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Introduction

Governing Globalization – Bringing Institutions Back In

Marie-Laure Djelic and Sigrid Quack

The image of a ‘runaway world’ (Giddens 2000) – a very fast train without drivers going along the tracks of market and technological evolutions – will probably remain associated with the 1990s. During that decade, this image triggered essentially three kinds of reactions.

First were the believers – those who observed, predicted and championed an intensifying and accelerating movement of globalization, understood as an unavoidable, a-historical, neutral and progressive force. Then came the sceptics for whom the nation-state remained a robust structuring principle. Without denying processes of internationalization, sceptics pointed at the most to a regionalization of exchanges around three poles – Europe, Asia and the Americas. From that perspective, ideas of a ‘borderless world’ or of a ‘global village’ (McLuhan 1968, Ohmae 1990, 1995) were mere utopias. Finally, one found the critics – those who agreed that globalization was a reality in the making but did not see it as progressive. Critics pointed to the negative externalities associated with globalization, in terms of inequalities, durable growth, ecological conditions and in terms as well of the reduction or destruction of diversities.

Naturally those three groups had quite different ideas on how to deal with this ‘runaway world’. For believers, forces such as market competition, technological change and rationalization were bringing along wealth, development and social if not moral progress. Those forces hence should be set free and liberated. Political and regulatory intervention

created particularly problematic hurdles and obstacles from that perspective. Globalization would not progress and push along its benefits if the polity did not wither away.

For sceptics this was naive wishful thinking. From their perspective, the nation-state remained extremely robust as a locus of structuration and organization of social and economic life. This vouched for the persistence of differences, made convergence unlikely and in itself this strength of the polity at the national level set limits and constraints to the process of globalization.

As for critics, they identified the whitering away of the polity, particularly in its national dimension, as indeed a process associated with globalization. They saw it as one of the negative externalities of a globalizing world that should be countered. A rallying cry of part of the anti-globalization movement has been the issue of governance. The argument went that, if left to its own devices, globalization could have destructive consequences – particularly on the weak, the marginal, the minorities, the diverse and the different. The polity could play in that context the role of a buffer and filter and each state should act as a counter power on its own territory.

Another and complementary side of the call for governance has had to do with the space in between – the international arena. Generally, that space has been viewed and described as an anomic and a-political sphere, a space of non-law largely unregulated and leaving free play to market, financial and economic logics. Pleas for curbing the power and strength of those logics in that space have become not only more widespread but also more mainstream at the turn of our millenium. A witness to that is the importance granted to the issue of the ‘governance of globalization’ by the 2002 World Economic Forum that set itself in the aftermath of the September 11, 2001 drama and symbolically took place in New York. Political and economic leaders have tended to appropriate either the discourse on and/or the project of reining in globalization and working towards its ‘governance’.¹ There, too, and for

that project the polity would seem to have an important role to play – the role of the ‘driver’ of this runaway world, may be, that was absent and unnecessary in the eyes of the ‘believers’. The ambiguity appears to be much greater, however in that context, as to the meaning of the term ‘polity’.

Reconciling embeddedness and change: a reinterpretation of ‘globalization’

This volume starts with a different understanding of the relationship between economic globalization and institutions. We do not treat the economy and the polity as two separate spheres of social life, each with its own autonomous logic in interaction – and competition – with the other (Parsons 1949, 1951, Alexander 1985). Instead, the contributors to this book all embrace a conception of economic (but also political) action as being deeply embedded in larger institutional schemes. Working from within an institutionalist tradition, we see institutions as the fabric or frame shaping, constraining, embedding, orienting, facilitating and allowing actions and interactions including those of an economic nature (Weber 1978, Veblen 1904, Polanyi 1944, Granovetter 1985, for a more systematic discussion see chapter 2). Hence, when trying to account for changes in the French asset management industry (Kleiner in this volume) we look at the organizations, structures, norms and rules that control but also orientate and facilitate the behavior of actors in this industry. We have to focus, furthermore, on the interplay between local or preexisting national frames and challenger ones with foreign origins and transnational scope. When taking stock of the emergence of an integrated, European-wide truck transport industry (Plehwe in this volume) we also have to look at the ways in which national and transnational organizations, structures, norms or rules conflict, converge or interact leading to hybridization.

