# Explaining Asian economic organization

## *Toward a Weberian institutional perspective*

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In the world of business and economics, the empirical phenomenon of the decade clearly has been the remarkable growth and development of Asian nations into world-class economic powers, particularly the northeast Asian economies of Japan, South Korea, and Taiwan, but also Hong Kong and Singapore. These countries have emerged from an array of political and social challenges that include world and civil wars, massive migration, external occupation and colonization, and substantial destruction of their economic capacities to become, in little more than a generation, extraordinarily successful players in the world economy. Indeed, Japan now has the second largest economy in the world after the United States, Taiwan the largest per capita foreign reserves in the world, and Singapore a per capita income second only to Japan in Asia. Remarkably, all these nations have achieved success despite poor natural resources.

This dramatic empirical phenomenon has naturally excited an array of explanations from observers, including scholars, business people, journalists, trade negotiators, and policy analysts. The explanations have ranged from the polemical, such as *The Japan Conspiracy*,[1] to the tactical, including Clyde Prestowitz's *Trading Places*,[2] which argues for a tougher U.S. stance toward trade with Japan. While the polemical and tactical, as well as a range of other discussions of Asian economic prowess, are sometimes well informed and even well written, it quite naturally has remained to the scholarly community to provide a more dispassionate and sustained analysis of Eastern economic structure and practice.

The volume of recent research on Asia is large and growing and uses a diverse array of theoretical tools to explain the economic patterns of Asia. Four perspectives, however, have guided most of the recent

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| | Market | Culture | Political economy | Institutional |
|---|---|---|---|---|
| Key variables | Economic | Values, symbols | State | Ideology, authority |
| Social action | Individual utilitarianism | Collective action | Class and interest groups | Dialectic of structure and individual action |
| Social order | Invisible hand/ self interest | Enacted solidarity | Stratification (repression, majority rule) | Domination |
| Social change | Market forces | Continuity | Institutional contradictions/ interest politics | Historical development |
| Organization | Most efficient structure | Symbolic expression of cultural values | Expressions of bureaucratic and market power | Structure of economic domination utilizing cultural understandings |

*Fig. 1.* Four perspectives on organization.

scholarship on Asia: a political economy approach that emphasizes the role of the state in economic development; a market approach that concentrates on economic factors; a cultural approach that focuses on the socially constructed character of economic organization; and my own chosen framework, an institutional approach that argues for the centrality of institutionalized authority relations. These four theoretical paradigms are familiar to students of economic organizations and have been used to explain industrial practices and arrangements in the West; they now face the challenge of explaining like phenomena in the East.

I have both a general and a particular purpose in this article. The general purpose is to take an accounting of current theories of economic organization by discussing their underlying assumptions and suggesting their strengths and limitations in explaining Asian, as well as Western, industrial patterns and organizational processes. I use examples from the literature on Asian economies, and occasionally Western economies, to illustrate the distinctive characteristics of the different approaches.

In addition to my general purpose of theoretical assessment, I have a particular purpose in arguing for the utility of an institutional perspective rooted in Weberian sociology in the study of non-Western societies. Although the political economy, market, and cultural approaches are each useful in important ways, institutional theory, unlike any one of the other three perspectives, accounts well for both ideal and material factors, may be used to explain both micro and macro level patterns of organization, may allow for the agency of actors, readily allows comparison, and has no inherent Western bias. While the first three characteristics may be important to theorizing in any geographic sphere, the latter two – comparability and absence of a Western bias – are crucial to studies that hope to make sense of economic activitity in an international arena. These five criteria are my choices for a "good" theory of economic organization, but I believe they are widely shared.

In this article I, first, characterize in turn the political economy, market, and culture approaches to economic organization. Although there are variations within these theoretical traditions, I focus on the assumptions that are broadly associated with each perspective. Secondly, I assess the strengths and weaknesses of the theories in accounting for economic organizations. Finally, in the last sections, I argue for a form of institutional theory, suggesting how it builds on the other perspectives while avoiding their limitations. Throughout the discussion I use recent analyses of Asian economies to provide an illustration of the ways in which each perspective tries to account for organized economic action and arrangements. Theories that account well for Asia, I believe, may result in better theories of the West.

## The political economy approach

Political economists do not usually discuss firms or markets per se, rather they focus on the relation between the state and the economy. Political economists are concerned with macro-structural political institutions and their consequences for social outcomes, for example, the routes to modern state formation in different countries, the role of bureaucratic state arrangements in political and economic affairs, the influence of democratic institutions on state functioning, and the fiscal crises of capitalist regimes forced to satisfy competing claims on state resources.

There are different theories of the state – Alford and Friedland identify three basic types[3] – but political economy theories generally assume that the character and policies of the state are determined by the character of the economy, with other institutions (e.g., educational, ideological, family) shaped by their role in sustaining political-economic relations. To oversimplify, socialist states, mercantilist states, corporatist states, and fascist states necessarily maintain different social institutions to support their different characteristic economies.

Political economy theories support structural analyses. Capitalist societies, they argue, structure relations between owners and workers, between officials and citizens, in predictable ways. To understand the dynamics of a given capitalist society, one must understand the way in which power is structured between major social groupings. Individuals act in terms of their structural – often described as class – location: managers act as they do because of the interests and powers inherent in their class position. Likewise, workers and officials act as they do because of their different interests and locations in the structure of power. Moreover, states themselves have relative positions in the world economic structure. A state's structural location – for example as a developed core state, or as a clientelist dependent state – will shape its policies and behavior.

Structural theories of this sort rarely examine the activities of individual firms or economic decision makers because these are assumed to act in ways that express their social position within the market structure. But theories of the state have been employed frequently to explain, at a general level, economic patterns and outcomes.

For example, several theorists account for Asian development through largely structural analyses. The main arguments focus on one or more of three basic components: the state, multinational corporations (MNCs), and the local bourgeoisie. Political economists typically emphasize the similarities between, for example, Taiwan and South Korea – both countries are thought to occupy a position of political and economic dependence in relation to developed nations (especially the United States and Japan), and their success is equally attributed to a dependent relation. Bruce Cumings, for instance, argues that Taiwan and South Korea are economic-military protectorates of the United States, and economic vassals of Japan.[4] The path of development for both countries was drawn by the larger industrial powers: declining sectors in Japanese industry are cyclically passed on to Korean and Taiwanese industries.[5] Both countries, Cumings asserts, share the common features of "bureaucratic-authoritarian industrializing regimes" (state autonomy, central coordination, bureaucratic planning, private concentration in big conglomerates, military strength, and authoritarian repression).[6] Cumings acknowledges that "what could be done with economic incentives in Taiwan required coercion in Korea,"[7] and that "Taiwan produced a weak nationalist impulse, Korea an extraordinarily strong one."[8] Still, he equates the two, contending that "by the 1960s both Taiwan and South Korea possessed strong states that bear much comparison ... to the bureaucratic-authoritarian states in Latin America."[9]

Focusing directly on the state, Thomas Gold proposes a less deterministic version of Taiwan's dependent development, resorting to Cardoso and Faletto's "historical-structural methodology." In Gold's words, this approach allows one to appreciate how "economic relationships and the social structure that underlies them arise as a result of human activity, and how they can be transformed through social action."[10] While Gold offers good insights into the changing posture of the Taiwan state over the decades, his final analysis remains that "the KMT state controlled the way Taiwan incorporated into the world system in a way few other countries have."[11] Similarly, Alice Amsden argues that "the balance of power between the state and both labor and capital was weighted far more to the state's advantage,"[12] while she concludes that the state "can be said both to have transformed Taiwan's economic structure and to have been transformed by it."[13] The analysis of Ramon Myers places importance on a partnership between the Taiwan state and MNCs, particularly in the development of new economic sectors such as electronics.[14]

Japan, no less than Taiwan and South Korea, has been subject to analysis by political economists. In addition to scholarly treatments of the sort I describe above, popularized treatments embracing a political economy logic have explained Japanese economic success as a product of the organizing skill of the Japanese state. These arguments often describe Japan's government as "Japan, Inc.," portraying officials as managers of the economy. Some Western writers have suggested that state officials and industrial managers, more than orchestrating the economy, have conspired to protect Japanese firms from international competitors.[15]

Political economists, for the most part, do not have a theory of social action. Actors are unimportant factors – they play the roles assigned them by their place in society. Structural factors, especially the state in its role as guardian of economic interests, are causal. The economy is a political arena whose operation reflects the relative power of domestic and multinational economic actors and the nation's position in the world economy: economy produces and reflects structures of power.

