



Editors Risto Tainio, Susan Meriläinen, Jukka Mäkinen and Maarit Laihonen

**LIMITS
TO
GLOBALIZATION**

National Borders Still Matter

Copenhagen Business School Press

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Editors

Risto Tainio, Susan Meriläinen,
Jukka Mäkinen and Maarit Laihonen

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Preface and Acknowledgements

This book is the outcome of a collective undertaking of a multidisciplinary research group at the Helsinki School of Economics (now Aalto University School of Business) during 2007-2010.

The book continues the discussion and debate about the nature of globalization. The term globalization is probably the most common concept to describe modern times and our modern world. As the title of the book *Limits to Globalization* suggests, the contributors of this volume do not share the view of globalization as a completely new era where everything has utterly changed. Instead, the findings of the book emphasize the limited and localized nature of changes despite all universalistic talk about “globalization” and “internationalization”.

This overall argument is based on a wide range of empirical observations about the significance of national borders. The limits to globalization are discussed here from four perspectives. First, we describe the enduring differences between national business systems. Second, we illustrate the significance of local elements in the strategies of multinational companies. Third, we portray cultural and social barriers limiting globalization. Fourth, we show how political battles over globalization continue to change the state’s national and international roles. The book includes 12 contributions from a total of 23 researchers.

We would like to thank all the contributors of this book for their patience and their participation in the dozens of seminars and workshops organized by the “Globalization and Competitiveness” research program. This program was one of the strategic focus areas of The Helsinki School of Economics during 2006-2010.

We kindly appreciate the financial support of the Helsinki School of Economics and its Foundation, Foundation of Economic Education, Jenny and Antti Wihuri Foundation and the Academy of Finland. It made this book possible.

Special thanks to Jens Aaris Thisted for constructive feedback and James Collins for checking the language. Their efforts helped to sharpen and increase the coherence of the book’s main message.

Helsinki 15.1.2013

Risto Tainio, Susan Meriläinen, Jukka Mäkinen and Maarit Laihonon

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Debate over Globalization

Risto Tainio, Susan Meriläinen and Jukka Mäkinen

'Globalization' is one of the key concepts of our time. It has multiple meanings and connotations. To most observers it represents a qualitatively new stage, or episode, in the development of international capitalism (Giddens 2000; Djelic and Quack 2003; Kiriakos 2010). What is new in today's world, it is argued, is the degree and intensity with which the world is now being tied together. The world has become increasingly interconnected as the mobility of goods, capital, ideas, and people continue to grow. What is also new is the sheer number of countries, firms, and people able to partake in today's worldwide networks, and affected by them (Friedman 1999).

The metrics, on which the assessment of the degree and intensity of the world's interconnectedness is made, are, however, quite elusive. No wonder there are wide controversies and intensive debates on what kinds of consequences and outcomes recent increased interconnectedness has produced and how far the present international integration has proceeded (Hirst et al. 2009).

On one side of this 'globalization' debate, it is claimed that we already live in a highly integrated borderless world, in which national cultures, national economies, and national borders have become increasingly irrelevant (Ohmae 1995). In other words, we have entered a new post-industrial era, in which global capital markets, transnational corporations, and international governmental institutions dominate national and regional economies, and undermine the sovereignty of nation states (Bartlett and Ghoshal 1989; Sklair 2001). This 'strong globalization thesis' contends that in a borderless world distances and differences between countries and between companies no longer matter. The increased connectedness is making the world more similar and homogeneous. This outcome is a result, for example, of the following type of a process. Internationalization of capital markets generates common pressures towards performance of countries and companies. If a particular country or company fails to implement suitable policies, mobile asset holders can severely threaten a country's or company's survival by relocating their investments (Kollmeyer 2003). In this way global market forces tend to unite economic and social policies, and force national policymakers and corporate executives to adopt a common 'golden straitjacket' (Friedman 1999) in order to succeed in the borderless world.

On the other hand, there are voices that claim that despite the increased

connectedness international integration has been far less significant in its scale and far more limited and shallow in its consequences (Whitley 1999, 2001). It has been suggested that in an unevenly globalized world most types of economic activity that can be conducted either within or across borders is still quite localized by country (Ghemawat 2007). The 'weak globalization thesis' claims that despite obvious worldwide changes over the last few decades the interconnected world is still far from being seamlessly integrated (Hirst and Thompson 1999). Nation states still remain significant in regulating economic activities, allocating resources, and dealing with the crises and other consequences of market failures. Stateless transnational firms have not supplanted national firms with international operations (Hu 1992) to the extent globalization enthusiasts assume. Despite the growth of international trade, foreign direct investments, and expansion of capital markets, cross-border integration still remains quite incomplete (Ghemawat 2007). Barriers to market integration at borders are high, but not high enough to insulate countries completely from each other (Ghemawat 2003). National governments play a varied and increasingly delicate role in regulating economic, cultural and political ties, and the related openness of their countries (Appadurai 1990).