While we share a number of assumptions about what constitutes institutions with the sceptics identified above, we differ from them, however, quite significantly in essentially two ways. First, we see those institutional fabrics or frames as being malleable under certain conditions and through certain types of processes that we identify in the chapters of this volume. National institutions are robust and durable but we argue and provide evidence that they can change. We reinterpret globalization as contributing to that process of change – not destroying national institutional frames but rather pushing along their evolution and transformation (Part I of this volume).

A second manner in which we differ from the sceptics is that we acknowledge the need to seriously take into account the space in between nations, the transnational arena, as economic organization and coordination increasingly reach across national borders. Markets, we know, are or reflect institutions (Fligstein 2001). This is true of national markets and of regional markets of the European Union type (Fligstein and Mara Drita 1996). From the perspective we adopt that any kind of economic activity is embedded in a wider institutional frame, this is also true of transnational markets in the larger sense of the word. Hence we argue that globalization of economic activity reveals and means processes of institutionalization in the transnational space. Globalization, we claim, is not only about adaptation and change of national institutions. It is also about institution building in the transnational arena (Part II of this volume) – a space traditionally and typically pictured and described as anomic and adversarial.

Towards an historically bounded understanding of ‘globalization’

We take stock of the fact that institutional frames and fabrics as we know them today are tightly connected with the process of state and nation building that marked the modern era. However, that connection is historically contingent (see Whitley in this volume). Economic activity before the nation-state was structured and framed both locally (at a sub-‘national’ level in today’s terms) and trans-locally, going well beyond national boundaries as they are defined today (Berman 1983, Greif 1992, Spruyt 1994 and Lehmkuhl in this volume).

The ‘nationalization’ of processes of institutionalization started around the 17th century with a progressive extension of the scope and reach of those national institutions that left little space to other than non national rules (see Lehmkuhl in this volume). There were periods, during this era of the nation-state, when transnational exchanges were extremely limited – the most extreme case of that being the 1930s and early 1940s (James 2001). There were periods, on the other hand, when transnational activity particularly of an economic nature picked up significantly. This was the case for example in the last decades of the 19th century but also during the 1920s until the Great Depression (Murphy 1994, Williamson 1996, 1997, James 2001).

Our focus in this volume is on the latest such episode of significant internationalization of economic activity, which we see starting after the end of World War II (McKenna et al., Whitley and Lehmkuhl in this volume) and accelerating significantly from the 1980s on (all other contributions to this volume). This episode we call ‘globalization’. We therefore create historical boundaries and situate precisely both the term and the phenomenon of globalization instead of treating them as is often done as universal and/or historical concept and evolution (Bartlett and Ghoshal 1998, Ohmae 1990, 1995, Guillèn 2001).

One of the objectives of this book was to get at an understanding of what, if anything, may be unique and different in this latest episode of internationalization of economic activity, called here ‘globalization’. Economic historians have argued on the whole that our

contemporary episode of globalization and internationalization at the turn of the twentieth century do not differ so much. Figures show that foreign trade was 18.2% of British GDP in 1890, 27.7% in 1913 and 21.2% in 1994. Foreign trade represented 6.5% of US GDP in 1890 and 8.9% in 1994 (Krugman 1995). If anything, economists have pointed to even denser flows of exchange in the earlier period with respect to labour and people or even capital.

Internationalization at the turn of the twentieth century did correspond with an intense period of migration, away from Europe – about 60 million people left the old continent and 40 million alone went to the US – but also within Europe mostly from the South to the North (Williamson 1996, Cohen 2002). It was also associated with high levels of capital flows (Wilkins 1989, Hirst and Thompson 1996, Obstfeld and Taylor 1997, Berger 2002). In some countries, capital flows were even higher then in proportion to national wealth than they are now, as documented in table 1.

Table 1 about here

If defined as an internationalization of exchanges of goods and services coupled with factor mobility (Ohmae 1995) the contemporary period of globalization therefore appears as neither new nor fundamentally distinct from earlier episodes of internationalization of economic activity.

