

# Theoretical perspectives on institutional variety in agri-food chains

## An annotated bibliography

Sietze Vellema (editor)

Myrtille Danse

Gerdien Meijerink

Giel Ton

Olga van der Valk

Huub Wilbrink

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# 1 Introduction: variety and viability in chain configurations

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By: Sietze Vellema

This annotated bibliography represents a search by a team of social scientists with an interest in the observed institutional variety in value chains, in particular in cross-border agri-food chains. In the economic literature often two extremes of a continuum are used to describe the possible institutional make up of a value chain: arm-length market transactions or full vertical integration. Reality in agri-food chains is, however, more diverse than these two typical forms of ordering economic transactions. Therefore, the literature assembled in this annotated bibliography searches for theoretical angles that can help to start understanding the assortment of institutional arrangements and social dynamics that figure inside agri-food chains. Moreover, the search considers agri-food chains as socially embedded entities; this means that the institutional variety in agri-food chains may partly be explained by the effects of society crossing the boundaries of the agri-food chain.

This annotated bibliography is a first result in an interdisciplinary endeavour aiming for synergy in the social sciences in the field, with the aim to enhance our capacity to analyse institutional arrangements in value chains or markets. A team of researchers started from the viewpoint that further cross-fertilisation between the different social science disciplines is a condition for unravelling the institutional aspects of transactions and arrangements between social actors connected in a chain. The team included researchers with backgrounds business economics, political economy, development economics, new institutional economy, political and organisation sciences, development studies, technology studies, and anthropology. Each team member selected two readings, which she or he wanted to introduce in the scholarly exchange of research approaches addressing the following questions:

1. What is the theoretical grounding?
2. What framework or methodology is used for analyzing the institutional configuration and/or functioning of a value chain?
3. How does the framework or methodology assess the viability, i.e. the capacity to respond to pressures and changes, of a chain configuration?
4. How is the impact of the institutional configuration on sustainable development assessed?
5. What perspectives are offered for institutional design / social engineering?

In this investigation we had a particular interest in the vertical processes of coordination and control. The chain concept indeed suggests a series of things or activities depending on each other as if linked together. A chain can be seen as a sequential set of functions connected in an undertaking creating value. It also has the connotation with the idea of a chain of command, which suggests a certain level of hierarchy and direction. Governance, coordination and control are increasingly shaping the organisational modes of economic transactions and exchange. And there is the element of distributed control, which refers to power and information asymmetries.

Besides an interest in the verticality of the chain arrangements, we worked with the idea of a chain configuration. The concept configuration focuses on the way parts of a system or network are arranged or connected. This indicates that a chain configuration is a functional whole, with emergent properties and outcomes dependent on the act of arranging the individual parts. Configuration also underlines the notion of interdependent performance of a system rather than the sum of isolated performances at different nodes in a chain. This emphasises that an agri-food chain comprises more than just a physical flow of products that can be pictured as a series of input-output relations. Thus the notion of a chain configuration includes both the vertical and sequential dimension as well as the idea that agri-food chains function as a system, with feedback loops, boundaries and a collective purpose. From a social science perspective, we have a particular interest in the institutional arrangements that enable such a configuration to perform and sustain itself.

The discussion of the collection of literature was also guided by a question typical for the social sciences, namely how institutional failure, or the inverse, institutional viability, can be explained. We wanted to know more about the kind of institutional architectures of agri-food chains able to cope with external pressures and/or internal tensions. What is the probability of a chain configuration to develop organically into an 'adult' and to sustain productive processes? What institutional arrangements limit the destructive potential of tension, conflict or inconsistency? How are chain configurations and institutional arrangements reproduced in time?

This does not imply a search for stability and organisational fixes or blueprints. On the contrary, it involves a theory grounded exploration of fragile arrangements, tensions as well as robustness in real agri-food chains. We believe such an understanding is relevant because increasingly value chains are part and parcel of development and sustainability strategies. Hence, trying to establish the probability of whether a specific configuration or institutional arrangement will sustain is an important exercise. If businesses, development organisations or governments planted the 'chain-seed', they will also be interested in knowing whether the seed will mature and whether the plants can manage pressures in its environment. We hope that our interdisciplinary search will lead to grasping the mechanisms that produce viable chain configurations.

The latter is also a hint towards our shared interest in institutional crafting or social engineering. Obviously, the literature forces us to be very modest about our capacity to come up with robust institutional architectures in very dynamic social and technical environments. Besides an interest in equilibrium, social science literature emphasises contingencies, continuous change and the complexity and vulnerability resulting from multiple interactions between actors and parts of larger wholes or systems. The outcomes of change processes and interventions always seem to be a balancing act between socio-economic interests, behavioural patterns, strategising and power conflicts, and institutionalised rules and regimes. Nevertheless, it may be worthwhile when social science informs experiments with institutional arrangements with a higher probability of viability and when theory grounded evaluations help to explain the outcomes of purposeful interventions, such as installing agri-food chains or inducing specific institutional arrangements.