The ability of nation states to regulate international connections and connectivity depends to a large extent on their size. Large countries tend to dominate small ones due to the amount of their resources, the size of their territory, and the scale of their operations. They have power to define the rules of the game governing international activities and interaction. A large sized country is a code for self-sufficiency in international relations. A smaller size means more dependency, and often a necessity for outward openness. A small sized country is typically related to perceived vulnerability and generates an ideology of social partnership and corporatist politics (Katzenstein 2003).

When it comes to companies, it is quite obvious that most companies in the world are still essentially local and exist with only minor direct international connections. As companies grow they internationalize their operations. The largest companies are therefore significantly more internationally connected than small and medium sized companies. Large, internationalized companies, however, differ from each other as to their ties to their home countries, as well as to their ties to the foreign (host) countries wherein they operate (Whitley 2010). Even some of the most internationalized companies seem to have strong and enduring 'national roots'. They rest on strong national foundations, even if the rhetoric of their executives may suggest otherwise. The internationalized companies also differ as to their willingness or reluctance to adapt to foreign institutional structures and their willingness to learn from novel practices developed in their foreign subsidiaries.

All in all, there is not very much disagreement or debate about the increasing

interconnectedness in the world. There are numerous examples of the new links between localities. Distant events have become relevant to local circumstances, either virtually through Internet and mass media, via transport, or through new financial linkages. There are, however, quite wide debates concerning how deep and radical these new links are compared to the past, and what kind of tendencies the increased interconnectedness is currently producing. Some observers do not see any great interruption between past and present, rather parallels and continuities. It is argued that we are living in a world which is about as international as the world of the 19th century (Vogel 1992; Hirst et al. 2009). Many observers, however, emphasize the sharpness of the differences between the global era and previous ones (Kiriakos 2010). Increasing connectedness can, in principle, have various outcomes. It may drive the world more homogeneous, keep it as heterogeneous as it is, or generate more variation and diversity.

The purpose of this volume is to explore these debates over globalization in detail. We ask whether today's tightly connected countries and widely connected companies have been, or are, losing their national and local, distinct characters. Given all the talk about globalization and 'going global', we further ask to what extent business, culture, and politics is at the moment truly international? What and where are the limits to globalization? How do national borders still matter?

Overview of the Volume

Part one of the volume starts by demonstrating that the differences between countries are larger, and 'stickier', than common rhetoric suggests. Two cases explore the persistent differences among the Nordic countries, and the slow and uneven integration of the post-communist countries to the rest of the world.

The study presented by Kristensen and Lilja shows how, despite long-term economic integration, political collaboration, and institutional harmonization, important cross-national variations still exist among Nordic countries. Under strong neoliberal pressure for reforms since 1980s, Nordic countries, in various ways and for different reasons, have been able to improve their performance and still sustain the welfare state. Uncontrollable market forces have not been able to dictate a common success recipe for all four countries to follow. Rather, different Nordic countries with their distinct national capabilities have been able to exploit globalization in their own novel and successful ways.

The fall of communism and the rise of China are widely seen as the most remarkable economic integrations and institutional harmonizations among nations in world history (Sachs and Warner 1995). Kosonen, Kettunen, and Kotilainen in their study of Finnish firms in the turbulent markets of Russia, Estonia, and China question this argument. The study identifies the problems that foreign firms still have in their relations with the state in these three host

countries. In addition, they identify the types of barriers that companies face, when they operate abroad in newly emerging markets. The integration of post-communist countries in the rest of the world has been more uneven, slower, and more complex than generally acknowledged.

Despite the internationalized world, there are sectors and companies whose commitments to national borders are still strong. This is the case in the Finnish grocery sector as Mattila's study convincingly demonstrates. The study shows how relatively small national and local companies have been able to survive under the pressure from the American and European grocery giants. The whole sector is successfully confined to its home territory despite the opening of national borders.

Part two of the volume takes a closer look at global companies, their internationalization strategies, and their outcomes.

In the fourth chapter Gabrielsson and Gabrielsson examine four technology and knowledge-intensive firms. They suggest that although institutional forces are driving the firms toward similar responses the successful firms proactively seek new and different responses. They are constantly engaging in a dynamic process of not only shaping their strategies, but also shaping their industries. Shaping their industries, however, requires a strong resource and capability base from the company. The chapter speaks in favour of increasing diversity as a result of the increased international competition.

In the fifth chapter the limits of globalization are analyzed through expanded and tightly connected financial markets by Vesterinen and Sasi. The focus in this chapter is in the managers' own accounts. Rather than theoretically interpreting these accounts, readers are given an opportunity to see a glimpse of how the managers articulate their experiences in the midst of financial growth and crisis. In the period of growth, firms' dependence on domestic financial institutions is, in general, reduced. In the current period of financial crisis, on the contrary, they feel that national borders still matter even in international banking business. Banks turn domestic as the banks and investors retreat from their foreign operations. The decrease of the internationalization of banks also becomes visible with increasing national control over banks and the reduction of cross-border capital flows. All this hinders companies' investment options and constrains their internationalization strategies.