We start, however, from another understanding of globalization in this volume and our focus on institutions and processes of institutionalization does lead us to make different conclusions. Periods of internationalization of economic activity in the nineteenth and early twentieth centuries were characterized, we argue, by what Whitley calls in this volume a ‘particularistic logic’. The background was a Westphalian system of largely independent nation states. British hegemony, the Gold Standard and a series of bilateral agreements between leading trading nations were stabilizing factors. In that context, connections,

exchanges, cooperation and the management of uncertainty but also the resolution of disputes relied typically on the preexistence and structuration of transnational networks and on relatively adhoc, isolated and case by case mechanisms (McKenna et al., Whitley, Lilja and Moen and Lehmkuhl in this volume, see also van der Pijl 1998). These networks often had a very personal dimension – reflecting friendships, deeply embedded trust and even kinship or family links (e.g. Bouvier 1992, Autin 1983, Fargette 2001 or Chernow 1990 for the case of banking and particularly of the merchant banking industry).

Getting somewhat ahead of ourselves, probably one of our main collective findings in this book is that the logic behind the recent episode of globalization has been different and we would even argue qualitatively different. We find and provide evidence of increasing formalization, structuration, codification, standardization and depersonalization of the rules of the game in the transnational space (all contributions to this volume and particularly Part II). Hence, we see a clear evolution from interpersonal networks to institutional rules of the game as the background and basis of the internationalization of economic activities. Besides state agencies and a small number of elite personal networks, we point to the involvement of other types of actors in the process of transnational rule making. We document an increasing density of organizational actors – private corporations, business or professional associations, unions, NGOs, consumer or citizens' groups – that are taking part in that process in one way or another.

The result is institutional rule making with a transnational scope. In certain circumstances, the institutional backbone or set of rules of the game crystallizes from preexisting transnational networks (Lilja and Moen in this volume, see also van der Pijl 1998). Sometimes it reveals the transfer of a dominant national set of rules and its adaptation and stabilization at the transnational level (Tainio et al., Kleiner, McKenna et al. in this volume). In other cases, it reflects processes of negotiation between competing sets of rules or

it can even represent an entirely emergent and new rule system (Plehwe, Ventresca et al., McNichol and Bensedrine, Lehmkuhl in this volume).

Altogether, we thus find that while the national arena remains important for the structuration of economic activities and interactions, the consequence of this episode we call 'globalization' is that the transnational space has also become an important purveyor of institutional 'rules' for the economic game. This evolution started in the immediate aftermath of World War II (Djelic 1998, Whitley, McKenna et al., Lehmkuhl in this volume). But it has become more obvious and more rapid since the 1980s (all other contributions to this volume). The complexity and interrelatedness of various and often decentralised mechanisms of transnational rule formation together with the diversity and multiplicity of actors involved are two defining characteristics of the contemporary period of globalization. Interestingly, those transnational rules of the game are having an impact on the way the economic game is being played at the international level but they are also having an impact on the way it is being played within particular national arenas. Contributions to this volume provide evidence of that and specify some of the mechanisms by which transnational rules are reflecting back on national spaces (see also Djelic and Quack in the conclusion to this volume).

Globalization as institutional change and institution building

A key suggestion of this volume is that globalization should be reinterpreted as a double process of institutional change and institution building. Globalization, we argue, is in fact and deeply about governance – it is about a transformation of governance systems or institutional rules of the game in many nation states. It is also about the building, structuration and stabilization of new governance systems in the transnational space.

The logics sustaining those new governance systems are sometimes so different from what we traditionally mean and understand by governance that we might misinterpret or even miss them altogether. A number of chapters show that these new understandings or practices of governance may be impacting and reflecting back on the way we do governance nationally and hence on the features of what we could call traditional democratic spaces (see Djelic and Quack in the conclusion to this volume). We argue therefore that globalization does not mean the fading away of national polities and national institutional systems – it probably means however at least their partial reinvention.

Bringing institutions back in does make for a richer debate on globalization. Instead of appearing as an a-historical, impersonal and neutral force, globalization is situated as a particular episode of internationalization with multiple and contextual, highly embedded expressions or dimensions. The significance and specific features of this recent episode of internationalization of economic activity are brought to the fore and they have to do we argue with a sustained level both of institutional change in the national context and of institution building in the transnational space. In contrast, discussions about the internationalization of exchanges, flows of goods, money, technology, practices, organizations and people across borders generally associated with debates on globalization (e.g. Ohmae 1990, Sassen 1998, Giddens 2000, Guillèn 2001) appear less fundamental.