### The market approach

The market approach, which has several variants, explains industrial structure as a response to economic conditions. Its most famous expression lies in the work of economic historian Alfred D. Chandler. In *The Visible Hand*, Chandler chronicles the replacement of traditional forms of enterprise in the United States by the modern "multiunit business enterprise" or divisionalized firm.[16] His explanation for the development of new organizational forms centers on market factors: the growth of markets made possible by new technologies of production and transportation, and the development of professional managers to coordinate within the enterprise activities previously conducted in the marketplace, for example, financing and distribution. New enterprise forms replaced the old because of lower costs and improved coordination. Chandler argues that firms developed and took the forms they did because they were economically and technologically superior.

Related, but more abstract and ahistorical economic explanations are found in the work of industrial organization (IO) economists. One important variant is elaborations of the work of Oliver E. Williamson and his "markets and hierarchy" thesis.[17] According to Williamson every economic transaction – production, purchasing, hiring, distribution – contains costs, including those that ensure that each party to an exchange lives up to the terms of their agreement. Entrepreneurs will go to the marketplace to conduct business as long as their transaction costs are low, but when costs associated with maintaining contracts, searching for skilled labor, guarding against cheating, and other diseconomies become too great, then entrepreneurs will organize these activities within a firm or "hierarchy" where they have managerial control. Hierarchies have their own maintenance costs but also countervailing economies, for example, economies of scale and ease of monitoring. Whether economic activity takes place in a market or in a hierarchy depends on which means of doing business has the lowest transaction costs. Moreover, the structure of an organization – whether a company vertically integrates or merges with another – depends on a calculus of the most efficient, i.e. least expensive, way to conduct business. The organizing strategies of businesspeople, according to both Williamson and Chandler, can be traced to the rational weighing of economic costs and benefits. Organization – whether large, small, vertically integrated, or divisionalized – is the efficient product of entrepreneurs' rational response to market conditions.

Although a Western theoretical perspective (and in the case of Chandler derived from the American experience) the Chandler-Williamson form of market explanation has been used to explain Asia's business structure. For example, Sherman Cochran explains the changing form of Chinese business enterprise involved in interregional trade from 1850 to 1980 using a transaction-cost model. According to Cochran, traditional native-place associations, later proto-modern sales organizations, and finally, bureaucratic state commercial companies successively dominated trade in tobacco and textiles. He explains the development of each subsequent form of organization as a solution to transaction-cost problems imposed by changing requirements of Chinese government.[18] In another work, Cochran echoes Chandler's argument about the growth of firms as a response to the geographically larger markets made possible by new transportation technology: "The large enterprises that introduced vertical integration into China in the early twentieth century responded to technological opportunities for controlling space not available to their predecessors."[19]

A complementary market explanation is found in the work of strategy theorists such as Michael Porter and the related "structure-conduct-performance" school of IO that derives from the work of Bain and Mason.[20] These theorists explain organizational form and functioning as a consequence of industry structure.[21] The *structure* of the industry – concentration rates, barriers to entry, product diversity and demand – influences a firm's *conduct* – quality, price, capacity – which in turn influences *performance* – allocative efficiency (profitability) and technical efficiency (cost minimization). The form and functioning of firms, then, is explained by firms' rational response to an industry's structure of opportunity and constraint.

Several theorists use variants of the structure-conduct-performance model to explain Asian business organization and strategy. One of the most prominent, Ian D. Little, for example, attributes Taiwan's spectacular success to market conditions that approximate economists' hypothesized "perfect market," that is, a market characterized by many small autonomous firms with few barriers to entry. Little argues that a laissez-faire state did not saddle the economy with inefficient regulations and state agencies, and stimulated the economy through low taxes and high interest rates.[22] Market structure favored the entrepreneurial response of many individuals who formed small competitive firms with resulting strong economic performance for the economy as a whole.

Economists have proposed other theories to explain organization and management practice. For example, agency theory posits that firms are legal fictions – a firm is "really" the sum of contracts among owners, employees, managers, and suppliers. The structure and performance of a firm can be predicted by the nature of its contracts and the monitoring (control) devices used to maintain adherence to contractual terms.[23]

The market approach as I define it, however, is not limited to economists. Others, including anthropologists and sociological exchange theorists, have embraced logically similar models – seeing social organization emerging from a utilitarian calculus.[24] A market approach, in all its disciplinary variants, though, is commonly characterized by assumptions of economic rationality and sees the atomized individual – whether a firm or a person – as the crucial economic actor. Market theories further assume that the economic system is an aggregated outcome of the production, exchange, and consumption of goods and services. Through the self-interested and rationally-calculated pecuniary activity of individuals, social order including organization, emerges: economy produces society.

### The culture approach

The cultural approach reverses the market theory's hypothesized causal relation, viewing the economic system as a product of the social order: society produces economy. In addition, most culturalists reject the structuralism and materialism of political economy and market theory.[25] Instead, they see economies as the subjectivist product of social action. Structure – if it is acknowledged at all – is merely the aggregation of meaningful interactions.

In the culturalists' vision economic exchange materially sustains society to be sure, but more importantly, the patterned circulation and use of goods is an idealist accomplishment, a celebration of common beliefs and social solidarity. Economic institutions emerge from, are possible only because of, society. Anthropologist Mary Douglas expresses a cultural view of economic activity in her discussion of consumption:

> Consumption has to be recognized as an integral part of the same social system that accounts for the drive to work, itself part of the need to relate to other people, and to have mediating materials for relating to them. Mediating materials are food, drink, and hospitality of home to offer, flowers and clothes to signal shared rejoicing, or mourning dress to share sorrow. Goods, work, and consumption have been artificially abstracted out of the whole social scheme.[26]

A cultural approach explains organizational structure and practice as a collective enactment of beliefs and values or of shared cognitive structures.[27] Although it does not deny the material contraints or benefits of organizing, it explains organizational patterns as driven by shared ideas and understandings. Viviana Zelizer argues in a review essay that culturally-based theories have a moral impulse to them, a reaction against theories that see the market only in rational-material terms.[28]

The cultural approach has often been used to explain Asian business. For example, Japanese organizing practices, such as the subordination of individuals to the group, seniority systems that reward continuity of participation, collective exercises and singing, consensual decision making, are explained as an expression of the widely-held Japanese belief in *wa* or harmony.[29] Similarly, Chinese business practices and structure are explained as a derivation of Confucianism.[30] The self-discipline of workers, the loyalty to superiors, the preference for patrilineal relations as business partners – all these and more are explained as organizational outcomes of a Confucian belief system.

Western organizations have also been examined by culture theorists. Among the most scholarly is Foucault's sophisticated analysis of ayslums and prisons in France, which he described as representations of European beliefs about the nature of madness and crime, and further about what is socially devient and normal.[31] The objective purposes of these organizations – isolation and incarceration – are secondary factors in his explanation of why they were structured and operated as they were. According to Foucault, forms and practices said more about society than about the institutions or their tasks. Other scholars have looked at contemporary organizations in Sweden, Yugoslavia, England, and France, seeing factories and offices in each nation shaped by cultural traditions.[32]

Until recently the cultural perspective was the province of scholars – ethnographers and comparative culture theorists – but in the 1980s managerial consultants and applied researchers embraced this approach to understanding corporate organization. The phenomenal success of *In Search of Excellence*, by Thomas J. Peters and Robert H. Waterman, Jr., demonstrated how attractive and sensible a cultural explanation is to people who work in modern American enterprise.[33] Similarly, strategic management theorist William Ouchi's popular book on Japanese management, *Theory Z*, explained consensual decision making and the promotion of cohorts rather than individuals as expressions of Japanese "groupness."[34] These widely read books repudiated rational approaches to organizing – management by numbers – and focused instead on organizations as cultural systems. According to these authors promoting shared beliefs and meaningful interaction, as much or more than financial analysis, is the crucial management task. Their works and the work of other corporate culture writers have established the cultural perspective as an alternative to the economic rationality paradigm in popular management literature.