Small companies are usually local and confined by borders. The intensification of global communications, which culminated in the emergence of the Internet, provides new business possibilities for start-up companies to respond. This early and fast, almost instantaneous, internationalization, 'born global' phenomenon, is the focus of Sasi's study in the sixth chapter. Her study shows how high level of technological connectivity enables the 'born global' phe-

nomenon by creating global markets instantly. This does not, however, mean a disappearance of national particularities. This is underlined by the strong role of the entrepreneur behind the fast internationalization strategy.

Part three of the volume explores the social and cultural barriers to globalization. It questions the homogenization argument, especially the Americanization, of cultures from four different angles.

In the seventh chapter, Herbert examines the pressures and effects of the cautious opening of the Finnish university system during the last two decades. The focus is on the Helsinki School of Economics, which was the first Nordic business school to develop and deliver the American-type of MBA (Master of Business Administration) program. The chapter argues for strong parochialism in the evolution of the educational communities. The story of the development of the MBA program as part of whole educational supply of Helsinki School of Economics is an example of how the Finnish education system is open outwards, but closed inwards.

In the eighth chapter, Euro approaches the issue of openness by looking at the low mobility of multinationals' headquarters. The starting observation is that head offices all over the world are 'sticky', firmly planted in their home countries. The chapter reviews different factors previously assumed to be responsible for headquarter location. It is argued that despite the high mobility of production facilities and sales offices, multinational companies continue to be nationally embedded 'at the top'.

In the ninth chapter Meriläinen, Tienari, and Lund focus on the question of how concepts and practices originating from American cultural contexts are translated in the local context. Diversity management (DM) serves, in this article, is an example of a concept that has recently extended its grip in, and through, multinational corporations in different local settings. The article argues that standardized, US-based conceptions like diversity and its management do not travel across borders, rather, they are (re)constructed locally. Cultural homogenization seems to be a slow and laborious process.

In the tenth chapter Pälli and Turunen demonstrate the ways in which Finnish companies report their actions on sustainable development and corporate social responsibility (CSR). The chapter shows that the universally understood corporate social responsibility ('business case CSR') discourse has become, in a sense, a global language for local companies in their corporate communication. English is also in use in those cases where companies operate only on a national and local scale. However, it is through the particular national recontextualizations of global CSR talk that local companies extensively disseminate political ideologies via their corporate CSR communication.

A deep international integration does not, in general, mix well with national sovereignty (Ghemawat 2007). **Part four** of the volume deals with these political barriers to globalization. It addresses the relations and responsibilities between politics and business in the interconnected world. In the current debate there are influential voices claiming that territorially bound nation states lose their political steering capacities over market forces and business actors like multinational corporations in the global economy (Matten and Crane 2005; Crane et al. 2008; Scherer and Palazzo 2007, 2008). Accordingly, the emerging vacuum of political power (produced by the weakening of state power) is filled by private economic actors voluntarily entering the self-regulation processes and taking on the traditional governmental responsibilities that address the basic rights of citizens. Thus, the claimed major political implication of globalization is that it brings about the novel divisions of moral labour between corporations and the institutions of nation states (Rawls 1996). In the globalization process the traditional boundaries between the political and economic spheres of society become blurred and globalization forces us to see corporations as political actors taking the traditionally public tasks of society more on their side. The overall argument in the two last chapters of book is that the era of the nation state is not yet over. Rather, the state's national and international role continues to be strong in making and regulating cross-border activities.

In the eleventh chapter, Hirsto and Moisander examine the globalist reorganizations of responsibility in Finnish society in the context of media representations of a factory shutdown in a local community. The chapter highlights the co-existence of economist *financialist*, and ethically oriented *moralistic* discourses. Of these discourses the former is the main justification for the factory shutdown and in this particular context, the dominant account of proper business-society relations in Finnish society. The latter discourse seems to be a moral scolding of the financialist discourse, however, lacking an alternative to the neoliberal conception of business-society relations embedded in the financialist discourse. Both discourses can be regarded as 'globalist' because in both corporations are represented as detached from national politics and nation states and produce globalization mainly as economic processes. Thus, despite appearances, the moralistic discourse seems to be part of the politically challenging aspiration move away from the more traditional Finnish welfare state doctrine.

In the final chapter, Mäkinen and Kourula focus on the historically changing relations between corporations and nation states. They connect the business case for corporate responsibility and neoliberal political agenda through the concept of the *division of moral labour*. The chapter shows that currently in Finland there are some signals of an emerging global division of responsibility between business firms and nation states wherein the public tasks of society are placed more on the side of corporations. However, this division of responsibilities is

not a very novel one in Finland, since at the beginning of the 20th century there were already a number of small forest factory towns in which the division of moral labour was, in a neoliberal sense, more global than nowadays. Furthermore, now, when the global financial crises has challenged neoliberal shareholder capitalism, the future path of Finnish division of moral labour is still a very open case, and the rumours of the death of the welfare state seem to be exaggerated.