At the very same time, pointing to the tight connections between institutions and globalization also allows us to make a contribution to the institutionalist literature. The process, here, is clearly one of cross-fertilization between debates on globalization and discussions about institutions. There has been widespread agreement over recent years that issues of institutional change and emergence are weak points of institutionalist arguments in general (Brinton and Nee 1998, Clemens and Cook 1999). By taking globalization seriously and pointing to its institutional dimension, we contribute to reconciling the idea of

institutional embeddedness with processes of change and emergence and we open new venues for the institutionalist perspective. The following chapter looks into greater details at the treatment of issues of change and emergence in the institutionalist literature, pointing in the process to the ways in which the connection between globalization and institutions opens up new directions.

Institutional change at the national level

This volume points to the transformative impact of the process of globalization on national institutional systems (especially Part I). With respect to national systems change, institutionalist perspectives have tended to oppose two extreme alternatives – rare episodes of radical, abrupt and highly consequential change versus incremental and on the whole benign and non transformative evolutions. In this book, we suggest that, in certain circumstances, incremental change may be highly consequential – we call that the ‘stalactite’ model of change (for more see Djelic and Quack in the conclusion to this volume). This type of change may lead in time and progressively to a profound and qualitative transformation of the core institutional order or at least to a transformation of some of its key dimensions. Our ‘stalactite’ model of change is one where change is seen as both incremental and consequential – where change is in fact the aggregation and crystallization through time of a multiplicity of smaller processes of transformation. We position this ‘stalactite’ model of change as complementing rather than displacing other perspectives.

In particular, we build upon the idea of institutional change as a combination of processes of de-institutionalization and re-institutionalization (Jepperson 1991, Tolbert and Zucker 1996). We take it that institutional durability can be reinterpreted as a succession of processes of reproduction, disruptions and reactions to disruptions (Clemens and Cook 1999). But we see this succession of processes as also potentially leading to change and even quite

consequential change. Change, we find and we add, will be more likely when the system opens up at least somewhat, that is for example when the national institutional frame gets in contact and collision with non national challenging frames. Hence we focus on the points of interface between transnational and national spheres as deserving special attention.

Globalization, we argue, means a questioning of preexisting institutional arrangements and behavioural patterns. And this largely reflects an increasing awareness about alternatives precisely at the points of interface between the national and the transnational (for cases and empirical examples see the contributions by Tainio et al., Kleiner, McKenna et al., Lilja and Moen, McNichol and Bensedrine in this volume). Globalization is also about processes of re-institutionalization that have to do either with ‘bricolage’ and the recombination of different preexisting principles (Douglas 1991) and/or with the diffusion and concomitant hybridization of behavioural patterns and institutional arrangements that were until then characteristic of different societal fields or societies.

Transnational institution building

A complementary argument of this book is that globalization is also about institution building in the transnational arena. The transnational level is a space in itself where interactions take place and behavioural patterns get structured. This is particularly true and interactions are particularly dense in periods when cross-border processes of exchange, competition and cooperation intensify. As such, the transnational space is bound to give way to processes of institutionalization or institution building – and in time also naturally to processes of institutional change through aggregated movements of de-institutionalization and re-institutionalization.

Social actors playing at the transnational level still often build upon resources, frames of references and strategic orientations that they bring with them from their institutional

arenas of origin. And the latter often have a national scope. However, the multiplicity of such actors and their interactions can lead to innovative combinations of various elements and to a fair degree of institutional bricolage. In some cases, the multiplicity of actors and the diversity of the pool of institutional elements from which those actors draw is such, that the result can really be something entirely new, unexpected, unanticipated, emergent. Political actors and agencies can play important roles in these processes of transnational institution building but in an even more obvious manner than what happens within national arenas they are clearly only one amongst many actors involved.

