transparency and governance that is also not available. Market seeking financial institutions accompanied by international lawyers, accountants and management consultants are likely to see this as a good market opportunity. Whilst the developmental state may be wary of going too quickly down the road of increasing the role of capital markets, it will be more open to this than business corporatist systems. Carruthers and Halliday, for example, have described how the efforts to reform bankruptcy laws in such states following the Financial Crisis has involved negotiated orders between internal actors in the state and local industry and external bodies such as the WTO, professional associations and experts, law and accounting firms and international bankers (Carruthers and Halliday 2006; Halliday and Carruthers 2007)

A potential side effect of this may be the appearance within the developmental state of financial and legal multinationals with more diverse sets of expertise than previously. In particular, such financial multinationals may be interested in stimulating the small and medium sized businesses which were traditionally ignored by the coalition of politicians and business leaders that dominated the developmental state in its early phases. Small businesses may also be encouraged by a growing number of educated individuals who reject the strongly hierarchical model of organization that characterises the large firms. Also the growing internal market which was ignored by the concentration on global markets may be served by small businesses with adequate capitalisation. Finally the entry of foreign multinationals through joint ventures may also lead to more outsourcing than previously characterised the big business model and in this way add another stimulant to small and medium sized businesses.

In conclusion, developmental states are likely to increasingly open themselves up for overseas multinationals. Whilst trying to direct and shape the terms on which these MNCs enter, the consequence is still likely to be significant institutional change. The dominant alliance between insider politicians and a group of favoured industrialists facilitated in some cases by a system of bribery and favours becomes more open to public scrutiny and criticism as MNCs enter (Kwok and Tadesse 2006). A potential rift arises between ‘modernisers’ and the ‘old guard’ about the nature of the state and its relationship to business. Those seeking the renegotiation of this relationship are likely to range from overseas MNCs to labour organizations, consumer groups and small businesses as well as professional experts embedded in global accounting firms, management consultancies and law firms. The outcome of these struggles depends on the circumstances of particular societies but from the argument presented here it would likely to result in increasing institutional diversity. One set of institutions would evolve around the maintenance of the old relationships; another set of institutions evolves around the establishment of a modernised and internationalised large firm sector integrated with capital markets at home and overseas with increasing technical inputs, modernised work systems and a workforce with some rights of representation; and finally another set of institutions may evolve around the development of small firms funded through a more diverse system of capital allocation and connected into local and global supply chains. Whether such institutional diversity is stable or likely to lead to conflict and further change is unclear. However, institutional diversity seems likely to increase in the first instance in developmental states because of the impact of multinationals.

Conclusions

The paper has sought to identify how globalization and in particular the presence of multinationals has impacted on institutional diversity. In order to do that it has examined four types of capitalism where the degree and nature of diversity differs. The paper has then shown how the entry of multinationals pursuing their own differentiated interests has impacted on the dominant alliances and structures of these different forms of capitalism. Broadly speaking, the argument has been that inclusive corporatist systems and developmental states are likely to increase their institutional diversity. This relates to how and why the dominant alliance is put under pressure by globalization and the entry of multinational firms. The business corporatist system is least likely to change because its dominant elites remain too interconnected and powerful to allow the entry of potentially destabilising multinationals. Liberal market economies are most open to multinationals seeking access to pursue a wide variety of strategies. Whilst it is tempting to assume that the dominance of market logics in these systems reveals a basic institutional homogeneity, the argument made in the paper differs somewhat. It suggests that one of the key elements of such systems is setting the rules of the market for all participants. So long as these underlying rules are accepted, firms have relative freedom in how they organize their resources. It is therefore possible for firms to develop what have been labelled here 'weak institutional orders' in which longer term, non-market relationships are developed and sustained. Thus paradoxically in some respects, liberal market economies may have the greatest institutional diversity of any of the systems considered in the sense that they may contain multiple sub-sets of these weak institutional orders. Table 2 summarises the argument;

TABLE 2 ABOUT HERE

Such an approach differs from other ways of considering the topic. Firstly, it suggests that it is important to extend the analysis of the impact of MNCs from manufacturing into the arena of financial and legal MNCs. These firms are highly influential in processes of institutional change. In the case of law firms, they are dependent on expertise and knowledge, primarily that embodied in particular individuals and teams. In the case of finance, individuals are also supported by IT systems for calculating, trading and exchanging but these are generally centrally constructed and rolled out globally. In the case of professional service firms, there is also dependence on some IT capital expenditure but in this area, the central importance of personal networks and contacts is also relevant. Secondly, this approach requires a focus on both MNCs and institutions and the way in which there is a dynamic interaction between the two. It is therefore driven by a form of actor-centred institutionalism rather than a structural determinist or culturalist view of institutional processes (Morgan 2005). Thirdly the paper has not been framed in terms of issues of convergence and divergence between systems but rather in terms of dynamics within systems and issues of diversity within systems. It suggests that what is occurring is primarily an increase in institutional diversity though in different ways depending on the initial circumstances.