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ENDURING NATIONAL DIFFERENCES

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Similar and Different: Nordic Countries in Transition

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Nordic Countries and Globalization

The period since the fall of the Berlin Wall until the outbreak of the financial crisis starting in 2008 is an interesting temporally defined laboratory for assessing the interplay of employees, companies, nation states and the deepening globalization process. In this laboratory the Nordic countries have performed well and in many ways against the expectations of many groups within the public domain. The starting point in the early 1990s was not promising. Both Finland and Sweden experienced a banking crisis. In both business systems companies that specialized in producing investment goods were at the core and they did not receive orders due the recession. For Finland the collapse of the Soviet Union was an additional burden because companies in Finland had many profitable trade relations with Soviet companies due long-term bilateral agreements. However the main skepticism towards the future competitiveness of the Nordic countries was based on the assumption that their high taxation levels and relatively large public sector will inhibit their renewal at the pace that the deepening globalization process requires. After the turn of the century, the scepticism especially cherished by proponents of the neoliberal economic doctrine was proven to be based on an incorrect understanding of the emerging global business operations and the new innovative economy.

Year after year Nordic countries were rated at the top of the national competitiveness rankings compiled by the World Economic Forum (WEF). In other comparisons based on macro-economic indicators (like budget deficit, public debt, levels of unemployment, trade balance and rate of inflation), the Nordic countries were placed in the highest positions. What kinds of explanations can be provided for such outcomes?

At the time that the surprising results of the Nordic countries' performance started to accumulate we had started a comparative study of the Nordic business systems with our colleagues (see Kristensen and Lilja 2011). In the research design we had incorporated our understanding from earlier phases of study in the tradition of national business systems (see e.g. Whitley and Kristensen 1996, 1997; Morgan et al. 2005). Thus, we took for granted that

path-dependency based on the institutional heritage of each of the country was not the sole determinant to be taken into account when exceptional outcomes are explained. Nor could we take national autonomy in economic and social policy as a starting point for providing an understanding of the dynamics triggered by the deepening globalization process. Multinational companies, having roots in different part of the world, had taken strong positions in the national economies (Morgan et al. 2001; Kristensen and Morgan 2012). Besides that, the EU and different forms of transnational regulation are part of the setting in which companies have to renew themselves (Djelic and Quack 2003) and citizens have to find new ways of making a *good life*.

In such a constantly changing context it was important to adopt actor-centred institutionalism (Hancké 2002) as the methodological starting point. In contrast to *static* comparisons of socio-economic systems, this means that in all distinctive arenas of action we focus on the agency of actors: What kinds of outcomes they are capable of producing, how newly created practices become interlinked and bundled, and what kinds of institutional resources actors have been able to mobilize to reach unexpected outcomes. By subscribing to such an approach we are, firstly, especially sensitive to the ways in which actors constantly take new roles in international business constellations (Herrigel 2010, Ch. 7). Secondly, we are taking a look at the on-going search processes through which new roles are created and maintained, taking also into account the repeated failures that occur and availability of risk-sharing mechanisms that proactively stimulate innovative search. Thirdly, this means that we take into account the fact that actors have to circumscribe a variety of obstacles in the systemic context, transform resources of existing institutions to new uses, and co-create local and transnational ecosystems in order to be able to create new roles for themselves in changing constellation of actors and business operations.

Based on such a research design and methodological stance we could, firstly, detect some of the shared features among the citizens in the Nordic countries when working life issues and public sector services are put under focus and placed also via secondary material in a comparative setting. Secondly, we could also find interesting national differences in the activity sets initiated by employees and acting also in the role of citizens. Revelatory constellations of practices were identified in our company and location-specific case studies, even though it is not possible to generalize the detected features to the national level from the sample of cases studied.

In this chapter we first outline some of the similarities found among the Nordic countries when placed in implicit comparison with other countries. Secondly, we draw attention to the diversity in the type of activity sets found in the case studies among them. In the third section we point to obvious weaknesses in the current ways of acting and propose measures to repair them.

As a conclusion we raise the issue: What could transnational learning mean in the current global context? Nordic countries have a long tradition of transnational expert cooperation and similar institutional traditions have enabled sharing experiences of best practices. But is this the way forward when the temporally defined laboratory of the global economy is experiencing landslide changes? What could transnational learning imply in this context?

Similarities between the Nordic Countries

Nordic countries have many joint institutional roots that facilitate a tradition of personal autonomy for citizens, partly due to the need to survive in isolated communities, and partly due to social movements with commitments to collective responsibility. Translated to the current phase of globalization, we have been able to detect from each of the Nordic country action systems that cover many types of actors with different identities and having backgrounds and experience from many subsystems. Citizens in various roles can rely on the universal services of the welfare state. But it is not only in the form of passive help in the case of emergency but also in a proactive form by providing resources for risk-taking, for instance in working life. We have called such an approach to the welfare state 'enabling' because it also contains the fact that the state provides services to families, which, again, has enabled firms to organize in ways that make experimentalist change happen. The collective capacity to embark on new duties is due to the fact that responsibilities for learning have been decentralized to employees. This is embedded in the industrial relations system which provides the constitutional foundation for continuous re-negotiations and collaboration among social parties. These practices help rapid change of both identities and interests at the level of individuals, social groupings, and firms, extending eventually to subsidiaries of MNCs.

