Governments, Macro-Organizational Policies and Structural Change:

Contrasts within the Triad

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A chapter prepared for a book, edited by J.H. Dunning & G. Boyd, on Structural Change and Cooperation in the Global Economy that is to be published by Edward Elgar Publishing in 1998. The assistance of Chris Wilson has been most important and the comments of Jeffrey Roy most appreciated.
Introduction

The processes of globalization have generated a new mobility of economic activity as transnational firms continually engage in a re-alignment of their production patterns. This has led to considerable dysfunctions or frictions within national economies. Governments have responded in two majors ways. First, they have engaged in international economic cooperation and coordination on an altogether new scale, as John Kirton has shown in the last chapter. Second, they have engaged in new macro-organizational policies and have heightened their role in "affecting the organization of resources and capabilities within their jurisdiction" (Dunning 1993). These new macro-organizational policies have been identified as being "essentially complementary" to those policies that are geared to maintaining efficient markets and have been broadly designed to ensure "the organization of created assets as a key success factor and (to deal with) transaction costs in the value added process" (Dunning 1993: 195).

These macro-organizational policies have not been sufficiently debated by economists or policy makers, nor have they been used with the same strategic thrust or flair by different countries. Indeed, many traditional economists and policy-makers continue to deny that such a family of policies can increase the size of positive externalities or their appropriability by nationals, and, instead, argue (rather forcefully) for a dramatic reduction of government action. Ironically, this...
reduction is propounded at the very moment when other economists and policy-makers suggest that this new form of government intervention is becoming increasingly more important. Clearly, there is such a lack of understanding and appreciation of the importance of these relatively new types of policies. As a result, we have felt the need to spend some time to develop a framework for their analysis and evaluation.

In this paper, we first explore the range of these macro-organizational policies and the different roles that they might play as part of the modern arsenal of policy makers. Second, we present a composite portrait of the ways in which these organizational policies combine to define a new policy possibility framework. Our intent is to identify a few key dimensions along which such policies are likely to effectively transform the performance of the wealth creation process. Thirdly, we sketch the different clusters of organizational policies used in the different portions of the modern world in order to be able to contrast different patterns currently in use in the Triad. This leads us to gauge the drift of these policy clusters over the last decades and to suggest the general directions in which the different portions of the industrialized world are likely to proceed over the next decades.

Organizational Policies: the Modern Arsenal

Analyses of the processes of globalization over the past decade have highlighted the growing awareness on the part of governments of "the need for them to evolve and sustain well articulated systemic organizational strategies, the specific intention of which is to consciously promote the long-term competitiveness of the firms and resources within their production by a series of interdependent market-supportive policies" (Dunning 1993:195). Even though many economists and policy-makers have argued for a minimalist version of this sort of policies, a broad consensus has developed in the community of experts on international business that this should entail, at minimum, strategic efforts to correct market failures, and to provide infrastructure with a strong public good component. Moreover, many have called for the creation of those assets
which are necessary to ensure the competitiveness of domestic firms, the reduction of the information and transaction costs that distort markets, and the development of regimes, rules and conventions that would enable the firms to make optimal use of complementarities and synergies. Such macro-organizational policies and moves are fundamentally meant to help firms adapt, as smoothly as possible, to new circumstances. Moreover, they are directed to the structure, conduct and performance of the business system and view this system as an adaptive learning system. These policy interventions may aim in general at increasing the flexibility and nimbleness of firms and sectors, but most of the time they are directed to one of the five sets of relationships presented in the characterization we have proposed in chapter 4 to analyze the regional patterns of structural competitiveness. The following categorization of organizational policies identifies the main lever and the sub-system of relationships in the business system that they are mainly directed to affect.

<table>
<thead>
<tr>
<th>Taxonomy of Organizational Policies</th>
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<tr>
<td><strong>Main Lever Targetted</strong></td>
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<td><strong>Main Sub-System Targetted</strong></td>
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<tr>
<td>1. Metabolic</td>
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<td>2. Technological</td>
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<td>3. Process /Functional</td>
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<td>4. Structural</td>
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<td>5. Governing</td>
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Of course, the structure-conduct-performance framework is a fairly standard classification that has been used in the industrial organization literature since the days of J.S. Bain (1959). It separates the features of the business systems defining the rules of the game, the barriers to entry, the role differentiation, the nature of the coordination and integration of the system (structure) from those pertaining to behavior, strategy and tactics (conduct) and from those dealing directly with the different measures of efficiency in the allocation resources (performance).

The sub-system classification is illustrated in Figure 1, adapted from Laurent, Paquet and Ragan (1992) and corresponds to a partitioning of the business system into five basic sub-processes and their interaction with the environment.

While the source of structural competitiveness may be the ensemble of features of the socio-economy as an instituted process that had external effects on one or more of the sub-systems, macro-organizational policies refer to explicit efforts by governments to guide the evolution of the structure, conduct or performance of one or the other of these sub-systems.