In conclusion the paper has argued that institutional diversity should be of central concern to our analysis of capitalism. In order to pursue the issue, however, it is necessary to be systematic about the nature of diversity and the way in which it emerges. This paper has concentrated on the impact coming from the entry of multinationals into particular contexts. There is no claim here that this is the only group of actors that can be considered in relation to this question but they are clearly an important one. It is hopefully clear that framing the issues in this way is a more fruitful and interesting way of looking at institutional change and diversity within national systems of capitalism than endlessly debating convergence/divergence along a single, simplified dimension.

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Table 1: Types and sources of institutional diversity in different forms of capitalism

	Liberal market	Inclusive corporatist	Business corporatist	Developmental state
Role of state	Limited to setting rules of markets	Engaged in coordinating system with social partners	Engaged in supporting large business	Directive and sponsoring of particular large businesses
Intermediary associations	Weak	Strong amongst firms and labour: national coverage	Strong national coverage amongst largest firms: weak amongst labour; weak amongst small firms	Discouraged for both firms and labour
Firms	Autonomous within market constraints	Bound by national regulations and standards	Large firms set own labour management standards: strong firm level culture. Small firms weak and subject to power and exploitation of large firms	Small number of large firms dependent on state support: inter-twined with politics. Other firms excluded and subject to power and exploitation of large firms
Institutional diversity	Open system; potential for diversity strong at firm, sectoral and regional levels	In formal terms, the system is open : potential for diversity weak but more possible in financial sector than manufacturing	System is segmented: there is diversity but this is set within particular pattern of power of large firms.	System is segmented; there is diversity but it is constrained by power of state and large firms

Table 2: Types of multinational activity and impact on different types of capitalism

	Liberal market economies	Inclusive corporatist	Business corporatist	Developmental state
Market seeking activity	Open to entry Competition based on transparent rules and regulations to sustain 'fair' markets Limited restrictions on innovating new types of markets Large home markets	'Older' markets in manufactured products are formally open but tend to be dominated by insider incumbents Newer markets in financial and professional services have been opened up by international firms in this area	Formally markets are open but structure of home based firms works through networks to limit access to final product markets. Resistant to the establishment of new markets that may undermine existing networks	Generally resistant to market seeking MNCs which could undermine attempt to build up home industry. State is willing to compromise and welcome entry where MNC brings required technical expertise for upgrading and also access to global markets State may also welcome financial organizations seeking to develop capital markets
Efficiency seeking activity	Relatively high cost but market flexibility and low cost of regulation make this a possibility (as does the low cost of exit)	Costs of doing business tend to be high: costs of labour, costs of regulation; taxation Not suitable for economizing on costs	Not a feasible option due to high costs of doing business, need for links to other firms and the state, dominance of internal labour markets	Developmental state may offer a cheap and disciplined labour force plus state supported infrastructure and tax breaks encouraging MNC entry
Strategic asset seeking activity	Most key assets open to incomers Knowledge assets accessible through market mechanisms (remuneration packages at the individual level: M+A at the firm level)	High on specialist knowledge and skill External labour market for skills weak though possible as skills are defined occupationally Potential for accessing knowledge through M+A low due to weak capital markets	High on firm based specialist knowledge Dominance of internal labour markets makes it difficult for incomers to access skill and knowledge Strong informal networks not accessible to outsiders	MNCs less likely to identify strategic assets. Rather the MNC may be seen by the state as a strategic asset and encouraged to enter. Some efforts by developmental states to upgrade education, skills and R+D may change this.
Impact on institutional diversity	Likely to become more diverse	Increased diversity from growth of international sector linked to global finance separated from small and local firms	Unlikely to be much change	Increased diversity: growth of transparent firms and capital markets; severing of corrupt links between state and business: potential growth of small business sector.