With this annotated bibliography, we took the first step in developing a common language for discussing viable chain configurations and the often hybrid nature of institutional arrangements. Our analytical challenge is finding a theory grounded but interdisciplinary methodology to determine the probability of the viability of institutional arrangements in chain configurations: this means looking more into the effects of external pressures, internal tensions, social embeddedness, and performance. Our measurement challenge is to find a rigorous approach, building on multiple disciplinary lenses, for answering the question what works for whom under what conditions. Each agri-food chain project will have numerous mechanisms and contexts in which these mechanisms are applied. The outcomes of such interventions, for example introducing novel institutional arrangements in agri-food chain such as contracts or standards, are, however, difficult to predict and strongly depend on the context. In complex and context sensitive processes, improvement is generally attributed by 'plausible association, not by 'direct association': when is reality amenable or resistant to designed institutional arrangements? Therefore, our design challenge is to find experimental approaches or theories of change that test these plausible associations or causal mechanisms, and which may eventually lead to up scaling and replication of intervention theories and institutional mechanisms. Our interests in either cross-border or Southern agri-food chains links this to finding ways to achieve desired outcomes, such as sustainability or the Millennium Development Goals.

## 2 Small-group cultures

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By: Sietze Vellema

*McFeat, T. 1974. Small-Group Cultures. Permagon Frontiers of Anthropology Series 2. New York: Permagon Press*

### 2.1 What is the key message?

Central to the book of Tom McFeat is an understanding how small groups perform specific task, and whether the task performed induces a specific organizational form or culture. The key message is that tasks connect small groups to their environment. Accordingly, the study of doing, making or performing is necessary for understanding the order within an organisation and for explaining the culture of a group. McFeat approaches culture in terms of transferring information to new members of the group, either in time or space. McFeat examines two central questions, namely how group cultures are organized and how they evolve. Interestingly, the book relates organisational order and social action to the performance of technical tasks in a specific environment.

### 2.2 What is the theoretical grounding?

This book looks into small-group association and culture. This is the analytical focus of social anthropologists, who work most effectively with 'primary groups' (p.175). McFeat refers to the famous anthropologist Mead who concludes that social anthropologists are equipped to study groups of such a magnitude where they can: "specify the relationships of all the members of the group to one another within the context of the total group" (Mead, 1965: 175). Hence, analyses of government bureaucracies or stratification of ethnicity or class do not fall within the understanding of social anthropologists.

J.M. Roberts, who represents anthropologists who did various ethnographic studies of task groups such as basket makers or hunting groups in the 1930s, inspired McFeat to study small-groups as bounded entities that can be experimentally created. The equal status of 'natural' and 'experimental' groups is a central argument in the book, which also suggests that some kind of institutional engineering may result in small-group cultures that can be as functional to the performance of a certain task as small-group cultures that originated in an evolutionary process embedded in a local context. "Once set in motion, experimental group-cultures must be left to grow and change by themselves without artificial manipulations on the part of the observers or 'experimenters'. [...] Once set in motion, a group-culture more or less takes on its own character and is difficult to change" (p.xi-xii).

Group formation is an important issue in anthropology. It leads to questions on what binds people together, how are groups ordered, how is information transmitted, how are groups linked to other groups, and how are social networks constituted and sustained. McFeat examines culture insofar as it is suspended in group (rather than in persons or in some other medium). He stays within the framework of anthropology but moves outside the frame of reference of kinship (p.2). The task of the book is to understand how interpersonal activity can be transformed into culture or how culture transforms itself into interpersonal activities (p.7). The book looks within small-groups as a basic unit of behaviour and organization. Taking such a functional perspective, groups comprise more than a network of relations (p.149). The anthropological perspective developed by McFeat has a strong interest in the material side of culture and looks into the use of technology and into performance of tasks.

## 2.3 What framework or methodology does the article / book offer for analyzing the institutional configuration and/or functioning of a value chain?

The approach developed by McFeat is of interest for the study of chain configuration because it helps to examine the performance of distributed tasks. Following McFeat's argument, a chain configuration can be perceived as a sequence of connected tasks, for which small groups are responsible. Hence, a chain configuration includes a distribution of labour between small groups that are organised around a specific task. They function as a performance oriented team, and McFeat is helpful to understand how the small group is ordered and how group cultures evolve. Hence, understanding organisational forms, performance and culture at specific nodes in the chain can be studied from the perspective of small-group cultures.

The interest in chain configuration enlarges the perspective. Towards the end of the book, McFeat discusses networks, which reach beyond group boundaries and connect them. Small groups, while apparently very efficient, suffer from isolation from other groups. Small-groups maintain their integrity through network affiliations and it is related to the simultaneous needs for adaptation to the environment and integration within. It is important to look at networks that provide escapes out of groups and gateways in. In particular, if we look at diffusion and innovation, networks among group cultures are important. This makes groups environmental to one another (p.174). The transmission of information between group cultures is related to invention, borrowing, habit and culbit. Anthropologists study play, game and rituals from the perspective of recruitments and learning of new rules. Borrowing and inventions are considered as functional equivalents (p.172); a closed or isolated society cannot borrow hence any change that occurs must be innovated.