Each of the cells in the table above corresponds to a range of potential organizational policies. This does not mean that all those potential policies are effectively used or even that they can be used effectively. For instance, it is not necessarily easy for governments to determine exactly what structural architecture might best energize the technological innovation process in a sector, or any effective way to modify decision rules and firm strategies in such a process. Nor is it easy to ascertain what infrastructural support might accelerate the whole process of learning and innovation in the business system. But most governments see it as their business to orchestrate an ensemble of interventions under the general rubric of technology policy or innovation policy that purports to energize the knowledge production-adaption-diffusion process.

This is no easy feat in an “age of side-effects” where non-linearities are everywhere, where the five sets of relationships of the business system network are continuously in interaction and co-
evolution, and where the whole five-sub-system ensemble described above is embedded into a complex set of Russian dolls type echo boxes at the global, national and subnational levels. We have tried to map this complex environment in Figure 2.
At the global level, business networks are nested in world system full of asymmetries between dominant and satellite national economies. Each of these national systems is composed of various firms or business systems interacting in various ways and coalescing around meso-institutions that facilitate their interactions at the sub-national, regional, sectoral and transversal levels. These firms interact not only with other domestic firms or systems but also directly, or through, meso-institutions, with enterprises and socio-economic entities in the same or in other jurisdictions. Indeed, transnational firms design truly autonomous world networks that are constrained very little, if at all, by national shells.

Organizational policies that are engineered by national, regional or supra-national governments will have to take into account this complex set of echo boxes, for the complexity of interactions generates a high degree of unpredictability in impact or effect. In this quantum-type world, side-effects or unintended consequences play a most important role as global alliances, national policies and local industrial/institutional/cultural features interplay.

Of course, not all governments are equally attentive to each of the sub-systems, and not all governments agree that there should be policies directed with equal force at structure, conduct and performance. Indeed, ideological and strategic vistas vary considerably from one country to the next, and there are important segments of the grid that are merrily ignored by many countries. For instance, there is little done by government to effect different governance structures or to facilitate more cooperative relations among stakeholders in North America while on both fronts much has been done on these fronts in Europe and Asia.

Moreover, depending on the locus of the national economy within the world system, not all governments take fully into account the complex texture of the world economic system. Some small economies are satisfied to free ride without paying any attention to the unintended
consequences of their actions. This is not the case for dominant economies within power blocks. In the case of the US, Japan and Germany, paying attention to the echo boxes is of central importance and has become a key part of the national strategies. We have stated earlier that these organizational policies are meant to be complementary to those broad policies that are directed mainly to the operations of efficient markets. This is not meant to
imply that all such macro-organizational policies are the source of inefficiencies, but rather that they are meant to inject a degree of social architecture to ensure better performance (not exclusively in allocative efficiency terms) by helping the business system to design improved structures, decision-rules and strategies. In certain cases, government intervention may entail some coercion, but most of the time it is taking the form of incentives and enticing regulations that are crafted with the intent of getting the business systems to modify their operations voluntarily.

The Organizational Policy Possibility Framework

The scope of organizational policies has changed dramatically over the last century. In the era of *hierarchical capitalism* that Dunning identifies with the 1875-1980 era, governments were confronted with a variety of structural distortions generated by sub-optimal market structures, extensive use of monopoly power, and the failure of the private sector to provide the requisite social overhead capital. This led governments to abandon their role of overseer of the socio-economy to become participator in the socio-economy in order to correct distortions, to control undue power and to provide infrastructure (Dunning 1997).

As *alliance capitalism*, with its emphasis on value creation partnership, has increasingly come to define new rules of the game, the scope of organizational policies has changed. There has been less emphasis on corrections to structural failures and a new importance has been attached to the correction of endemic and systemic failures that are ascribable to heightened levels of uncertainty and to the new importance of externalities. This in turn has called for macro-organizational interventions especially in areas where effective business systems require such assets as an educated labor force, innovative capabilities, organizational competencies and a sophisticated legal and commercial infrastructure - all assets that have a strong public good component (Dunning 1997:70).
Such macro-organizational policies are bound to be modest and subtle in a global economy where the mobility of most intangible resources (capital, ideas, technologies) is extremely high, and they are likely to focus on creating location-bound assets and on enhancing the capabilities of nation or region-based networks. They depend (1) on the societal fabric within which market and state are anchored, for a high degree of social cohesion and a high degree of collective coordination based on solidaristic values are likely to make such interventions much easier; (2) on the nature of governance in the socio-economy and on the role assigned to the state in this governance process (for one may expect that such organizational policies in support of the learning economy are likely to be more effective when the role of the state is important and the governance is distributed); and (3) on the extent to which there are important structural and endemic learning failures and much relevant uncertainty in the economy, for the potential benefits of organizational policies are thereby increased.