Linking institutional change and institution building

Changes in national institutional frames reflect, we argue, at least in part processes of institution building at the transnational level. But those processes of institution building in the transnational space cannot be understood without reference to national or subnational sets of actors and rules and their dynamics. We propose that this circular interplay is, in a deep and essential way, what globalization is all about. The first part of this volume focuses on institutional change at the national level and the impact, there, of the transnational. The second part bears upon transnational institution building, linking it however to national frames, actors and dynamics. In the conclusion, we go back more systematically and more theoretically to the interplay between the two spheres or levels of analysis – the national and the transnational.

Institutional change at the national level – the transnational impact

In Part I of this volume, we claim that interfaces between the national and the transnational may be key sources of challenge for national rule systems. Changes can be pushed along in an incremental and nevertheless consequential manner either by foreign actors carrying challenger rules or by domestic actors acquiring new experiences and habits abroad. Earlier studies have looked at multinational firms as bridging the gap between the national and the transnational (eg Ghoshal and Westney 1993, Kogut 1993, Morgan et al. 2001).

Our focus in this first Part is on complementary actors – professional service firms and transnational financial communities. Recent studies and work in progress point to the importance of those types of actors. Dezalay and Garth (1996) have looked at law firms. Institutional investors and the financial community are starting to be scrutinized (O’Sullivan 2000, *Economy and Society* 2000, Pilhon and Ponsard 2002). In the first Part of this volume we take up this particular category of actors, applying and leveraging the specific theoretical framework described above. Our original contribution is to ask about and assess the impact of this type of actors on national or societal institutional frameworks and rule systems.

The first Part of this volume tends to show that professional service firms and transnational financial communities often have common origins – they are Anglo-saxon if not American. Another common finding is that those actors are able to challenge existing national rules only if they find local relays. The case studies provide evidence that foreign actors and their logics find their way into the local or national arena through coalition building, often at the periphery of the national system and with what we call ‘fringe’ players. The chapter by Tainio et al., for example, shows that the influence of foreign investors in Finland was strongest originally on high-tech companies that were a few years ago clearly at the periphery and not at the core of the Finnish national business system. In the case of the French asset management industry, analyzed by Kleiner, the first relays were also ‘fringe’ players and

central or core domestic players were converted to the new logic only progressively and in a second stage.

The diffusion of challenger rules promoted by foreign entrants often went hand in hand with a strengthening of those actors that had previously been weak and located at the periphery. In some circumstances the diffusion of those challenger rules also led to the setting up of entirely new organizational fields. The chapter by McKenna et al. illustrates that with respect to the field of consultancy. The chapter by Kleiner does the same for the French asset management industry.

Chapters in this section thus point to the potentially strong impact of foreign rules on particular and isolated industries, organizational fields or subsocietal spheres. Those chapters also provide evidence that changes within particular industries, organizational fields or subsocietal spheres may spill over – impacting neighbouring fields or subsocietal spheres or even reverberating on national level rule systems. In the chapter on institutional investors in Finland, for example, changes in corporate governance triggered and stimulated a reevaluation and transformation of industrial relations. Those changes have also contributed to bringing about a new polarization of economic sectors in Finland and ultimately a deep redefinition of the Finnish national business and innovation system. The structuration of asset management or consultancy fields has had a radiating impact on the corporate governance, financing and structuration of major national industrial actors. It has also contributed to bringing about significant transformations in local patterns of elite selection, reproduction and professionalization.

Another common lesson from chapters in Part I is that the arrival of foreign actors and challenger logics has never been uncontested. All contributions underscore the role of domestic resistance or opposition in shaping the extent and the form in which challenger rules imposed themselves in particular subsocietal fields and eventually spilled over.

Institution building at the transnational level – national components

Part II of this volume takes on globalization as revealing processes of institutionalization – institutional emergence or institution building – in the transnational sphere, in an arena traditionally described and depicted as anomic. This second Part deals with essentially two different types of institution building. Chapters 6 to 8 focus on rule making within a strong and formally structured supranational construction, the European Union. Chapters 9 to 11 look at processes of institution building that take place in wider, more decentralized and fluid arenas.

