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# Political economic structures as the embeddedness



## 5.1 CULTURE AS THE DESIGNER OF THE POLITICAL-ECONOMIC CONTEXT OF THE CLUSTER AS A NETWORK

Overviewing the research framework in Chapter 1, the need for taking the political economic embeddedness of clusters, was introduced. Networks are inherently extremely complex, and they can be studied only partially, from a certain perspective. Klijn and Koppenjan (2016, p. 12) distinguish three types of complexity that characterize governance networks: substantive, strategic, and institutional. Institutional complexity is made of “clashes between divergent institutional regimes” (p. 13). The port regions of Rotterdam, Antwerp, and Hamburg are described from the institutional complexity perspective: the assumption that different political-economic systems (regimes) might lead to different governance systems that lead to different answers to the dynamics as described in Chapter 1 that influence port–port city relationships.

A perspective that focuses on understanding the institutional similarities and differences between economies is that of comparative political economy (Amable, 2003; Crouch, 2005; Hall & Soskice, 2001; Vitols, 2001). This approach to society views networks as an outcome of a certain configuration of institutional complexity. Questions that this perspective proposes are policy related: “What kind of economic policies improve the performance of the economy?” “Can we expect technological progress and the competitive pressures of globalization to inspire institutional convergence?” (Hall & Soskice, 2001, p. 1). Some questions, however, are firm related, meaning that the topic is taken as a form of strategic complexity: “Do firms, located in different countries, display differences in structure and strategies?”, and “What is the source of these differences?”.<sup>10</sup> Chapter 1, dealing with the problem analysis, described the dynamics influencing port clusters. These dynamics have a special influence on the way in which port governance has changed. The way in which these dynamics are absorbed differs between the various political systems.

Culture plays an important role in models of political-economic systems (Meyer et al., 2006). The literature distinguishes various models of these systems that are ‘glued’ by the culture in which they are embedded. Within the Le Havre–Gdansk Range, that spans the region in which the three ports under study are situated, one can distinguish three kinds of political-economic, or capitalist, systems: 1) the

<sup>10</sup> Kuipers (1999), researching chemical industries in ports in the USA, the UK, and The Netherlands, concludes that they all had the same strategy, but Kuipers’ research object, the petrochemical industry, is highly internationalized, so a more uniform attitude towards international strategies was to be expected.

Coordinated Market Economy (CME), 2) the Liberal Market Economy (LME) (Hall & Soskice, 2001), and 3) the Latin variant of the CME, more or less Etatism. The last one shows the diversity within the CMEs, as shown by Amable (2003). These systems are the result of different spheres in which firms must develop relationships to resolve coordination problems. Hall and Soskice (2001, p. 6) call their approach a “relational view of the firm.” For them, the quality of the relationships that the firm establishes internally (employees) and with their environment (suppliers, clients, stakeholders, governments, and so on) is critical for the way in which this is needed to resolve coordination problems. These relationships need to be developed in five different aspects (or spheres as they call this):

1. The sphere of industrial relations (for Hall and Soskice, 2001: the problem facing companies of how to coordinate bargaining with their labor force over wages and working conditions);
2. The sphere of vocational training and education (securing a workforce with suitable skills);
3. The sphere of corporate governance (access to finance);
4. The sphere of inter-firm relations (here, coordination problems stem from the sharing of proprietary information and the risk of exploitation in joint ventures);
5. The sphere as a set of coordination problems of firms vis-à-vis their own employees (information sharing: giving power away).