These three dimensions (culture, governance, learning failures) delineate the major dimensions of the organizational policy possibility framework. The more “contextualist” or communitarian the culture (as would be the case in Japan for instance), the more important the state role and the more distributed the governance, and the more endemic and systemic the learning failures, the more potentially robust the macro-organizational policies (Kumon 1992; Imai 1992; Hollingsworth 1993).

A. Extensive surveys like those undertaken by Hampden-Turner and Trompenaars (1993) have revealed that the values system and the socio-cultural underground underpinning the economic, social and political systems vary widely across OECD countries. This constraint is bound to act as an important determinant of macro-organizational policies for it determines the boundaries of what is regarded as being unacceptable.

Alliance capitalism cannot develop as well in a world of doctrinaire individualism as in a world with strong solidaristic traditions (Gerlach 1992). The nature of the hexagon contract within the business system (between financiers, employees, suppliers, customers, environment, and society)
that are permissible or encouraged differ depending on the socio-cultural underground (Handy 1994). The same may be said about the sort of partnerships in good currency among firms and between government and business, and about the sorts of regimes that might be arrived at among business systems of different countries on matters of common interest (Preston and Windsor 1992).

The basic reason why culture matters so much more in alliance capitalism is that it is based on a large number of handshakes, and that such handshakes depend much on trust and on the commitment to cooperation. Fukuyama has probably simplified matters unduly by aggregating all countries into a naive dichotomy - low-trust and high-trust societies - but he has made an important point in distinguishing the societies where voluntary associations beyond the family are weak (Korea, Italy, France) and strong (Germany, Japan) (Fukuyama 1995).

B. The governance system is more difficult to probe because of the very complexity of the notion of governance (Mayer 1996). Obviously, organizational policies are more likely to be adopted when the state is important in shaping the architecture of the economy. But this does not mean that a more centralized and bureaucratic state will be a more effective social architect. It is rather the obverse. In the new economy based on knowledge and learning, the most relevant territorial unit for learning is the region. So a governance process that provides for distributed authority and available levers at the regional level is more likely to be effective. Indeed, the “learning region” has become the meaningful unit and distributed governance the most fitting pattern of governance (Ohmae 1993; Saxenian 1994; Florida 1995; Acs, de la Mothe and Paquet 1996).

In a world dominated by the economy of ideas and of continuous learning, the institutional order designed for material goods is out of kilter. Whereas a centralized mindset dominates the scene in the old economy (Resnick 1994), in the new economy, the thinking is dominated by a better appreciation of the "natural systems" which are instituted according to principles that run very much against the grain of the centralized mindset. Kevin Kelly has summarized “the ways of
nature” in a number of principles that would appear to synthesize the main characteristics of the new institutional order: distributed intelligence, bottom-up control, omnipresence of increasing returns, growth by creating multiple layers of simplicity and chunking, encouraging diversity, eccentricity and instability, seeking persistent disequilibrium, organizing around self-changing rules (Kelly 1994).

In such a world, successful organizations are those that find ways to accommodate and resolve the contradictory needs of promoting some competitive pressure and network cooperation at the same time. These countervailing pressures raise the question of the source of the requisite amount of trust, unrequited transfers and the like that are necessary for such islands of cooperation to be built in a sea of competition. Tom Peters has focused on “communities of practice” - the locus where learning occurs most easily because of the fact that the “motivation to learn is the motivation to become a member” (Peters 1994:174).

Anthropologist Virginia Hine has used the clumsy phrase "segmented polycephalous network" (SPN) and has emphasized the central role of the "ideological bond" or "the power of a unifying idea" as adding the sort of glue that is necessary to make the organization live and prosper. To underline this key dimension, Hine has labelled the new form of organization SP(I)N where I stands for ideology (Hine 1977).

While there may be a tendency toward convergence in the forms of organization and of governance systems as the Triad countries experience periods of profound inter-penetration by enterprises from each zone into the terrain of the others, significant differences between any pair of the Triad remain. But one may detect the emergence of a trend toward decentralization and cooperation in all portions of the world economy as it becomes clear that a new paradigm becomes dominant: the one based on the centrality of the interactions between the component sub-systems of the socio-economy (financial, production, innovation, governance) and of the value creating partner system (Bradford 1994; Wikstrom and Normann 1994).
The degree of seriousness of the learning failures is obviously of central importance. It is when there are signs of learning failure, of inflexibility, of poor capacity to transform or adjust that macro-organizational policies are most profitable. When the production of knowledge and the process of innovation are stalled, interventions at the organizational level is often the only meaningful way to effect the necessary repairs. Yet, such failures are very difficult to diagnose and to ascertain, and often a meaningful diagnosis may appear counter-intuitive. For instance, maximal flexibility is not optimal flexibility, for it may lead to low levels of commitment and to a very poor exploitation of the available knowledge.