A common finding is that a significant number of those actors involved in rule making at the transnational level remain influenced by their embedding national environments. It is from there that they extend their strategizing, their logics and their behaviours into the international sphere. But contributions in Part II also point to what is still more a common tendency than a common reality – the progressive transnationalization of a few actors, strategies and logics. This evolution, naturally, has not gone as far everywhere. In the European arena, it seems to be more true in the pulp and paper industry studied by Lilja and Moen than in the transport sector that is the focus of Plehwe's contribution. In the electricity sector, analyzed by Midttun and Micola, this evolution is barely perceptible. The importance and role of transnational actors, strategies and logics is altogether much more visible in the studies on GMO regulation by McNichol and Bensedrine, on exchange-traded markets by Ventresca et al. or on private commercial arbitration by Lehmkuhl. Even there, however, national components remain major building blocks of processes of negotiation and transnational rule making.

Another common direction taken by contributions in Part II is to underscore the increasing importance of private actors and the multilateral nature of institution building in

the transnational arena. The role of private actors – firms and business associations is key in the story told by Lilja and Moen on the pulp and paper industry. In his case study of the European transport sector, Plehwe provides evidence of multidirectional sets of influences where national states and European agencies play a role but where private firms, associations and business lobbies are also very much involved. McNichol and Bensedrine look at transnational rule making around the issue of genetically modified soy. There again state agencies and European Union institutions have been involved. But they also underscore the role of a great variety of economic and political but also societal actors such as consumer groups, some of which achieved considerable influence as ‘institutional entrepreneurs’. The contribution by Lehmkuhl that looks at private commercial arbitration and the structuring of dispute resolution in transnational trade also points to the multiplicity and variety of private, semi-private and public actors involved.

This increasing role and place of private actors in rule making at the transnational level does not mean however that emerging institutional arrangements become completely disconnected from nation states and national government agencies. Nation states or national government agencies remain important actors at various stages – during the process of rule making itself but also when it comes to legitimizing and enforcing the rules and arrangements that have been negotiated and agreed upon. This appears very clearly in all contributions in Part II.

Finally, while trying to document how various national components contribute to transnational institution building, chapters in Part II also point in the direction of reverse effects and impacts. Negotiated or emergent transnational rules can come to reverberate upon and challenge national institutions or rule systems in two ways. Transnational rules can become binding to the nation states associated with their production. They’ll be implemented in a top-down manner, from transnational rule-making authorities to national government

agencies that will then be in charge of national implementation. This, naturally, does not exclude the articulation of local or national opposition. Transnational rules can also become disseminated more indirectly through their institutionalization in specific industries, organizational fields or subsocietal spheres. We go back here, in a circular manner, to processes described in Part I. Both patterns or paths of reverberation are likely to generate, as chapters in Part II indicate or suggest, quite consequential transformations in national institutional frameworks or rule systems.

Working towards a synthesis: the institutionalization of global governance

In the conclusion, we draw together the theoretical insights that emerge from the systematic comparison and confrontation of those empirical cases. We also go further in our specification of insitutional change and institution building as two defining dimensions of contemporary globalization. Globalization, we propose, contributes in a very essential way to a significant redefinition of the institutional rules of the economic game.

This reinterpretation of globalization leads us to take up again the issue of the governance of globalization. We do not have to choose, we propose, between globalization and institutions. Globalization is about complementary processes of de-institutionalization and re-institutionalization. Globalization is in fact about governance and this volume is a step towards understanding precisely what type of governance.

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Table 1: Capital Flows as Percent of GDP, 1870 – 1996

	Argentina	France	Germany	Great Britain	United States
1870-1889	18.7	2.4	1.7	4.6	0.7
1927-1931	3.7	1.4	2.0	1.9	0.7
1947-1959	2.3	1.5	2.0	1.2	0.6
1974-1989	1.9	0.8	2.1	1.5	1.4
1989-1996	2.0	0.7	2.7	2.6	1.2

Source: Obstfeld and Taylor, 1997.

¹ A striking illustration of that is provided by a speech of the French President, Jacques Chirac, on February 6, 2002 right after the World Economic Forum in New York and the World Social Forum in Porto Alegre: ‘The desires and strivings of participants at Porto Alegre resonate with some of the fights our country and Europe have taken up for many years. We want a globalization – which does bring along freedom and growth – more closely associated with solidarity and regulation, we want to build a worldwide governance system for globalization that would be both efficient and democratic. In other words we want to humanize and control globalization.’