Using the differences in the way in which firms solve their problem, Hall and Soskice identify different types of economies, as mentioned: the CME, the LME, and the Latin variant.<sup>11</sup> The differences between these types of political economies generate differences in corporate strategies (Hall & Soskice, 2001, p. 16). The relationships are established in an environment governed by institutions: “a set of rules, formal or informal, that actors generally follow, whether for normative, cognitive, or material reasons” (p. 9). These institutions define the way in which organizations behave: “durable entities with formally recognized members, whose rules also contribute to the institutions of the political economy” (p. 9). From this perspective, LMEs are characterized by arm’s-length relations, high levels of competition, formal contracting, and complete contracts. The relationships between the actors are clear-cut. Firms rely completely on the market, which determines how these relations should develop. On the other hand, within a CME there are institutions that coordinate

<sup>11</sup> Hall and Soskice consider Belgium as part of the CME. They remark that other economies like France, Italy, and Spain are in more “ambiguous positions”, “indicating that they may constitute another type of capitalism, sometimes described as ‘Mediterranean’” (Hall & Soskice, 2001, p. 21). They are characterized by political influence combined with more liberal arrangements in the sphere of labor relations.

and support the interactions between the actors (firms and institutions that represent cities) and support them in their endeavors. These institutions aim to reduce the uncertainty that actors might have in evaluating other actors' behavior. These institutions can be business and employer organizations, trade unions, networks of cross-shareholding, and legal and regulatory systems. Hall and Soskice state it very clearly in their introduction: "Firms can perform some types of activities, which allow them to produce some kinds of goods, more efficiently than others because of the institutional support they receive for those activities in the political economy, and the institutions relevant to these activities are not distributed evenly across nations" (p. 37). This distinction between the LME, the CME, and the Latin system shows differences in the way in which trust can be established and, consequently, also differences in how, and the extent to which, shared values, based on mutual trust, are developed. I follow Hall and Soskice when they state that "...these differences correspond to the level of institutional support available for market, as opposed to non-market coordination in each political economy" (p. 38). This approach does not need to be restricted to firms and their relations but, as a logical consequence, can also be applied to a spatial articulation of such relationships, i.e. to assess the relationships between actors in a cluster. This analysis, they suggest, is "fruitful to consider how firms coordinate their endeavors and to analyze the institutions of the political economy from a perspective that asks what kind of support they provide for different kinds of coordination, even when the political economies at hand do not correspond to the ideal types we have just outlined" (p. 33). So, it is not a matter of trying to fit the nations or regions completely in all their manifestations into one of the political economies described, but it is an analysis to distinguish coordination problems based on differences in the support of institutions. The differences in support themselves can be related to different spheres. To characterize the different political economies based on the five spheres mentioned, Hall and Soskice give examples from: the financial system, the internal structure of the firm, the industrial relations system and the education and training systems.

Regarding the financial system, in a CME, there is 'patient capital', not directly related to short-term balance sheet criteria (Hall & Soskice, 2001, p. 22). Financing is often sourced from internal resources (Simon, 2007). The firm is monitored by the presence of dense networks whereby firms share information with counterparts in other firms about their performance. This information is then available to investors and is articulated by close relationships that firms have with major suppliers and clients; the knowledge gained from networks of cross-shareholding and joint membership in industry associations.

Regarding the internal structure of the firm, Hall and Soskice remark that, compared to LMEs, the top managers in CMEs are hardly able to decide individually but are dependent on supervisory boards (which include employee representatives). Besides this command structure, top management in CMEs have a smaller number of stock options so they are less focused on short-term profitability. The industrial relations system in the CMEs is based on cooperation between the firms and between firms and unions. Because these firms have a range of companies in need of a highly skilled labor force, they must avoid being 'kidnapped' by them in their quest for high wages (with a threat of defecting to the competition, lured by a higher wage offer). By setting wages throughout the industry, which are quite satisfactory thanks to strong unions, they make it difficult to compete with one another for qualified personnel. At company level, these relations are articulated by works councils where employee representatives discuss working conditions with firm management. Requiring these highly skilled employees means that the education and training system must constantly update these workers' skills, which are often very firm specific. In Germany, a typical CME, firms are pressed by employer associations and trade unions to take on apprentices. They monitor the firms' participation in these programs. Having such an organization above the firms reduces the risk of a firm investing heavily in an employee's education, only to see this employee poached by another firm when the education is finished. For the firms, this means that they do not invest in vain; for the employees, this means that their job security is increased and their skills are updated. These examples are typical of the CME, but such arrangements exist less or not at all in an LME (of course there are degrees in differences per category and between the categories). Because there is a kind of homogeneity within a cluster, it is interesting to compare clusters of the same industry originating from different countries.