In the research design it was taken-for-granted that institutional transformations do not happen without the linkage between local experimentations and governance. To what extent the style of governance is in the process of change, was not clear at the start. Thus, it was a fascinating surprise to discover the extent and variability of the experimentalist processes that extend to the mode of governance used in the Nordic countries. Our own earlier studies had encountered cases where citizens recast former professional identities and engage in continuous efforts to rebuild profiles of competencies (Kristensen and Zeitlin 2005), and firms continuously change their work organization to pursue strategies that enable them to become increasingly more useful collaborators to their customers (Kristensen and Lotz 2011). But the real surprise came from the ways in which agents from both the private and public sectors join forces and make use of and recombine institutions in novel and innova-

tive ways. Wherever we have looked into a case study conducted as part of the project, the experimentalist vigour of both private and public organizations has been striking and evoked admiration, not least because the general debate in the Nordic countries does not reveal this extent of innovativeness, in particular on the part of the public sector.

A common feature in all of the Nordic countries seems to be that an experimentalist type of governance approach is emerging. Even though the emerging experimentalist governance system contains principles from the neo-corporatist tradition introduced in the industrial relations system, there is a tendency to give voice not only to the elite but also to ordinary people at workplaces and local communities. Secondly, the experimentalist governance system is based on initiating pilots that are collectively evaluated and serve as sources of learning for all actors. Thirdly, the participatory governance model helps to accumulate tacit knowledge that can be applied elsewhere by taking into account different situational conditions. The needed translation of experiences happens through argumentation that has taken place during the pilots and with the help of their evaluations. Thus, it has turned out that the emerging new system of governance plays an important mediating role.

Differences between the Nordic Countries

Despite the many similarities among Nordic countries even at the level of activity systems that cross many subsystems of the societal fabric, there are also very obvious differences especially when the comparisons are made between the Nordic countries, instead of comparing them with other European countries. Firstly, the regional dimension plays a significant role when comparing Finland, Norway, and Sweden with Denmark. Secondly, due to the importance of investments in R&D during the deepening globalization process, the stance taken by Finland since the early 1990s has differed from the approaches implemented in Denmark and Norway and to a certain degree also from Sweden, even though Sweden has provided a role for the shaping of the Finnish innovation system (Moen and Lilja 2005). Thirdly, our case studies have also provided some indications that the scope of activity sets initiated by citizens in decentralized settings is broader in Denmark, Norway, and Sweden than in Finland.

The regional dimension seems to play a major role in Finland, Norway, and Sweden. This was a major reason for the sampling of company cases and type of localities where 'one-company-towns' have played a major role during industrialization (see Lilja et al. 2011; Moen 2011; Peterson 2011). Even though the metropolitan areas of the three countries have, in global standards, performed extremely well and account to a great extent for the success in the competitiveness ratings of the countries, the real challenge to the three countries is how the

relatively even income distribution among the citizens can be maintained. The 'mill communities' seem not to have been complemented with institutions that enabled them to search for and experiment with novel comparative advantages, while they were cultivating existing collective competences. They – so it seems – have specialized into a competence trap or a dead-lock when former dominant companies have abandoned the community or mills and factories have been closed down. Thus, in our case studies we have documented bottom-up initiatives for major rebuilding schemes in order to re-configure these local communities, some of which have been very promising while in some other cases the downward spiral is a major threat. The regional disparity is so significant that the central government has been forced to establish instruments to help these communities.

In the case of Denmark, the regional dimension has played a less important role due to its smaller geographic size. Moreover, Danish peripheral communities have often been constituted around railway towns, with a diversity of craft shops and firms that are engaged in a multiplicity of specializations, making each locality much more diversified. These communities were continually competing with each other by building institutions to support their development. Thus, in many places around the country, towns are furnished with a complex of vocational training institutions, often set in motion to create continuous training schemes to solve problematic situations. In this way local communities may explore alternatives while exploiting current comparative advantages. In terms of regional equality of economic development, the effects are large (Kristensen et al. 2011). In Denmark the overall convergence across regions in terms of low unemployment and moderate employment increases is the highest among all the Nordic countries, and nearly all types of communities are doing well. In contrast, development in Finland is one of spatial polarization, with rapid job creation within regions of low unemployment leaving peripheral regions with high unemployment and negative job creation. Sweden, though to a less extreme degree, repeats the Finnish pattern while Norway, with a low level of unemployment in general, positions net job creation to its capital.