One may expect learning failures to increase significantly in the alliance capitalism era. Coordination and transaction costs have increased so much that a whole new field of study has emerged in the 1990s: coordination science (Malone and Crowston 1994). As the ground comes to be in motion and the environment becomes turbulent, coordination even between groups that have contradictory goals becomes imperative. Coordination has been defined in this context as “managing dependencies between activities” and identifying the processes that can be used to manage them.

Without some provisional assessment of the differences among the Triad countries in terms of culture, governance and learning failures, it becomes difficult to establish clearly the full range of circumstances and challenges that organizational policies might be asked to face. This can be done at many levels: either in a most general way à la Dahrendorf (1995) through a broad interpretation of the general mix of institutions – economic liberalism, social cohesion, political freedom, or with a great deal of detail through monographic work at the level of each country. The former approach is bound to be relatively unsatisfactory because it is too general, but since the latter is impossible in the confines of a short paper, we must strive for a compromise between the two through singling out in a deliberately non-exhaustive way what appear to us to be the main features of the cultural underground, of the governance process and of the learning/innovation process in the different poles of the Triad. This should explain why different
clusters of organizational strategies are in good currency in each pole and provide a guide to workable improved macro-organizational strategies.

**Organizational Policy Possibility and Strategies**

There has been much work done on the Triad over the last decades. The more serious the analyses, the more differentiated the countries at any one node have appeared, but a number of general propositions would still appear to hold about the families of countries in each node of the Triad. For instance, the North American culture remains bravely individualistic while the East Asian culture is more contextualistor communitarian, and the continental European culture remains relatively more solidaristic than the North American one but without the full social cohesion shown by the East Asians.

In the same way, the governance systems have some general characteristics that would appear to prevail within each node of the Triad. There is generally a relatively more centralized governance system in East Asia but one that uses less the coercive Taylorian levers as the more subtle levers of social control of the contextualist society. The North American scene is rather paradoxical in the sense that it proclaims a gospel of decentralization and deregulation while exerting much raw power through central agencies. Europe is even more confusing. It has a tradition of centralized power and strong top-down government intervention, and yet it is distilling a new federalism in which power and authority are devolved slowly to regions.

As for the world of learning failures, they appear to be most evident in Europe, while the great flexibility of markets in North America and the great social cohesion in East Asia would appear to have played an important role as facilitator and catalyst of social learning.

This synthetic diagnosis is not meant to be definitive but rather a provisional characterization developed to help sort out the rationale for the different patterns of organizational strategies in each node of the Triad. To put the matter most vividly, we have tried to represent the constraints
imposed by culture and governance and the opportunities generate for organizational strategies by important learning failures in a simple table.

<table>
<thead>
<tr>
<th>Constraints and Opportunities for Organizational Policies</th>
<th>Culture</th>
<th>Governance</th>
<th>LearningFailures</th>
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<tbody>
<tr>
<td>Region</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>North America</td>
<td>-1</td>
<td>+1</td>
<td>0</td>
</tr>
<tr>
<td>Europe</td>
<td>+1</td>
<td>+2</td>
<td>+2</td>
</tr>
<tr>
<td>East Asia</td>
<td>+2</td>
<td>0?</td>
<td>0</td>
</tr>
</tbody>
</table>

*+ve indicates relative ease in developing organizational policies & -ve indicates relative difficulty*

There has been a broad acceptance in every node of the Triad that the competitiveness of firms is man-made. It depends on the actions of the firms themselves, on the work of their associations and on the supportive action of the state. Countries with different cultures, governance structures and learning failures are obviously bound to make differential use of organizational policies. Our provisional diagnosis would appear to indicate that Europe is the most likely candidate to use extensively organizational policies while the other two areas are probably less likely to feel the urge to use it extensively and explicitly because they have alternative mechanisms of adjustment that are working not too badly.
Yet, this relative reluctance to engage in organizational policies in some zones of the Triad is not likely to continue as governance becomes more distributed and learning failures accumulate. Indeed, already it is possible to identify patterns of uses of organizational policies that are clear enough to enable one to discriminate among zones and to point to likely directions in which social architects in these different zones might develop their edifices (Perlmutter 1965). These clusters are in large part the result not only of objective constraints but also of ideological interpretative schemes which allow more or less the possibility of making use of such instrumentalities.

In order to provide a very broad perspective on the nature of the constraints imposed on macro-organizational policies (culture, governance, learning failures) and on the instruments most likely to be used to improve structural competitiveness in the different zones of the Triad (policies directed to structure, conduct or performance), we have proceeded in three stages. First, we present a broad list of elements in which the countries of the different poles of the Triad can be shown to be somewhat contrasted. Second, from this list and the literature available in support of it, we develop a broad-brushed portrait of the character of each node of the Triad. Thirdly, we try to synthesize in a final tableau the comparative contours of the patterns of organizational policies in use in the different portions of the Triad.