**Assessing the political economy, market, and culture perspectives**

The political economy, market, and cultural perspectives have each proven useful in explaining economic arrangements. Although I have emphasized their often logically opposed assumptions, in fact they have rarely been pitted one against the other as alternative forms of explanation. For the most part, political economy, market, and culture models have been used for different purposes – political economy to explain patterns and rates of development, market models for regulatory prescription and economic prediction, and cultural models for ethnographic description. Each has largely been suited to its respective scholarly tasks. Each has distinctive abilities and limitations for the comparative analysis of economic patterns and organization. The institutional approach I describe in the pages ahead attempts to employ the strengths of each in contributing to international comparative analysis of economic action, while avoiding some of their limitations for this purpose.

Political economy models have several advantages for performing the kind of comparative analysis necessary to understanding economic action in a multinational environment. First, political economists – unlike market and cultural theorists – focus our attention on the state as a crucial force in advanced capitalist societies. It is difficult to imagine an explanation for patterns of Asian (or other) capitalism that did not account for the states' roles in development policies, the regulation of markets, and the maintenance of political stability necessary for foreign and domestic investment. Second, political economy models recognize the importance of both material and ideal factors in explanation. Market models are concerned with materialist explanation, and cultural models largely with such ideal factors as values and beliefs, but neither accounts well for the other factor. Political economists take seriously material factors, usually expressed as group interests or class location, as well as ideal factors such as democratic values, class consciousness, and capitalist ideologies. Third, political economy theories are sensitive to the connections between social institutions. Although the state is usually seen as the most important institution in economic maintenance, connections among the polity, culture, and economy are assumed and examined. Finally, political economy explanations are sophisticated about the role of power in social outcomes. Although one might argue with political economists' conceptualization of power as merely structural, neither market nor culture approaches conceptualize power as well as a political economy approach.[35]

There are limitations to the political economy perspective, however. First, the structure of the economy is assumed to be the determining factor in all societies. This may be true of any given case, but such an assumption prejudges the character of social relations in a society, assumptions that should be the object of investigation. Second, political economy arguments are open to the charge of functionalist teleology: state theories categorize a type of state, for example capitalism, and then conceptualize the structures essential to a capitalist society, for example, a bourgeoisie and a proletariat. To have a capitalist society one must, by definition, have ownership and working classes because it is in the nature of capitalism to have them. This creates a circular, undisprovable logic – functional necessity "causes" workers and owners to act as they do. If they did not, then there would be no capitalism.

Third and related to the above, political economy theories have oversocialized conceptions of social action. Individuals act as agents of their class or interest group: industrialists act like industrialists, and state officials act according to the functional needs of their position in running a capitalist state. Social action, in this conceptualization, becomes depersonalized and stylized with individuals portrayed as unknowledgeable automatons. While political economists study Asia and other non-Western locales, the character of the societies being explained is often unimportant; it is supra-national concepts and processes, e.g. the logic of capital formation, that is really being explained. Finally, and crucial to my argument for an institutional approach, the state is usually conceptualized in terms of the Western state. Recent scholarship suggests that although Japan, for example, has a parliamentary democratic state form, power in fact is diffused through an array of institutions quite different from Western counterparts.[36]

The macro-structural orientation of political economy is excellent at bringing attention to the effects of structure on social relations, but conceptualizes crudely the link between structure and action. It fails to see how organizational structures, including the state, institutionalize and appropriate social relationships, including economic relationships. They may suffer Western biases.

Market models make very strong assumptions about economic action and market structure. Typically, they assume that atomized individuals are economic decision makers and have complete information of offers to buy and sell in the marketplace. They assume commodities are homogeneous, that firms act independently, and that no firm is sufficiently large or powerful to dominate a market. These presuppositions, which have the status of disciplinary dogma among economists, produce clear and elegant models that allow the contrast of real-world economies with an assumed perfect market.[37] Deviations are explained by discovering what market theorists call "imperfections," deviations from a hypothesized ideal of autonomous actors. Social relations, for example, are seen as "friction" that interrupts the smooth relations of the impersonal, hypothesized ideal.

Strong, widely shared assumptions about economic action and structure have produced a tradition of clear, elegant models. These models would seem to be ideally suited to comparison – the same assumptions underlie economic research wherever conducted and "imperfections" may be compared readily. Moreover, at the macro-structural levels at which economic models have been most often applied, the relatively crude characterizations of people and social processes – a common criticism of a market approach – is probably adequate. At least it would seem that the hypothesized economic calculus of atomized individuals has some validity in Western economies: in the West the social ideal of individualism is widespread, and educational and legal institutions sustain individual rights and responsibilities in, for example, contract law.[38]

Importantly, it seems, the market approach correctly draws our attention to economic factors – market concentration, labor costs, technology, competitive advantages – factors that obviously have effects on the development of an economy and are all too often overlooked by psychological, sociological, and anthropological theories. Poor resources, outdated industrial processes, and barriers to market entry clearly make an economic difference. Economically rational social action is widespread in a capitalist economy; it would be amazing if it were not. However, I believe and have argued before that economic factors better explain patterns of *growth* than patterns of *organization*.[39] An abundance or scarcity of resources speaks to whether an economy expands or stagnates rather than to the precise structure of organizations it utilizes to transform and distribute the resources it has.

The success of a market model and the discipline of economics generally has in recent years stimulated criticism, some by economists, as rationalistic models have been applied to more micro-level settings, including organizations. Four critiques are worth noting. First, the evolutionary model proposed by Chandler and the related markets and hierarchies thesis of Williamson posit that firms develop because they are more efficient or effective than other forms of enterprise. Perrow has charged that efficiency is a possible but not necessary explanation of firm development: firms better control labor and may be "efficient" insofar as they are effective means of extracting productivity from workers.[40] Where Chandler and Williamson attribute the effectiveness of vertically integrated capitalist firms to their efficiency, Perrow attributes it to their control of the workplace. Second and relatedly, William G. Roy, while applauding Chandler's historical scholarship has attacked his logic. Roy charges that "Chandler's narrow technological focus ignores important empirical factors, especially political factors. This omission is not merely myopic but derives from the logical error of equating causes and consequences."[41] Chandler's functionalist logic, akin to political economy explanations, explains firm development as a necessary consequence of technological advance – necessity was the mother of invention. His causality is teleological and does not leave open either the possibility of an alternative outcome, or an explanation of why an economically superior firm was socially and politically possible. Roy deals only with Chandler's work, but a similar critique can be made of Williamson's argument: how can we know that all existing structures are the most efficient, i.e., have the lowest transaction costs, if only the fittest survive? A functional logic does not leave open the possibility of refutation.

Third, market models have been criticized – most persuasively by Mark Granovetter – as providing an undersocialized conception of human agents who everywhere act alike, rationally pursuing unspecified interests.[42] Market models cannot account for the impact of social networks, gender, class, culture, religion – the entire panoply of social life that so apparently influences what people want and how they go about getting it. Despite recent attempts by market theorists to incorporate a more sensitive model of individual decision making the result has been too often the joining of a naive psychology with a reified methodological individualism.[43] Concrete social relations – the economic networks that characterize most real-life market activity – are absent from market models, even those with a psychologized component.

Finally, as I have argued elsewhere, the neoclassical model is fundamentally ethnocentric, based as it is on the institutional conditions and presuppositions of Western society, most notably autonomous, self-seeking actors uninfluenced by social relations.[44] Although individualism, and the social institutions that flow from it such as individually-binding contracts, anti-trust regulations, and anti-nepotism norms, are not universal in the West, they are common and can be traced historically to Christian and Enlightenment thought on individual rights and responsibility. Scholars must question the applicability of the neoclassical model, based as it is on the primacy of individual actors (including firms as fictive individuals), to explain Asian economies where individualism is unimportant ideologically and institutionally, and was never a factor in the historical development of Eastern civilization. Organizations and markets and other forms of social organization in Asia are built on groups and networks – of people and firms – not on the individual actors hypothesized by Western market theorists.