These differences in regional patterns may have important implications for how the welfare state is working. In Finland, we would expect a high number of welfare state transfer payments, activation schemes, etc., to be of a passive, social insurance nature so that the defensive and offensive risk-sharing schemes (the latter related towards R&D) are separate silos of operation. In Denmark, on the other hand, the social or defensive schemes have been much more turned into tools for offensive risk-sharing, the case of Active Labour Market Policies (ALP) being one good example. While in Denmark and Norway the spending on active measures as a percentage of all expenditures on labour market policies increased rapidly, this percentage dropped in Finland

and Sweden. While in Denmark the percentage distribution of active labour market expenditures was changed towards occupational training, which went up from 24 per cent to 56 per cent compared with 25 per cent to 31 per cent for Finland, the basic change in Finland was from public job creation to indirectly supporting employment in private firms. Sweden, on the other hand, reduced the proportion spent on occupational training, and seems to have spent a major proportion on public employment creation and indirect support for employment in the private sector. Finally, in Norway, spending on occupational training fell from 36 to 6 per cent, while the most money was channeled into support for the disabled. These figures, drawn from a secondary source, illustrate the degrees of difference between the countries (Kristensen 2011: 249).

Rather, the *vigour* is an unintended effect of policies that tried to bring about a different, mainly neoliberal orientation, but which became re-engineered by local agents in firms, institutions and localities and brought to bear on developmental projects that are very diverse. In each of the countries local agents have remade and recombined institutional complexes that are distinct and characteristic for each country.

Yet, at the level of municipalities the practices created by actors across sectors are very different, due to the type of industry that has been locally dominant or the type of privatization processes that have been tailored case by case in each country.

Apart from Finland, where a national innovation system has been designed centrally and combined with a conscious policy for distributing growth poles geographically, the experimentalist processes that we have studied in other countries are not the outcome of state planning and governance. They are basically unrecognized by state level politicians and administrators. Local agents have joined forces, they have evoked relations with national institutions and corporatist bodies and made local use of shifting national policies to coordinate flows of activities that helped them bring about transformations that would have looked formidable had they been done by design and implemented by the state top-down. Our study reveals that it is exactly the abundance of local initiatives, multifarious corporatist channels, and a rich and varied institutional environment, etc., that have created the foundation for making the Nordic countries score well in global comparisons, not the deliberate state strategies for picking winners, choosing new technology platforms or creating clusters, like in Finland.

In Norway it seems as if privatization under the guise of neoliberalism created the pressure to transform former public institutions into successful private innovators. In Denmark a weak neoliberal attack, inspirations from new public management and a systematic yearly reduction of budgets of indi-

vidual institutions have fostered innovation and readiness to collaborate across divides both within the public sector and towards the private sector (Kjaer and Petersen 2001). In Sweden similar measures, combined with a creative destruction of formerly dominating large enterprises, have provided the impetus for searching for novel paths, locally (Eliasson 2007). Unintendedly, this has provided the Nordic countries with experimentalist economies and enabling welfare states. However, while such an economy and society may come into being unintendedly, it may not be cultivated, elaborated and come to blossom without a shift in political orientation, supported by new visions of its path, and creative ways of learning how to govern it.

Compared to this need, it is depressing to observe how central state agents in most of the countries have become encapsulated by the vision of the neo-liberal turn. Reforms of the welfare state are still discussed in terms of creating more market types of operations and competition for providing subcontracted services for which the public sector is responsible. This is done by implementing new public management principles under bureaucratic principal-agent forms of governance. Because the deals are made based on price, and principals cannot figure out in advance what kinds of innovations are possible, the danger is that contracting leads to standardization or 'mainstreaming', even though the starting point for opening the markets has been to achieve a more innovative public sector. According to international measurements, the Nordic countries score highly on good governance, not because they have found ways of governing experimentalist economies and enabling welfare states. In each country our case-studies show that agents evoke resources by working through corporatist channels and bodies. This probably creates the foundation for governance systems in which it is difficult to appropriate public resources for private ends that are not appreciated by a multiplicity of stakeholders. But it gives no indications of whether public resources are used with the best possible effects.

As indicated above, the few locality-specific case studies that we have carried out give a clue that civil society plays a wider role in Denmark, Sweden and Norway than in Finland. This difference has a variety of roots that go back, for instance, to the strength of the guild system in Denmark and then being reproduced by craft-based trade unions (Kristensen and Sabel 1997). In Sweden the longer history of wealth accumulation has provided capitalist families economic leeway and turned their members in to business angels. They help the funding of start-ups with seed capital and their social capital facilitates the building of cross-sectoral networks at the regional and national levels (Peterson 2011). In Norway the isolated communities have long been built on the identity of autonomous actors that take multiple roles in community development (Moen 2011). In Finland, the dominance of centralized policy-making has left

less space for civil society at the local level and thus there are fewer initiatives to build bottom-up initiatives across sectoral divides for renewing working life and reshaping and tailoring the activities of the public sector.