A. A comparative list

This list is not meant to be exhaustive but rather to serve as a checklist to remind the reader of the relatively important number of factors that differentiate the weltanschauungen of the three broad zones in which we are interested.
B. A Broad-Brushed Characterization

(1) The North American cluster

The major point about the North American cluster is the lack of “a coherent, comprehensive structural policy” (Noll 1991:230). In the face of increasing internationalization of the economy and of increasing structural complexity of the economic system (increasing interactions and increasing heterogeneity), there is only “a decreasing social cohesiveness and an enervation in the capitalist spirit” (Pryor 1996:7). This explains the greater difficulty in ensuring the requisite degree of coordination or government-business partnering except in the defense sector and in specific industries.

The general thrust of the organizational policies in North America has been to ensure acceptable behavior and performance through the simple structural policy of competition in product and factor markets. The same logic explains the search for policies directed toward free trade and deregulation. The dynamics of the North American system is based on the simple process of exit and entry of firms driven by competition.

Culturally, there is an underlying distrust of coordination but also often a lack of technical interest in networking unless it proves absolutely essential to a superior performance, because knowledge is primarily regarded as a private good. The aggressive pursuit of anti-trust policy (witness the March 1998 Congressional Hearings re: Microsoft) emphasizes particularly the notion of a “level playing field” and leads to the support of small independent firms.

But the US culture generates important impediments to competitiveness to the extent that it leads to an exclusive focus of policies (regulations, R&D, etc.) on structural conditions. As Chaples and Keever (1994) indicate, this has fostered an over emphasis on frontier or breakthrough research and a corresponding neglect of performance considerations. This has contributed to myopic process organization, to “lone wolf” attitudes and to lack of participative and networking behaviors.
In a sense, there has been a significant weakness in the governance structures that have had deleterous effect on systemic competitiveness. While the “transformation capabilities” generated by competition are impressive, the delinking between the state and societal actors has prevented the emergence of new forms of governance where the government could act as coordinator, moderator, animateur. It is interesting to see how ideology and a culture of distrust have come to prevent the emergence practices that are consistent with better performance because of their basic unacceptability (Lodge and Vogel 1987). Reliance on support for basic research, tax policy designed to encourage investment and risk-taking, and a stabilizing monetary policy (with exceptions for certain industries) does not suffice and has impaired the ability to organizationally learn. One may obliquely gauge the extent to which the US remains handicapped by this cultural trap when examining the evolution of other economies of the Americas which has begun to take advantage of the new forms of governance based on greater reliance on alliances and networking (Meyer-Stamer 1997).

This does not mean that the US has remained insensitive to the challenges posed by the other nodes of the Triad. There has been recently some critical examination of the regulatory framework and feeble efforts to sketch elements for a coherent framework for macro-organizational policy. US legal and regulatory barriers to industrial R&D and domestic production are being closely examined. The US Framework Program (1996) for stimulating industrial investment is aimed at improving the flexibility of the US financial services sector. This is being mirrored by extensive investment measures or incentives at the State level. But the central focus of their science, technology and industrial quasi-strategies is the active pursuit of liberalization of trade and foreign investment (National Export Strategy, 1993; Interagency Trade Promotion Coordinating Committee 1995; Big Emerging Market Program 1996 which is run by the Department of Commerce). Science policy is being tipped increasingly towards technology application and diffusion (Science in the National Interest 1995), particularly via such mega-project corridors and mechanisms as the Information Highway Inititative, the International Space Station Alpha, and the Human Genome Project (HUGO). The Manufacturing Extension
Partnership (MEP) is aimed at increasing technology diffusion in SMEs; while the Cooperative R&D Agreements (CRADAs) promote inter-sectoral technology linkages. (Cheney and Hill 1998; Hill 1998) Indeed, this orientation is being accelerated, with the end of the Cold-War, towards ‘dual-use technology’ programs aimed especially at the old military-industrial complex such as the Los Alomos Weapons Lab. (Alic et al 1991)

But these initiatives run against a prevalent anti-interventionist sentiment. So, efforts to change conduct directly via some government intervention at the process level (e.g. through manipulation of the incentive-reward system, especially at the tax level, with the view of effecting an increase in R&D or some investment in process skill learning as a result of tax incentives) remain very tamed (Dickson and Czinkota 1996). Indeed, if one had to sketch the North American pattern within the taxonomy of organizational policies, it would take the form of a triangle with its base covering the whole range of structural policies along the five target fields but growing laterally into the conduct level when it comes to the process/functional sub-system.