This fact causes economic theory difficulty in characterizing Asian business networks, the single most important market structure in Asia, and leads market theorists to see Asian economies as distorted despite their obvious success. The neoclassical paradigm can only conceptualize two efficient economic structures, markets of autonomous actors, and hierarchies or autonomous firms, which may arise under certain conditions, for example, to achieve economies of scale. Networks of social relations among economic actors can only be conceptualized as aberrations that arise due to imperfections of the hypothesized perfect market. For example, Chandler characterizes the Japanese *zaibatsu*, the pre-World War II business networks that are precursors to modern business groups, as "an organization comparable to the M-form" or multidivisional firm that originated in the United States.[45] Chandler characterizes a network of socially interdependent Japanese companies as a single firm, although each constituent company has its own management, employees, and stockholders. He explains the rise of Japanese business groups as a technical response to "undeveloped" capital markets in Japan; "undeveloped" is a comparative term using the West as a benchmark. Chandler and other market theorists look at the East through the lens of the West when they employ the neoclassical paradigm to explain Asia and in so doing find it "imperfect" and "distorted."[46]

Cultural models, in contrast to political economy and market models, are filled with the stuff of social life. They are often detailed, close-up examinations of people going about their business and working together in organizations. Cultural models put society back into an organizational explanation: society is not just an epiphenomenon and organizations are not just instrumental byproducts of the pursuit of economic utilities. Rather, society provides the very means by which organized economic activity can be sustained – common understandings, social values and rewards, ideologies of work and management. As Mary Douglas put it, "For discourse to be possible at all, the basic categories have to be agreed on. Nothing else but institutions can define sameness. Similarity is an institution."[47] Beliefs, categories of sameness – what political economists describe uncritically as "interests," and the market model either assumes without question or dismisses as "friction" and "imperfection" – the culture model sees as central problems for explanation. Moreover, social actors are taken seriously by the cultural perspective; they are the central figures in any research program.

Despite, and perhaps because of, the richness of many culture studies of organizations this perspective also has limitations. Often the studies are so particularistic that generalization of features, and hence comparison, are problematic. Even explicitly comparative culture studies when conducted in the same cultural arena – for example Japan and

Taiwan – cannot explain differences. Cultural continuities such as the influence of a Confucian ethic throughout East Asia cannot explain why Japanese and Taiwanese businesses are organized so differently. It can only explain why there are similarities, for example, obedience to superiors and a disciplined orientation to work.

The culture approach also has difficulty explaining changes over time, even within the same society. Culture is relatively constant, transforming only slowly. How then can a culture theory explain Japanese labor practices before World War II – when seniority systems and lifetime employment in core industries were not widespread – as well as the postwar practices we now associate with Japanese management?[48] If seniority systems and other management policies are expressions of group-oriented Japanese culture – as they surely are – how can we explain their emergence at a particular historic moment? Moreover, how can a culture model explain differences in a society in a given period, that is, account today for Japan's large organizations and small, those privately held as well as those publicly traded? Culture is too much a background factor, important to be sure, but by itself insufficiently specific to explain differences in organizational structure and functioning. And finally, where market theories suffer from an undersocialized conception of actors, culture theorists like political economists often err in the opposite way, seeing actors as unwittingly propelled by values and social pressures.

This characterization of the political economy, market, and culture perspectives is just that, a characterization that captures neither the variety of viewpoints within each perspective nor the substantive merits of the research produced by each, which are admittedly considerable. Rather, my purpose has been to sketch the theoretical underpinnings of these alternative explanations in an attempt to create an approach to industrial patterns that avoids some of their shortcomings.

I am not alone in this endeavor. Indeed, the development of economic theories that account better for political and, especially, social and cultural factors is something of a boom industry at the moment, not least among economists. In addition to the psychologizing of economic models, some economists have embraced social structural and cultural concepts in recent years. Two examples suggest the direction of these efforts.

First, IO economists have attempted to introduce an explicitly cultural variable into their models. William Ouchi has joined with Williamson in arguing that the most efficient form of organization may be those in which solidarity norms are strong.[49] Mission-oriented firms – "clans" in their terminology – will arise in situations where markets "fail" and hierarchies have high costs, perhaps because of the complexity of work and the difficulty of monitoring or enforcing contract compliance. "Culture" becomes the grease that reduces the costly friction of social relations.

Another important attempt by economists to integrate social structural variables is represented in institutional economic history (to be distinguished from the institutional school of organizational analysis described below), best developed in the writings of Douglass North.[50] North takes seriously the historically developed institutions of a society including the state and social ideology. For example, he writes that "strong moral and ethical codes of a society is [sic] the cement of social stability which makes an economic system viable."[51] More importantly, North's project is concerned with how institutions are constraints upon the hypothesized neoclassical model. How can economic rationality – an unquestioned assumption – proceed given social and political formations? North and his colleagues examine historical market settings and "fit" the neoclassical model within them.

Institutional economists have come far from the formal neoclassical models of mainstream economics in an attempt to account for the social and cultural factors that so obviously influence economic organizations. They do so in a way, however, that preserves the primacy of the economic over the social. Williamson, Ouchi, and North all see social variables as outcomes of, or constraints upon, the economic. They do not, however, ask why economic factors such as property rights – a social and political institution – are made possible by the institutions of the state or come to be understood as efficient.

I do not intend to argue with the culturalists that economic activity presupposes shared meanings, with the economists who see culture emerging from exchange, or with political economists who see the economy as a consequence of state structure. Rather, I develop an institutional theory that regards political, market, and culture factors as crucial variables in any explanation of economic organization. I believe economic rationality is widespread in market societies as economists assume, but not that it is a state of human nature from which all else, including organization, follows. Rather, I suggest that economic rationality is socially produced and culturally maintained. For economic rationality to exist requires social and cultural underpinnings of the sort that capitalist societies maintain – legal, educational, political, and ideological institutions. Moreover, economic rationality is not everywhere the same, an undifferentiated force of social nature: it varies substantively with the history, culture, and institutions of a society and may have variable expression. While a merchant in Imperial China may have been just as profit seeking as a contemporary Wall Street investment banker and just as "economically rational," his reasons for pecuniary pursuit, his norms of exchange, his networks of financial relations, his conceivable strategies of accumulation – his entire orientation to gain – was strikingly different. A sociological "institutional theory" draws on state, market, and culture factors to explain this difference but in a way that makes none logically prior.

**What is an institutional explanation?**

The institutional school of organizational analysis is a loose agglomeration of theoretical approaches that vary considerably.[52] They largely, however, reject explanations for organizational structure and functioning that rest soley on technical causes such as task requirements, size, or market factors. Moreover, institutionalists tend to view organizations as socially constructed – a product of actors' subjective realities – rather than as objective, material artifacts. Institutionalists do not deny the material impulse behind organizing, such as an orientation to profit, but seek further than economic rationality for explanations of the structures people manufacture in their pursuit of gain. It is not my purpose here to review the variation or detail in the institutional perspective, which has been ably described by others.[53] Rather, because of the diverstity in this perspective and the debates between practitioners,[54] I want to suggest what I intend as an "institutional theory" and to make explicit the assumptions on which it rests. There are four elements to the institutional theory of economic organizations that I propose, each of which is a derivative of Weberian sociology: economic action as social action, the embeddedness of economic activity in institutional settings, institutional logic as a crucial concept, and the necessarily multi-level nature of an institutional argument.

*Economic action is social action*

The economic man of neoclassical economics is an avaricious hermit, a supersmart selfish individual without history or tradition, without friends or enemies. This character is the useful fiction employed by economists to depict decision making in market settings. Few, if any, economists would argue that real people acted like the miserly loner of their models. The advantage of the fiction is not to mirror reality but to simplify it, to reduce to essentials the general orientation of people as they buy and sell goods and services in a market.

This simple fiction yields the virtue of elegance in micro-economic model making, but it is not without critics. David Teece, an IO economist, for example acknowledges that real markets are not peopled with "faceless economic agents." He argues that "the abstraction [of hyperrational decision makers] may be appropriate for framing certain problems but it is ... not a characterization of individual behavior and, even more so, of organizational behavior."[55] Social characteristics, such as reputation and experience, "are the very stuff which permits markets to operate efficiently."[56] Market theorists such as Teece recognize that economic actors indeed have histories, suffer forgetfulness, and are propelled by desires. While acknowledging that economic man is a useful caricature for modelling the behaviour of populations of actors, they understand the limits of the caricature for describing the activities of real people close-up.

At the heart of this limitation, I believe, is the presumption that economic action is asocial, that is, conducted without consideration of others. While it is possible to conceive of asocial economic activity, it is so evidently rare in enduring conditions of exchange, as Teece suggests, as to be a weak basis for theory building. Rather, I propose constructing theories of economic action based on observed reality: economic action is social action.