Next Steps in the Experimentalist Engagement

Obviously, the Nordic countries are, first and foremost, lacking institutionalized deliberative practices that recognize and appreciate what is going on in terms of decentralized learning and innovation. Only by creating such collective practices will it be possible for localities, firms and employee groups to learn from each other, to search for better and more competitive ways of combining processes within private firms and surrounding public institutions, to benchmark them against each other and to choose temporary templates for solving more general problems in the continuous struggle for constantly redefining roles in the larger global system (Dorf and Sabel 1998). Only those who live in the ongoing motion of the present can see what problems should be tackled, what tools are possible to work with and what goals are achievable. But they need somebody to discuss this with, to reach mutual agreement with and to exchange information on known alternatives, so that local learning becomes public and generalized. As it is now, corporatist bodies of the past are being gradually made use of in novel ways so that institutional resources become re-directed in ways that many stakeholders find legitimate. But the associations involved in these multilevel governing bodies are not comparing and controlling how effective the new ways are in generating a novel development path.

As a step forward it seems as if unions and employers' associations, together with other emerging stakeholders, need to assess how different ways of organizing work may function in concert with changes in labour market institutions and public R&D institutions (Kristensen and Rocha (forthcoming)). Municipalities need collaborative institutions, where they can compare transformative outcomes in different localities and learn how to engineer restructuring and ask the state for help to implement such locally tailored strategies. This would give a lever in comparison to the current situation where local actors draw on resources that they happen to be able to wrest from an assemblage of corporate bodies, probably created for different purposes. If the task is to search for future complementary comparative advantages, it is obvious that it is much better to give emphasis to occupational training than to place individuals in existing simple jobs, probably already threatened by international competition. Thus it is obvious that the Nordic countries have not found a formula for deliberative search for a way to turn the passive or reactive welfare state into the enabling one. Reforms are continually being adopted, but often in the dark and without any point of reference to what works, why and how.

In our view a combination of the Danish way of transforming social schemes into tools for activation, focusing on further occupational training that allows individuals to gain and explore competencies beyond current reach, combined with some of the Finnish systematic ways of exploring new technology fields with vigour and determination constitute a promising combination. Such a combination would enable localities and firms to transform gradually as the occupational identities of its population are changing. Perhaps this hybrid is currently coming into existence both in Finland and Denmark. Thus Finland has, over the last decade, with support from the EU-regional funds, created a regionally distributed system of vocational training centres that could be used as tools for gradual regional transformations and become tools for active labour market policies in the future. Simultaneously Denmark, with its Administrative Structural Reform merging municipalities and establishing five regions in place of many more counties, have set up regional Growth Forums intended to initiate R&D projects and collaboration among universities, training institutions, and regional business communities. The latter could become a locally initiated way of defining and prioritizing 'regional projects' and getting some of the Finnish system, but without running the risk of binding it to the Finnish form of centralized initiative and coordination. There is no doubt that both Finland and Denmark are currently looking toward each other to get inspiration and benchmarks about what next steps to take. All the Nordic countries seem to be in need of new ways to systematically deliberate the gained experiences, to govern new experiments and to discover routes and practices that can be safely translated to new contexts.

In the school systems comparative benchmark studies have been done at the international level and the policy debates in many European countries about the ways educational systems could be improved is a useful analogue for other subsystems as well. A search for the better school system can only be made in full if we recognize that none of us know what such a system would look like. To make an anti-authoritarian, creative school that also brings about high standards with respect to reading, math, etc., is a challenge that most countries will have to face if they are to bring about individuals capable of mastering life in an experimentalist project economy. Governance systems that primarily focus on being able to blame those schools that fail in these attempts will probably have difficulties in creating the diagnostic knowledge that makes it possible to learn from the more successful ones. Yet such a tool is exactly what we need to enable deliberate search for ways to educate and prepare individuals for the new economy (see Sabel et al. 2011).

The same goes for family services. Most have been governed to make institutions provide some minimum standards that help families out of problematic situations. But if our way of comprehending the current and coming economy's

dependence on families' ability to live changing and unpredictable lives is correct, the public service institutions must be systematically questioned and improved to make it possible for families to meet ever increasing challenges. Families in the Nordic countries have been able to enter the new life of mobility and change much faster than elsewhere, because public services enable both mothers and fathers, single and double income families to do so. Yet it is obvious that in many cases, this transformation comes with high costs in terms of children with multiple problems, classrooms filled with noise, a great need for parents to do homework with their children, children feeling left to themselves or the elderly feeling neglected. An increasing proportion of the populations of the Nordic countries suffer from stress and are burned-out.