The myopic and short-termistic nature of the time horizon of meso business systems explains some important learning failures: a relatively important lack of manpower training, the lack of use of foreign direct investment as a strategic variable, and the development of income inequality levels that can only discourage networking, alliances and collective decision-making with regard to disruptive innovation that might generate long-term gains. The reliance on creative destruction and the relative neglect of the exploitation of new knowledge that requires joint ventures and other forms of alliance have left the US in a position where it is witnessing an erosion of its hegemonic position. (Luttwak 1993; Nye and Owen1996; Teece 1990)

(2) The European cluster

The European Union has a substantially different perspective. It is built on a deliberate search for macro-organizations that are likely to yield scale economies and social cohesion within the EU through carefully selected cooperative programmes (Soete 1997). Given the multitude of national governments with their “slightly” different policy stances, this calls for “managed multilateralism”.

To be sure, the European cluster has “learning disabilities”. But this has much to do with the fact that, despite its tolerance for intervention, it is only a ‘medium-trust community’ in which cooperation is important but is still difficult. The EU remains a patchwork of diverging policies coalescing behind the three binding principles of parallelism, subsidiarity and plurality (Salvatore 1991). While this entails ‘common structural and regional policies’, it must be clear that the EU remains something of a construction site. (Dahrendorf 1997; Skidelsky 1995) These objectives are not yet realities.

In particular, the EU Framework Programmes have been one of the most successful policy initiatives of the EU. These programmes are built on the recognition that there are important advantages to risk and burden sharing through cooperation. This represents an important “experimental advantage” of the EU in supra-national policy-making when it comes to strategic macro-organizational policies for the medium and long terms, that are broadly based, and have built-in support for learning and social cohesion (Soete 1994).

But the pervasive concern for fairness and the very generous social support policies have stood in the way of accelerated learning and transformation. It has been particularly clear in the case of cross-national production networks which developed in Asia and were imitated in the United States but have been accepted only to a very limited extent by European meso-business systems. While some have ascribed this to “learning disabilities” proper, it may be suggested that the reluctance to move in this direction may be due to the social disruptions and dislocations that such networks might entail.

The mix of collegiality and state importance in the governance structure, the importance of the alliances between MNE-governments, and the many-layered-policy-making within the EU have considerably modulated the transformations of the learning economy. Even when learning failures have been noted, they have not necessarily been noted as failures. Often, they have been labelled the cost of particular policy choices determined by higher social priorities either at the EU level or at the national level.
Macro-organizational policies in Europe are built on the powers of associationism. But according to the country, there is a greater or lesser amount of dirigisme: more in France, Spain or Greece (Otero Hildago 1997), less in Germany (Krull and Meyer-Krahmer 1996), even less in the United Kingdom (Cunningham 1998). For instance, Germany’s S&T and industrial policy - as set out in the White Paper Report on Securing Germany’s Economic Future - and as part of an overall regulatory reform (announced in 1995) have set out to amend its Cartel Act to conform with current EU competition law. Indeed, German federal R&D spending has been moved to align with the EU Framework Program between 1987 and 1993 in such areas as information and communications technologies, industrial and materials technologies, environment, life sciences and technologies, energy, and human mobility. Indeed, as Krull and Meyer-Krahmer put it, “EU financing has gained considerable significance in Germany” (1996 p.25) to such an extent that from the EU Framework I, II and III programs, ICT expenditures, for example, have moved from 17% to 40% of expenditures in an effort to harmonize. German alignment with Europe is taking place now in science policy, transportation policy (railways), telephone service policy, SMEs, and labour mobility. Similar effects are being felt in other European states like, for example, Spain whose R&D programs received 2500 million ECUs in 1994 (up from 800 MECU in 1987), or Portugal which in 1994 participated in 321 EU S&T programs, Greece - the R&D expenditures of which represent about 0.6% of the EU total but which attracted 6% of the IV Framework Program in 1995, or Italy which attracted in 12,300 million ECUs in 1995.

To be sure, different European countries are following somewhat different strategies, even if there is some convergence and an emerging homogeneity as a result of the broad framework that has been adopted. This homogeneization process is accelerated somewhat by efforts to construct a broad macro-economic framework (monnaie unique, etc.), and to ensure that new institutional capacity is developed around negotiated community contracts.

The intent is to provide support for networks at the regional/sectoral levels as a basis for improving performance (Amin and Thrift 1995). But the degree of “social embeddedness” (i.e., the way behavior is shaped by factors such as the local labour markets, work-force and financial
institutions, etc.) varies significantly from country to country, and it evolves as modes of learning and modes of governance co-evolve (Dosi 1997).

So Europe presents a rich variety of environments: from the “archetypal” German firm to the British firms à l’américaine, to the Italian district. Macro-organizational policies capable of generating systemic competitiveness are accordingly remaining differentiated.

What is most notable about the European strategies is that they have focused largely on the process/functional level across the board but have supported also intervention on every aspect of the process/functional sub-system.