What is social action? According to Weber, it is action oriented to others and includes both failure to act and passive acquiescence. It may be oriented to the past or the future, as well as the present. Social action may be motivated by revenge, peer pressure, desire for power or gain, the memory of one's ancestors – any motivation that considers or expects the response, intentions, feelings, beliefs, or attitudes of others.

> The "others" may be individual persons, and may be known to the actor as such, or may constitute an indefinite plurality and may be entirely unknown as individuals. (Thus, money is a means of exchange which the actor accepts in payment because he orients his action to the expectation that a large but

> unknown number of individuals he is personally unacquainted with will be ready to accept it in exchange on some future occasion.)[57]

Not all human action is social: "Social action does not occur when two cyclists, for example, collide unintentionally; however, it does occur when they try to avoid the collision or sock one another afterwards or negotiate to settle the matter peacefully."[58] Intention is crucial.

It is clear, however, that much of what we consider economic action is social action. Haggling over price, forming partnerships, purchasing a gift, negotiating a contract, hiring a worker, attempting to outwit a competitor, regulating a market – all of these anticipate the actions or feeling states of others and make some judgment of how those others will react in given circumstances. Much business activity, and all organized enterprise, is social action.

Weber desribed four forms of social action – instrumentally rational, value-rational, affectual, and traditional. Instrumentally rational action involves an individual's calculation of a course of action in the pursuit of a rationally determined end, for example profit or market share. This, of course, is the economic rationality of market models, but in Weber's conceptualization it includes a calculus of more than price; it considers as well the likely actions of others as an individual pursues profit or other rational goals.

Instrumentally rational social action predominates in market societies, but it is not the only form of social action involved in the economy. Value-rationality is action oriented toward beliefs or values. Ethically-constrained economic behavior, or economic activity that is prompted by religious beliefs such as tithing, are examples of value-rational economic activity.[59] Americans, for example, have no objection to burial of their dead oversees (e.g., thousands of U.S. servicemen are buried in Korea), at least in part an expression of belief that when an individual's life is over it is appropriate for survivors to look to the future. Costly funerary arrangements are generaly regarded as unseemly. Asians, however, have a sense of themselves in a temporal continuity that should remain unbroken, and burial anywhere but in ancestral soil is unthinkable. This sense has prompted a range of economic behaviours that would seem wasteful to a Westerner. For example when a Japanese battleship sank in 1943, "At the end of World War II it was refloated at enormous cost, and the crew's remains recovered and cremated, then presented to relatives."[60] The expense born by an impoverished Japanese state was considered there to be wholly appropriate. One of the important functions of Chinese merchant guilds in Imperial China was to maintain accounts to return deceased members' bodies to ancestral tombs for burial.[61]

Affectual social action is oriented toward feeling states, particularly emotions. Economic activity that is motivated by revenge or the anticipation of pleasure are affectually driven forms of social action. Charitable contributions may be motivated by beliefs but also by the pleasure that attaches to giving. Finally, traditional social action is prompted by habit, often the habits of generations. For example, the economic patterns of European craft guilds in the Middle Ages, were oriented more toward custom than the maximization of profit; religious and economic activities were entwined.[62] Guilds in Imperial China similarly maintained customary rituals. "The Ningbo guild in Shanghai built up its strength through the Buddhist All Souls' Day festivals it cosponsored with numerous small Ningbo fellow-provincial societies affiliated with various trades in the city, devoted to filial piety, to philanthropy, and to the veneration of literacy."[63] Economic organization and traditional practices may be entwined, each informing the other and influencing the acts of individuals and groups.

These four types of social action are ideal types, models of human orientations to activity, that in fact are always combined in some way. But it is clear that real economic action is not merely "economically rational" in an abstract, impersonal way. The economy is filled with more than greedy hermits, but by people moved by ethics, regulations, hate, status aspirations, and custom. Economic action – not all of it, but most of it – is social action. An institutional explanation of the sort that I describe begins with the assumption that people consider others when they do business, and are not the isolated individuals of market models.[64]

*The embeddedness of economic activity in institutions*

If economic action is rarely the autonomous activities of atomized individuals, then it is the relations of mutually aware persons. Where does this "awareness" come from, and what consequences does it have for the development of firms and other organized economic structures?

It is evident that individuals do not reconstruct norms of exchange each time they meet, rather develop mutually agreeable means for the repetitive conduct of business. With time, these patterns become routinized, taken-for-granted understandings of "the way things are done." Indeed, social order of any form, not just the economy, cannot proceed without shared interpretation of action. "These interpretations, or 'typifications' are attempts to classify the behavior into categories that will enable the actors to respond to it in a similar fashion. The process by which actions become repeated over time and are assigned similar meanings by self and others is defined as institutionalization."[65] It becomes difficult, if not impossible, for individuals to pursue economic action in disregard of the institutionalized behavior patterns of others, particularly if the efforts or goods of others are necessary to the actor's project.

Persons who have had a part in the formation of institutionalized economic norms or who become knowledgeable about them develop a stake in their maintenance; established norms make continuous exchange predictable and simpler than constant negotiation of the terms of exchange. In this sense of making action "simpler," institutionalized norms are "efficient"; they provide previously negotiated, ready-made means for taking care of business. Clearly, efficiency in this sense is not measured against a "most efficient" abstract standard, but actors who disregard institutionalized patterns will certainly meet with social friction of the type hypothesized by market theorists. The most efficient form of economic action from the point of view of an actor is institutionalized action, that is, action knowledgeable in the ways of insiders.[66]

Moreover, patterns and structures that develop over time for purely instrumental purposes may become infused with value, as Selznick noted. "They are products of interaction and adaption; they become the receptacles of group idealism; they are less readily expendable."[67] Institutionalized patterns and structures then have both instrumental and value components, technical and ideal qualities. Failure to act in ways that accord with institutionalized norms, even if more abstractly efficient, may signal that the actor is outside the system morally as well as instrumentally, and not to be trusted.[68] For example, in 1983 a member firm of the Toshiba business group violated a U.S.-Japan agreement barring the sale of machine tools to the USSR that could be used for military purposes. When the sale was uncovered in 1987, the president of the largest Toshiba group company resigned in shame although his firm had no part or even knowledge of the illegal sale by a smaller independent but affiliated firm.[69] As senior representative of the "community" of Toshiba firms, however, his act was proper, even required, given the moral basis of firm behavior in Japan, which is based on communitarian norms. No such act, of course, would be expected in the United States where firms are embedded in institutions that sustain their autonomy, not their community.

Organizational and ideological arrangements develop to sustain the patterns that have been worked out by actors. The lending and borrowing of money, for example, becomes routinized in economic organizations such as banks and equity markets. Despite the common need for these services in all industrialized societies, financial concerns are structured and operate differently depending on the institutional setting. Banking laws in the United States, for example the Glass-Steagall Act, prevent banks from investing in corporations, an institutionalized expression of the importance of firm independence for market order. No such laws exist in Japan where interfirm networks are widely believed to be crucial for maintaining economic stability. Banks, in fact, are important members of Japanese business groups and may be leading investors in corporations.[70] In contrast, banks of any sort are relatively unimportant in Taiwan where financial activities, including the raising of investment capital, tend to be conducted among families and friends. In a society dominated by familiy firms, not publicly-traded corporations, a range of private financing arrangements have become institutionalized.[71] When seen in the light of local institutions, Chandler's previously cited characterization of Japan's capital markets as "undeveloped," is clearly ethnocentric, an application of American economic standards to an alien institutional arena.

An institutional perspective looks at economic and organizational activity, not apart from, but embedded in, society. The particular character of that embeddedness – networks of relations, social beliefs, gender and family structure, and other institutionalized forms of social order such as the state and religion – will vary across societies. The extent to which, for example, the polity and the economy are mutually supportive, relatively autonomous, or overtly antagonistic is a subject of institutional explanation and not an a priori assumption. For the most part, however, institutionalists expect that societal sectors have connections of some sort and in particular, that intra-societal social relations will frequently partake of similar organizing logics.