Thus the conclusion is that the Nordic countries have managed to create institutions that make it possible to explore potential future comparative advantages by sharing risks and enabling mutual gradual steps between the public and the private sector, but there is no deliberate way of governing and improving on these institutional talents when it comes to offensive risk-taking. The same can be seen in the case of institutions for more defensive risk-taking. Educational and social policies are primarily being discussed in the light of the old social welfare state. Though social policies are increasingly being seen as schemes for rehabilitating the labour force and bring it back into employment, the schemes are not used deliberately to enhance the skills and cater for employment beyond existing skill-levels in society. Such schemes, though, can be found in Denmark, but they are created locally and owe their existence to a few individual entrepreneurs that move beyond existing institutional barriers. They are not part of an offensive deliberate national search for alternative novel ways of building skills and competencies that may force firms and public institutions to take new paths to attract employees furnished with novel professional aspirations. That the system nevertheless works this way is sheer luck, but this luck could be deliberately cultivated by a system of governance that appreciates the usefulness of institutional innovations based on comparative benchmarks and collective assessments.

The Nordic countries have performed so effectively that today they stand – for better or worse – at the frontier of social and economic development. In many ways they must make their experiences explicit in order to explore what to do next. In this light their experimentalist steps are too serious to be collectively neglected as private experience and tacit knowledge. Individually and combined they constitute important experimental laboratories, but they need to create multi-level governance systems and replenish the number of Nordic deliberative bodies that make it possible to learn from experiments and make these lessons transparent for other practitioners.

Developing Constitutive Elements for a Grounded Theory of Transnational Learning

After doing the comparative research we have become very cautious in claiming that transnational learning across national business systems is easy. The cycles of global economic crises constitute an additional factor that has led us to such a stance. Landslide changes in the locations where different types of economic activities are carried out are one indicator of this phenomenon. Systemic complementarities that have turned out to be successful may not be used again in the national business system where the complementarities were once constructed and provided a competitive advantage within a sector or industry. Thus it is not relevant to try to copy such complementarities to other relatively similar systemic contexts either. This could be due to the fact that the life cycle of an industry has reached a slower growth phase. In most industries the rules of the competitive game are changing continuously.

At this stage of the experimentalist search for new enabling institutional resources, only some constitutive elements for a grounded theory of transnational learning can be proposed. Firstly, the availability of comparative national case studies could be helpful. They should reveal the complexity of institutional settings which must be taken into account when:

- a. evaluating the renewal capability of companies active in global value constellations,
- b. facilitating citizens to participate in the global knowledge-based economy, and
- c. crafting potential policy measures that would lead to the invention of new risk-sharing tools for employees engaged in the global economy.

Secondly, there is a need to engage heterogeneous groups of actors into pilots that explore global business opportunities and the means to generate them. That is why documentation of even small-scale successful experimentations may have relevance beyond their immediate institutional context, because they shed light on enabling institutional resources that are not conceived in other institutional contexts. Such contrasts may lead to searches for analogical or substitutive resources and thus enable actors to find new paths in their existing institutional contexts.

The significance of the above constitutive elements is related to the fact that they sensitize policy makers to link previously unconnected policy areas to each other, like national innovation policies and welfare policies. Our case studies have revealed that to make radical innovations in global value constellations complementary, institutional resources have to be available to support family

life, the elderly and the re-training of citizens, in some cases several times, during the working career.

Finally we would like to propose a third constitutive element of transnational learning related to the role of the EU. It is the use of experiences gained from the experiments carried out using the Open Method of Coordination in various sub-systemic policy areas in EU policy-making (see Sabel and Zeitlin 2010). This type of exchange of experiences at the transnational level would certainly be a further stimulus for transnational learning if similar case studies from various EU countries were conducted as have been done in the Nordic countries. Evaluation conferences would link policy-makers across countries to common discourses and stimulate new experiments with learning implications across EU countries.

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Foreign Firms in the Emerging Markets of Russia, Estonia and China

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Introduction

In this chapter, we investigate Finnish companies operating in three rapidly changing markets of former state socialist countries, namely Russia, Estonia and China. The focus is on the relations that the firms have with the public sector in the three turbulent economies. The countries are challenging for foreign investors after having considerably reorganized their formal institutional framework and the role of the public sector in business. The study identifies the challenges and problems that foreign firms have in their relations with the state in the three host countries, and points out successful mechanisms of governance. In particular, we discuss the ways in which problems arising from the institutional context of the host country have been solved in the companies under investigation. Empirically, our analysis is based on a database of interviews with Finnish companies that represent various company sizes and lines of business. The findings reveal similarities and differences in the governance mechanisms in the three case countries.

In line with the overall theme of the book, we discuss the types of barriers that the companies face when operating abroad, particularly in emerging markets. Our empirical aim is also to analyse the ways in which Finnish firms have been and are adapting to new social and economic settings in rapidly developing and turbulent markets. These economies are either post-socialist, or applying a version of socialism in which the transition into the market economy is guided by a considerable intervention by the central state. Such economies have also been labelled as transition economies. Hence, in the empirical setting of our study, the internationalizing Finnish firms are relocating their businesses from an institutionally stable corporatist market economy of their home country to the institutional turmoil in the rapidly developing markets. As a result, when the firms set up new operations in new countries, they face situations where they have to adapt their operations to new institutional environments. These institutional challenges can be seen as multidimensional: Not only do they