(3) The East-Asian cluster

Japan is at the other end of the spectrum. (Sigurdson 1995) It has a coherent and systematic macro-organizational strategy of intervention based on alliance capitalism (Gerlach 1992). This sort of consultative capitalism framework is a natural extension of the communitarian culture with its notion of knowledge as a public good, its very self-reliant population, and the long time horizon of its business systems.

In this system, institutionalized mechanisms of coordination are omnipresent and based on networks of “credible commitments”. The ambiance of trust and communitarianism makes the various private, public and social actors work in concert and tends to re-enforce the continuity of relationships.

The macro-organizational policies in East Asia are directed mainly to conduct and pertain to the technological, the functional/process and the structural sub-systems. The focal point is to work on risk-sharing in order to create a mix of competition and cooperation without losers (Tezuka 1997). This approach is a natural extension of clan-type governance and leads to horizontal integration as a mutual insurance system and vertical integration as a way to create competitive teams. Rather than focusing on simple efforts to modify the structure in order to influence obliquely conduct and performance (as in the US), these strategies are in fact efforts to modify conduct and performance directly through negotiation and moral suasion.
These interventions are not *ad hoc* but rather the fruit of considerable discussions and negotiations among all the stakeholders with the state playing the role of *animateur*. This strategy is pragmatic, comprehensive, based on very well articulated goals, and very coherent. Government acts differently at different periods, but its actions are meant to be pro-market and symbiotic with the goals of the business systems, to reduce endemic transaction costs, and to increase the capabilities of the business systems (Dunning 1994). Moreover, its progresses are well documented in numerous policy guidelines from MITI that *accompany* (so to speak) the discussions in the multiple forums and inform and guide them.

The Japanese government has taken a strong role in providing information, organizing projects and in directing both the allocation of resources and the learning trajectories. In so doing, it has used systematically foreign direct investment as a lever to serve its national policy, but it has not allowed the MNEs to acquire a predominant role. On the other hand, it has built a very strong presence in the context of the firms to promote training and to facilitate the development of networks, but also to redirect efforts and reframe issues from time to time.

For instance, Japanese science policy has rapidly evolved in the very recent past. It now emphasizes strongly the performance of basic research – minimum requirement signed into law in December 1995 (S&T Basic Law coupled with the Basic Plan for Public Investment fiscal stimulus package valued @ 3% of GDP). Such R&D programs are deliberately and strategically geared towards basic technologies for future industries and include, for example, the interoperable database system, the Manganese Nodule Mining System, the Super/Hypersonic Transport System, and the underground space development technology. Fine cermics are also targeted, as are bio-electronic devices, functional protein complexes, and medical equipment. Under the Temporary Law Concerning Measures for the Promotion of Creative Business Activities in SMEs, assistance is provided for enhancing management skills and helping firms diversify into new business areas (including more loans for adoption of new technology).
C. Patterns of Organizational Policies

In order to synthesize the different ways in which the three regions have approached the problem of macro-organizational policies, we have used a simple table. It emphasizes the fact that the US has mainly relied on structural policies (competition, market) to influence the different sub-systems. This is a choice that is largely determined by culture and by the governance system built on the individualistic and competitive culture. It has only been tempted to interfere subtly especially via the tax system on the process/functional sub-process and neither with great vigour nor with great success. At the structural level, much has been done through the defense budget and through specifically defined sectors (e.g. agriculture) to provide important infrastructure and protection. But in general, the pattern of organizational policies has remained somewhat untouched by particularly difficult learning failures. This is because of the fact that the ideological power of the fundamental economic culture of market and competitiveness has prevented the US government from intervening as much as it might have wished.

On the EU front, a multiplicity of governments are involved and they have intervened massively through rules of all sorts, but they have also done so through direct pressures intended to modify behaviour and to improve performance. This has not been done however in a coherent, even or integrated way. So despite the intensive nature of the intervention, it is not at all clear that this action has been very fruitful. This is in part ascribable to the cacophony of supra-national and national agendas that are being pursued, but also to the impediments imposed by cultural and governance constraints on state action. Consequently, while there is an appearance of broad and comprehensive action, it is largely unfocused, open to local/national distortions and is not particularly effective. Yet, Europeans are extremely
conscious of the learning failures and through the Framework Programme they are in the process of developing or moving towards a coherent macro-organizational intervention.
On the Japanese and East Asian front, there is much variety and much turbulence, but the pattern of intervention is highly focused and based on a very high trust level. It is therefore not necessary to use formal rules and broad structural constraints.

By acting directly on conduct, one is able to have much impact on performance. There is, however, also a change in the Japanese style of macro-organizational policy. It is becoming less informal in the recent past and it is slowly adopting some of the rule-based approach that is in vogue in the US - partly as a way of anchoring the region around Japan as hegemon. This is most certainly clear in the new emphasis on basic research, legal profession associations, and journalistic access which was not introduced as usual through informal channels, but more formally through a rule. Yet, the whole culture-cum-governance background leads one to maintain a focus on conduct through informal negotiations. (Hall 1998) This is bound to remain the centre of gravity of the organizational policies for the near future.