*Organizational logics*

In what ways are societal sectors connected to each other, and in particular, to the economy? There is no easy answer to this question, and indeed the answer will vary across societies. Studies by me and others suggest, however, that supra-organizational norms and patterns that express those norms serve as common resources for the structuring of social relations in a society. In their article, "The Iron Cage Revisited," Paul DiMaggio and Walter W. Powell highlighted the phenomenon of organizational isomorphism – the tendency of organizations within an institutional environment to resemble each other because of similar constraints and resources (e.g., state regulation, professional group norms).[72] I would argue further, however, that isomorphism results from the application of common organizational logics both across and between societal sectors. By "organizational logic," I mean a legitimating principle that is elaborated in an array of derivative social practices. In other words, organizational logics are the ideational bases for institutionalized authority relations.

For example, the U.S. economy is based on an institutional logic of autonomous firms and independent actors. Accounting regulations, hiring practices, anti-trust regulations – all are expressions of a belief in the correctness of individualism and autonomy.[73] In contrast, in my study of direct-selling organizations in the United States I noted the widespread use of an alternative, even oppositional, logic frequently expressed as a family metaphor.[74] Direct-selling companies use the model of a patriarchal family to provide both a structure of meaning and pattern of interaction for distributors: the organizational logic of family is immediately apprehendable and acceptable to women with little paid work experience. Direct selling, as opposed to firms, is characterized by nurturing and diffuse relations and a number of business practices in the industry are familial in character. The logic of one institution, the patriarchal nuclear family, is used to inform another, a business.

Similarly, in my study with Gary Hamilton and Marco Orrù, we noted the differing logics that organize business groups in Asia.[75] Japanese firms enact a communitarian logic, Korean firms a patrimonial logic, and Taiwanese firms a patrilineal logic.[76] Although all are network logics, they differ qualitatively and have important implications for how workers are organized, the character of subcontracting relations between firms, investment patterns, and a host of other economic relations. Each of these logics informs not only business relations but social relations in other institutions in each society. For example, the patrimonial logic of Korean business groups is reproduced in the relations between the state and business, and within Korean families. Patrimonialism has deep historic roots in Korea and provides a readily understood basis on which to organize social relations of various types.[77] Different spheres – the family, the polity, the economy – may use the same or related logics to organize members and to pattern interaction.

Institutional logics may be challenged and the tenacity of a dominant logic in the face of changing environments is variable, according to recent studies. D. Eleanor Westney found that industrializing Japan in the late nineteenth century adapted organizational forms from Europe and the United States, but not in a wholesale manner. "In the early Meiji period, Western models provided both inspiration and legitimation; later they continued to supply inspiration, but the grounds for legitimation were increasingly sought in the Japanese tradition and environment."[78] The research of Richard Florida and Martin Kenney suggests that organizational logics may be deeply rooted in legitimation and practice and survive transplant to an alien institutional arena: Japanese auto companies in the United States reproduce the communitarian relationship they have with subcontractors in Japan.[79]

If actors construct social order, including the economy, by employing intersubjectively meaningful logics, then it is clear that those meanings exist only for those within the bounds of the social order. This basic premise of an institutional argument has important consequences for research methods and causal explanation.

Explanations for institutional structure and practice must be adequate at the level of meaning, that is, understandable from the points of view of participating actors. Organizations, from an institutional perspective (and similar to a cultural perspective), are the consequences of people working out routine means for handling repetitive economic functions. Arrangements are not the "best-adapted," or "most efficient" in an instrumentally-abstract way. Nor are they "necessary" outcomes of a stage of economic development, as Chandler's theory of the firm suggests. Institutional arguments reject the above forms of explanation as limited by functionalism, that is, confusing consequences with causes.

Rather, I argue that institutional factors such as values, networks of relations, and socially constructed rules, shape organizations by limiting possibilities, making some forms of action likely or more "reasonable" because they have the force of understanding and acceptance in the community. But institutional factors do not "cause" organizations in the sense implied by the form of analysis expressed by market models and other explanations that seek answers in the correlation of ahistorically conceived variables such as size, industry characteristics, and product diversity.[80] Any method that relies on high levels of abstraction and seeks to find universal laws will have difficulty uncovering institutional logics where the context is crucial.

This is not to suggest that generalization is impossible in an institutional explanation. But generalization is of a limited form, for example, the ideal types of Weberian analysis. Ideal types summarize common elements of a limited number of real instances of a phenomenon, such as bureaucratic organization or rational capitalism. Generalization is possible at an intermediate level between the hypothesized universal laws of market theories and the unique explanations of some forms of cultural and historical analysis. There can be institutionalized "laws," of course, in the sense that individuals may act as though such a law existed. In an institutional explanation, for example, there is no necessary law of marginal utility or other impersonal system of laws that works to produce the economy: individuals may *enact* a "law" of marginal utility by assuming the individualistic, calculating orientation that such a law implies. This does not, of course, mean that the "law" has status independent of actors who produce and reproduce it through social interaction. Actors make social and economic systems and through their knowledgeable reproduction of its patterns maintain it, or change it incrementally through the coursing of history.

### *Institutional analysis is multi-level analysis*

Market theories and some forms of political economy explanation locate crucial explanatory factors in supra-organizational phenomena – for example, the state, industry structure, or economic resources. Cultural analysis often locates the crucial factors at the intra-organizational level – in the minds of actors or in patterns of interpersonal relations. An institutional analysis, because of its concern with both structure and action, by necessity is a multi-level analysis. Indeed, it must examine not only micro- and macro-level phenomena, but in a way that shows their simultaneity: the structure that shapes action, the actions that reproduce structure.

Although institutional research is concerned with both micro- and macro-levels of analysis, the focus is primarily on the middle-range of social life. Institutionalists are concerned mostly with the organized relations and practices that are common to the economy – the structures of business ethics, the networks of ownership and production, the concrete arrangements that direct investment and trade in particular ways. It is in the intermediate range that we are best able to see the impact of both large-scale influences, such as state regulation, and the acts of individuals, such as investment decisions. An institutional theory, therefore, can build on both the more and less abstracted market, culture, and political economy analyses even while recognizing their sometimes limiting (for the purposes of institutional inquiry) assumptions.

## Conclusion

Social theorists are challenged to explain an increasingly complex economic order. It is clear that old theories that posited a developmental sequence from "undeveloped" to "industrialized" cannot explain the diverse patterns of industrialization that exist. Certainly, Japan is as developed as Western nations but its patterns of development, its economic norms, and its industrial practices are substantially different from the United States and even its Asian neighbors in Taiwan and South Korea. For example, the fact that Japan has the largest banks in the world, and Taiwan relatively few and weak ones (despite the world's largest per capita foreign reserve holdings), cannot be explained only by recourse to market or state factors, although each play a role. Both countries were literally awash in money in the 1980s, and both countries are clearly capitalist societies where banking institutions are assumed to be critical to economic development, as they have been in the West. But more than market and political economy factors are at work here.

In Japan, historically developed institutional factors, dating from before the Meiji Restoration and industrial revolution, created conditions for business group self-financing. Modern-day *keiretsu*, such as Sumitomo and Mitsui, with their huge banks as centerpieces, trace their origins to pre-industrial merchant houses under family ownership. Inheritance practices in Japan are based on primogeniture, inheritance of the entire fortune by the eldest son. This practice allowed merchant family fortunes to remain intact under the stewardship of the heir. Successful families thus had huge sums of money available to finance the businesses of affiliated branches operating under the "badge" of the mother house. The descendents of the *zaibatsu* merchant houses, the *keiretsu*, continue to rely on their own sources of finance, now institutionalized in banks that serve their credit and other financial needs. To see large banks encapsulated within business networks as only the outcome of distorted market conditions, or as only the result of a powerful business class, misses the institutional origins and overlooks the contemporary institutional underpinnings of the Japanese banking system.

Ironically, the weakness of Taiwanese banks can also be traced to a strong family system. Chinese societies practice partible inheritance, that is, division of a family estate equally among all sons. As a result, families divide their fortunes every generation, mitigating against the development of large sums of money. Instead, there is great pressure within families to develop multiple businesses so that at the death of the family head, each son can claim an independent enterprise. Because all Chinese families face the problem of setting up children in business (being an employee is not a desirable status in Taiwan as it is in Japan), a range of informal lending arrangements have arisen within families and among friends to generate investment capital. Strong social norms dictate that one assist financially a kin member or close friend. Banks play a relatively minor role in Taiwan because alternative institutional arrangements, also with preindustrial origins, have obviated the need for banks for some financial functions. Again, market factors are important to understanding the strong curb market and weak formal banking system in Taiwan, and political economy factors, notably the absence of a strong central bank, are also significant. But an institutional explanation integrates these factors into an explanation that begins with the character of the society being explained.