## 5.2 INPUTS AND OUTPUTS OF A POLITICAL SYSTEM

The dynamics as formulated in Chapter 1 that have been influencing port-port city relationships and that played their role in the separation of port and city are regarded as universal. But they may be absorbed in different ways due to other contexts as shaped by different political economic structures. Especially in ports this can have interesting outcomes as described by the process of port devolution in section 3.4. And this devolution is not only taking place in the ownership of port authorities, but also of port firms. The spheres as described by Hall & Soskice (2001) of industrial relations, inter-firm relations and access to finance may in their variety have developed differently due to these variations. The model as designed by Easton more

or less illustrates this situation. In his research on political life in society, Easton views the political system as a black box. Using the concept of institutions, partly shaped by socio-political culture, the black box “political system” can be opened in a way that can help to explain how more or less the same inputs (demands and supports) in certain socio-political environments lead to different outputs (decisions or politics).

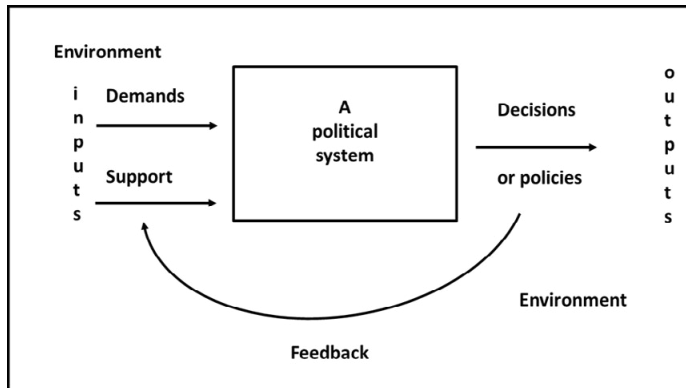


Figure 5.1 A model for approaching the study of political life (Source: Easton, 1957)

The decisions and policies that result from the political system – the output – influence the degree of support that the political system needs and also shape its demands. One of the problems that arises is that of who is controlling the controllers, or the problem of accountability. Van Kersbergen and Van Waarden (2004) mention the problem of advancing technocracy that makes accountability difficult. A lack of knowledge on the part of those who need to control makes it difficult for them to control. The process itself should also be transparent and that is why a third legitimacy is needed: throughput legitimacy (Klijn & Koppenjan, 2016, p. 221). Applied to the port regions under study, a comparison between the three port regions must examine how support for certain developments is generated (input legitimacy) and how the outputs of the system (output legitimacy) as feedback shape the support and the demands emanating from the city environment.

### 5.3 CONCLUSION

Although Merk (2014) hesitates to link spatial clusters to particular locations, linking these clusters to political-economic systems and their cultural embeddedness is an interesting approach that could contribute to the discussion on how the various

port regions have developed and will be able to cope with transitions in the future. This link has already been made (Vroomans, Geerlings, & Kuipers, 2018). A study that contributes to this perspective should pay attention to:

- How the different port actors establish their relation with their employees (sphere 1). The presence of family-run companies in CMEs is interesting here;
- How port firms and the port city jointly coordinate and initiate vocational training and education (sphere 2);
- The financing of port firms' activities (sphere 3);
- The relations between port firms, port authorities, and city governments (sphere 4);
- The intrafirm relationships (sphere 5).

To operationalize these spheres, one can examine how:

- An economy of touch has developed as a means of interacting between cluster actors;
- The interaction between firms, port authorities, and city government is organized and whether joint activities are undertaken to create positive conditions for port firms to act and to create opportunities for the city to implement benefits for society (knowledge, employment, attractive city environment);
- cross-shareholding is present in the ports of the different political systems;
- social networks are developed;
- ownership of dominating or crucial port firms is organized.

As companies have developed globally and their offices are branches of foreign companies or headquarters of original domestic companies, the relationships between them and their environment become more important (Dicken, 2009). Studying ports as examples of clusters can reveal differences in the development of various port cities from the perspective of the differences in political-economic contexts as the embodiment of institutional arrangements.