**Gaps, Contrasts and Trends**

Any set of organizational policies that are likely to have some impact would aim at increasing the positive externalities flowing toward the business systems from the environment and at increasing the appropriability of these external effects by domestic firms. The differential patterns of interventions by countries in North America, Europe and East Asia are the echo effect of the different socio-cultural backgrounds but also of the diverse nature of the blockages preventing the production of externalities or their appropriation by national firms, and of the type of governance mechanisms in place and of the most effective permissible levers available.

The major pressure for organizational interventions obviously comes from the existence of learning failures and these have been much more important in Europe than in the other two zones where coordination through competition (North America) or through consensus (East Asia) has proven to be effective. In North America, this has helped to aggrandize the importance of competition policy and of free trade policy as a way to enforce it. But, given the lesser pressure
on North America as a result of the lesser degree of learning failures, these policies have been pursued with a certain degree of nonchalance. The North American policy framework has not really attempted to be more active on this front except through a regulatory framework that attempts to modify conduct and behavior largely at the level of process/function.

Solidaristic values are greater in Europe than in North America. So one may expect that in the world of alliance capitalism, organizational policies may be realized via some direct intervention at the structural level (mainly at the level process/function) but mainly through detailed regulations on performance at the national level. The pressures created by learning failures have enhanced considerably the taste for organizational policies and the interventionist tradition has made it possible to use many levers that would be resented in the other zones. The Colbertist culture and the hierarchical governance have generated an incredibly complex and intrusive regulatory framework which may appear awesome from the outside but which provides the European firms with external benefits. Industrial policies, innovation policies, regional economic policies and very close partnerships between government and business have permeated the whole field and have provided strategic support to the European business systems.

In Japan and East Asia, much has come to be built on trust and on the multiplex relationships distilled by the contextualist and communitarian environments. Again, this has meant a more direct action at the level of conduct and performance. However, the focus has been much more on conduct than in Europe through subtle mechanisms like the one we mentioned earlier about the ways in which the granting of patents is administered in the best interest of the domestic firms. It would be extremely difficult to influence conduct in this manner without the extraordinary consensual base on which this network society functions. There are certain features that are handled by intervention at the level of performance directly but they pertain mostly to the technological and the structural sub-systems. Certain types of rules guide the process of licencing and the nature of the keiretsus mainly based on performance criteria. But East Asia is particularly apt at appropriating all these externalities for the benefit of domestic firms. On that count, this zone is much more effective than the other two in using macro-organizational policies. It is also
better able to immunize itself from intrusion within its economic space through an array of
defensive mechanisms based on religious values (rice) or health considerations. These mechanisms
are so effective that they are increasingly being used in the rest of the Triad.

These trends do not entail that the organizational policies in use are those that would be the most
effective. In fact, the very limited amount of discussion about macro-organizational policies has
kept the different strategies more or less occult as a strategic tool used by countries in each zone.
The disadvantage of this lack of wide-ranging and critical discussion of those policies in the forum
is that little is known about the most important blockages leading to learning failures in each zone.
Consequently, it is not clear that the North Americans have not overused the structural levers and
that the East Asians are not vulnerable for counting too much on behavioral pressure.

As convergence proceeds among the countries of the Triad, and as the World Trade Organization
extends discussions into the various policy fields used explicitly or not by the various countries, it
is likely that the margin of maneuverability for organizational policies will narrow considerably
and will need to become ever more subtle. In Canada, the national health care scheme is now
celebrated as a source of competitiveness in the automobile sector because of the significant cost
savings for the car manufacturers as a result of not having to shoulder directly the health care
costs of their employees.

One may therefore anticipate some reshuffling of the organizational policies in each zone of the
Triad and a quest for ever more creative ways to generate externalities and to appropriate them
for the benefit of nationals.

Conclusion

The growing interdependencies and synergies generated by the new world of information and
flexible production have already generated more or less organically important externalities that
national business systems have attempted to appropriate. But there are important ways in which
governments may use organizational policies to craft new competitive advantages. These ways
depend much on the features of the socio-economy and on the challenges posed by learning failures.

We have suggested that one can identify some contrasts in the use of these organizational policies in the countries of the Triad. But it may be argued that the strategies in use may not be necessarily those most likely to be of greatest benefit to the countries in question because of the lack of critical discussions of the different foci through which such action might be channelled. Moreover, it is most likely that much borrowing between zones will occur as the WTO puts pressure on all to harmonize all that is harmonizable.

In the end, the different countries may be forced to fall back on their idiosyncrasies (organically generated or crafted) to build effective strategies to help their domestic firms and may be required to become ever more creative to ensure a steady stream of externalities and to ensure that it is appropriately tapped by national business systems.

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