We need theories that can account for difference without reducing cases to unique instances, that do not presume the individualistic character of Western social orders, and that are sensitive to an array of ideal as well as material factors operating in different locations. Although political economy, market, and culture theories each have contributions to make, an institutional perspective of the type I outline may be especially suited to the comparative analysis of emerging world economic organization. I think, ironically, that a sensitivity to institutional factors may yield better theories of the West. Rather than assume that the United States and Europe are the exemplars of advanced capitalism, the closest empirical instances of the idealized competitive market, Japan and other Asian nations are suggesting that the West is simply *one form* of capitalist economic development, an expression no doubt, of the West's own institutional heritage. When we relinquish ethnocentric perspectives we can begin to look at ourselves and our own institutional heritage more clearly.

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## Notes

1. Marvin Wolf, *The Japanese Conspiracy* (New York: Empire Books, 1983).
2. Clyde Prestowitz, Jr., *Trading Places: How We Allowed Japan to Take the Lead* (New York: Basic Books, 1988).
3. Robert R. Alford and Roger Friedland, *The Powers of Theory: Capitalism, the State, and Democracy* (Cambridge: Cambridge University Press, 1985).
4. Bruce Cumings, "The Origins and Development of the Northeast Asian Political Economy, *International Organization* 38 (1984): 1–40.
5. Ibid., 3.
6. Ibid., 28.
7. Ibid., 11.
8. Ibid., 12.
9. Ibid., 28.
10. Thomas B. Gold, *State and Society in the Taiwan Miracle* (Armonk, N.Y.: M. E. Sharpe, 1986), 15.
11. Ibid., 126.
12. Alice A. Amsden, "The State and Taiwan's Economic Development," in Peter B. Evans, Dietrich Rueschemeyer, and Theda Skocpol, editors, *Bringing the State Back In* (Cambridge: Cambridge University Press, 1985), 98.
13. Ibid., 101.

14. Ramon H. Myers, "The Economic Transformation of the Republic of China on Taiwan," *The China Quarterly* (1984): 516.
15. In addition to Wolf, *The Japanese Conspiracy*, see, for example, Jared Taylor, *Shadows of the Rising Sun* (New York: William Morrow, 1983), and Russell Brandon, *The Other Hundred Years* (London: Collins, 1983).
16. Alfred D. Chandler, *The Visible Hand* (Cambridge: Harvard University Press, 1977).
17. The most elaborate treatment of Williamson's perspective is found in his book, *The Economic Institutions of Capitalism* (New York: Free Press, 1985).
18. Sherman Cochran, "Economic Institutions in China's Interregional Trade: Tobacco Products and Cotton Textiles, 1850–1980," paper presented at the Conference on Spatial and Temporal Trends and Cycles in Chinese Economic History, Bellagio, Italy, August 1984.
19. Sherman Cochran, "Enterprises Spanning Economic Time and Space in China, 1850–1980: The Introduction of Vertical Integration," paper presented at the conference, "Chinese Entrepreneurship at Home and Abroad, 1900–82," Cornell University, October 1982.
20. See Michael Porter, *Competitive Strategy: Techniques for Analyzing Industries and Competitors* (New York: Free Press); E. S. Mason, *The Corporation in Modern Society* (Cambridge: Harvard University Press, 1960; and J. S. Bain, *Industrial Organization* (New York: Wiley, 1968).
21. IO economics assumes homogeneous firms whose behavior is dictated by market structure, for example, whether a market is concentrated or has barriers to entry. Porter and other economists interested in strategy take IO economics from the point of view of a focal firm, to argue that a firm should foster structural "imperfections" in a market to its own competitive advantage. Chamberlinian economics, on the other hand, assumes heterogeneous firms and argues that firms behave in ways that exploit their competitive advantages such as patents and technical know-how. For reviews of these and related market perspectives, see Jay B. Barney and William G. Ouchi, editors, *Organizational Economics* (San Francisco: Jossey-Bass, 1986).
22. Ian M. D. Little, "An Economic Reconnaisance," in Walter Galenson, editor, *Economic Growth and Structural Change in Taiwan* (Ithaca: Cornell University Press, 1979).
23. See, for example, M. C. Jensen and W. H. Meckling, "Theory of the Firm: Managerial Behavior, Agency Costs and Ownership Structure," *Journal of Financial Economics* 3 (1976): 305–360, and E. F. Fama and M. C. Jensen, "Separation of Ownership and Control," *Journal of Law and Economics* 26 (1983): 301–325.
24. Gary Hamilton and I discuss the logic of sociological exchange theories in "Why People Obey: Theoretical Observations on Power and Obedience in Complex Organizations," *Sociological Perspectives* 28 (1985): 3–28.
25. This is a generalization with important exceptions, however. Although cultural studies are *primarily* concerned with such subjectivist phenomena as language, discourse, symbolism, and meaning, there are certainly cultural studies that see these embedded in or creating the foundation for social structure. Cultural structuralists such as Foucault, however, typically see culture as the basis for structure, not the reverse, and assume that structure and culture are socially constructed. See, for a discussion of these issues, Robert Wurthnow, et al., *Cultural Analysis* (Boston: Routledge and Kegan Paul, 1984).

26. Mary Douglas and Baron Isherwood, *The World of Goods* (New York: Basic Books, 1979), 4.
27. The number and variety of culture theories of organization is large and includes conceptualizations of culture as a regulatory mechanism, as a system of shared cognitions, a symbolic system, and a universal infrastructure of the mind's unconscious. For a review of culture theories and their application to organization theory see Linda Smircich, "Concepts of Culture and Organizational Analysis," *Administrative Science Quarterly* 28 (1983): 339–358.
28. Viviana Zelizer, "Beyond the Polemics on the Market: Establishing a Theoretical and Empirical Agenda," *Sociological Forum.*
29. See, for example, James Abegglen, *The Japanese Factory* (Glencoe, Ill.: Free Press, 1958), and Ruth Benedict, *The Chrysanthemum and the Sword* (Boston: Houghton-Mifflin, 1946).
30. For example, Tai-li Hu, *My Mother-in-law's Village: Rural Industrialization and Change in Taiwan* (Taipei: Institute of Ethology, Academia Sinica, 1984), and Robert H. Silin, *Leadership and Values: The Organization of Large-scale Taiwanese Enterprises* (Cambridge: East Asian Research Center, Harvard University, 1976).
31. Michel Foucault, *Madness and Reason: A History of Insanity in the Age of Reason* (New York: Random House, 1965), and *Discipline and Punish: The Birth of the Prison* (New York: Vintage, 1979).
32. Paul Blumberg, *Industrial Democracy: The Sociology of Participation* (New York: Schocken, 1973); Arnold S. Tannenbaum, Bogdan Kavcic, Menachem Rosner, Mino Vianello and Georg Weisner, *Hierarchy in Organizations* (San Francisco: Jossey-Bass, 1974); Ronald Dore, *British Factory-Japanese Factory: The Origins of National Diversity in Industrial Relations* (Berkeley: University of California Press, 1973); Michel Crozier, *The Bureaucratic Phenomenon* (Chicago: University of Chicago Press, 1964).
33. Thomas J. Peters and Robert H. Waterman, Jr., *In Search of Excellence* (New York: Warner, 1982).
34. William Ouchi, *Theory Z* (Reading, Mass.: Addison-Wesley, 1982).
35. For a discussion of this point see Gary G. Hamilton and Nicole Woolsey Biggart, "Why People Obey."
36. See, for example, the popular work by Karl van Wolferen, *The Enigma of Japanese Power* (New York: Knopf, 1989).
37. George Stigler, *The Organization of Industry* (Chicago: Chicago University Press, 1968).
38. Nicole Woolsey Biggart and Gary G. Hamilton, "The Western Bias of Neoclassical Economics: On the Limits of A Firm-Based Theory to Explain Business Networks," paper presented at the Networks and Organizations Conference, Harvard Business School, August 1990. In this paper we explain in some detail the ethnocentric logic of neoclassical economics and trace its origins in the history of the West.
39. Hamilton and Biggart, "Market, Culture, and Authority: A Comparative Analysis of Management and Organization in the Far East," *American Journal of Sociology* 94S: S52–S94.
40. Charles Perrow, "Markets, Hierarchy, and Hegemony," in A. Van de Ven and William Joyce, editors, *Perspectives on Organization Design and Behavior* (New York: Wiley, 1981), 371–386.
41. William G. Roy, "Functional and Historical Logics in Explaining the Rise of the

American Industrial Corporation," paper presented at the meetings of the American Sociological Association, August 1987, Chicago, 5.

42. Mark Granovetter, "Economic Action and Social Structure: The Problem of Embeddedness," *American Journal of Sociology* 91 (1985): 481–510.
43. Decision theorists and some economists have in recent years acknowledged that economic models of human decision making are simplistic. See for example, A. Tversky and D. Kahneman, "Judgement Under Uncertainty, Heuristics and Biases, *Science*, No. 185 (1974): 1124–1131, and F. E. Brown and A. R. Oxenfeld, *Misperceptions of Economic Phenomenon* (New York: Sperand Douth, 1972). Economists' response to improving their models of economic action for the most part has been to construct laboratory experiments of economic behavior, not to examine economic action as it actually occurs in social life.
44. This observation has been made before by both culture theorists and economists. For an example of the former, see Chie Nakane's analysis of group structures in Japan, *Japanese Society* (Berkeley: University of California Press, 1970), and Gary Hamilton and Kao Cheng-Shu's discussion of the importance of lineages to Chinese firms in "The Institutional Foundations of Chinese Business: The Family Firm in Taiwan," working paper of the Research Program in East Asian Culture and Development, University of California at Davis, 1987. Economists, even while embracing individualist models, also recognize the importance of business groups to Asian economies. See, for example, Richard Caves and P. J. Williamson, *Industrial Organization in Japan* (Washington, D. C.: Brookings Institution, 1976).
45. Alfred D. Chandler, "The M-Form: Industrial Groups, American Style," *European Economic Review* 19 (1982): 3–23.
46. There are others, besides economists, who use the same logic. For example, U.S. trade negotiators demand that Japan restructure its market to conform more closely to the patterns of the United States, and some political economists describe the "developmental state" in Asian societies as having been responsible for creating systematic market distortions. Both assume the logic of a perfect, Western-style market as the basis of "good" economic organization.
47. Mary Douglas, *How Institutions Think* (Syracuse, N.Y.: Syracuse University Press, 1986), 55.
48. Sanford Jacoby, "The Origins of Internal Labor Markets in Japan," *Industrial Relations* 18 (1979): 184–196.
49. William Ouchi, "Markets, Bureaucracies and Clans," *Administrative Science Quarterly* 25 (1981): 129–142; Oliver E. Williamson and William Ouchi, "The Markets and Hierarchies and Visible Hand Perspective," in A. Van de Ven and William Joyce, editors, *Perspectives*, 347–370.
50. Douglass North, *Structure and Change in Economic History* (New York: W. W. Norton, 1981).
51. Douglas, *How Institutions Think*, 47.
52. The institutional school has emerged from organizational sociology, but its explanatory power is not limited to formal organizations or economic matters. It has potential for explaining all sorts of established social practices and institutions, from cultural expressions to family structure.
53. See Lynn G. Zucker, "Institutional Theories of Organizations," *Annual Review of Sociology* (Palo Alto, Cal.: Annual Reviews, 1987), and W. Richard Scott, "The Adolescence of Institutional Theory," *Administrative Science Quarterly* 32 (1987): 493–511.

54. See, for example, Lynne G. Zucker, "Introduction" to Lynne G. Zucker, editor, *Institutional Patterns and Organizations: Culture and Environment* (Cambridge, Mass.: Ballinger, 1988), xiii–xix.
55. David J. Teece, "Economic Analysis and Strategic Management," *California Management Review* 26 (1984): 91–92.
56. Ibid.
57. Max Weber, *Economy and Society* (Berkeley: University of California Press, 1978), 22.
58. Ibid., 23.
59. In *Charismatic Capitalism: Direct Selling Organizations in America* (Chicago: University of Chicago Press, 1989), I describe an entire industry based on value rationality. In direct selling, distributors believe that the products and services they sell have special, non-material qualities and that selling is an exalted activity that affirms a range of beliefs and values.
60. Shuji Hayashi, *Culture and Management in Japan* (University of Tokyo Press, 1988): 84. In this book Hayashi also compares the Eastern and Western notions of time.
61. Kwang-Ching Liu, "Chinese Merchant Guilds: An Historical Inquiry." Presidential Address of the Pacific Coast Branch of the American Historical Association presented at annual meeting August 1987, Occidental College.
62. In the ninth to thirteenth centuries in Europe, an era when trade was growing in new towns and cities, the Church sustained a prejudice against the trades, which were oriented toward secular activities. In an attempt to gain legitimacy, trade guilds adopted patron saints and clothed their economic activities in religious robes. Jacques Le Goff, *Time, Work, and Culture in the Middle Ages* (Chicago: University of Chicago Press, 1980), 68.
63. Ibid.
64. My argument for an institutional theory premised on social action differs from those of theorists who describe institutions as taken-for-granted ways of acting in the world. In this latter conceptualization institutions obscure the interests of actors by promoting uncritical modes of behavior. It is far more useful to see *the extent to which* actors are active agents channeled (but not necessarily determined) by the institutional environment in which they are embedded. For a good discussion of this issue see Paul Dimaggio, "Interest and Agency in Institutional Theory," in Lynne G. Zucker, editor, *Institutional Patterns and Organizations: Culture and Environment* (Cambridge, Mass.: Ballinger), 3–21.
65. Scott, "Adolescence," 495.
66. John Meyer and Brian Rowan made this discovery in studying the organization of schools. Schools displayed a number of organizational features that could not be explained as abstractly efficiency-enhancing, but failure to have those "modern" features would have brought down the wrath of regulators, clearly inefficient from the schools' points of view. John Meyer and Brian Rowan, "The Structure of Educational Organizations," *Organizational Environments: Ritual and Rationality*, ed. John W. Meyer and W. Richard Scott (Beverly Hills, CA: Sage, 1983), 71–97.
67. Philip Selznick, *Leadership in Administration* (New York: Harper and Row, 1957), 22.
68. For a discussion of this, see Nicole Woolsey Biggart and Gary G. Hamilton, "The Power of Obedience," *Administrative Science Quarterly* 29 (1984): 540–549.
69. Prestowitz, *Trading Places*, 154.

70. Marco Orrù, Nicole Woolsey Biggart, and Gary G. Hamilton, "Organizational Isomorphism in East Asia: Broadening the New Institutionalism," in Walter W. Powell and Paul DiMaggio, editors, *The New Institutionalism in Orgranizational Analysis* (Chicago: University of Chicago Press, 1991).
71. Norman Jacobs, *The Korean Road to Modernization and Development* (Urbana, Ill.: University of Illinois Press, 1985).
72. Paul DiMaggio and Walter W. Powell, "The Iron Cage Revisited: Institutional Isomorphism and Collective Rationality in Organizational Fields," *American Sociological Review* 48 (1983): 147–160.
73. Biggart and Hamilton, "The Western Bias of Neoclassical Economics."
74. Biggart, *Charismatic Capitalism.*
75. Orrù, Biggart, and Hamilton, "Organizational Isomorphism."
76. Richard Whitley, using somewhat different terminology, notes these patterns as well. "Enterprise Structures in Their Societal Contexts: The Comparative Analysis of Forms of Business Organization," paper presented at the International Sociological Association Meetings, Madrid, July 1990.
77. Nicole Woolsey Biggart, "Institutionalized Patrimonialism in Korean Business," in Craig Calhoun, editor, *Comparative Social Research* 12 (1990), forthcoming.
78. D. Eleanor Westney, *Imitation and Innovation: The Transfer of Western Organizational Patterns to Meiji Japan* (Cambridge: Harvard University Press, 1987), 220.
79. Richard Florida and Martin Kenney, "Organizational Transplants: The Transfer of Japanese Industrial Organization to the U.S.," unpublished manuscript.
80. For an excellent discussion of these issues, notably the logical differences between variable and case analysis, see Charles Ragin and David Zaret, "Theory and Method in Comparative Research: Two Strategies," *Social Forces* 61 (1983): 731–754.