The book briefly introduces issues such as enlargement, subdivision, relationships between centres and peripheries (p.181). In this respect, the analysis of chain configurations may complement a focus on small-group cultures by investigating connectivity, interdependent performance and distributed competencies. Chain configurations are increasingly faced by demands or requirements that look into the overall performance, e.g. sustainability or corporate social responsibility, rather than at the performance of 'isolated' tasks at specific nodes. Yet, McFeat's book helps to get a thorough understanding of the ordering and culture of small task groups that, together, constitute the chain configuration. Networks of small-groups (Levi-Strauss) are instrumental in continuing connections (p. 166).

The following describes the elements of the framework offered by McFeat: task groups, small-group prototypes, and ordering of contents (information), tasks and groups.

### Task groups

McFeat builds on a tradition in anthropology to study small groups involved in hunting, fishing or harvesting. This can also be crews, committees or teams. Task groups are set out to accomplish ends; they are purposive (p.4). Small groups organize and cooperate in order to solve problems. Such a primary group has a dual orientation (p.5): it is small and it is open to new members. Also larger organizations, such as value chains, "must provide a mechanism, based on small-group involvement that introduces new members" (p.5). Task groups bind people in a specific set of activities involving a common definition and some criterion can be said to emerge by which a task is judged completed, if completable (p.9). In task-directed activities in groups, persons interact within the scope of one of the three basic group problems (identified by Bales): orientation, evaluation and control (p.27).

### Principles of grouping

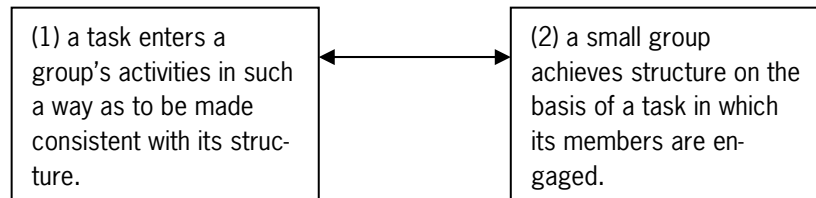
- *Proximity* and size: group is small enough that each member can have access to interaction with all others.
- Selectivity and direction: group structure gives direction to a willing group. *Conviviality*. Persons display some similar common behavioural characteristics.
- *Proximity-similarity hypothesis* (p.9): "the frequency and duration of interaction among persons in an activity tend to increase the similarity in their behaviours".
- Groupings evolve into groups.



McFeat argues that small groups are organised around performance tasks. The next question is what manner groups are kept together as wholes rather than subdividing or falling apart? What is the balance between task problems of the external system and socio-emotional problems of the internal system, or the internal relationships among members of groups (p. 28)? By what mechanisms and for what reasons do groups subdivide or come together? In this sense, small-groups can be considered as an evolving equilibrium, which, according to Bales (1995 – p.29), includes two theoretical poles: optimum adaptivity and optimum internal integration. This equilibrium phenomenon, studied by Bales in experimental small groups, seems to be related to size, variability and function of groups.

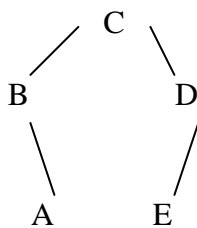
Small-group prototypes

Subject of study is the relationship between group structure and task performance. The above represent two extremes. The question of centrality in small groups origins in tasks too complicated to be



handled by a single person; then cooperative task-solving comes to the fore. Do people need information through interactions with others or do they have enough information to proceed on their own? What group structures are possible?). How do people act at the periphery?

Example chain structure (P.11):



Hypothesis: Task and group structure are related. Hence, whether a chain structure will emerge also depends on the contents of the task. (p.13). However, the specific variations of group structures and tasks have not demonstrated a corresponding agreement (p. 37). Rather, the degrees to which structures are centralized or non-centralized, and the extent of task complexity, constitute the major variables.

*Example Whale Hunters (The Nootka Whaling Crew)*

Task is to find and harpoon a whale and return home with the carcass. Lightweight canoes and hand-driven harpoon are the instruments to hunt this intelligent sea mammal. The hunt requires coordinated behaviour and group structure. The steersman must watch the tail: he controls the direction and judges the proper moment to strike, which he signals to the harpooner. And he informs the network of paddlers. There are rules governing the organization of a whaling expedition. For example, the harpooner owns the equipment and the paddlers are relatives. The structure of communication is similar to the 'chain' (C = steersman). The steersman communication must run through the crew to the periphery. The arrangement is activated at the urgent moment: it operation in only one direction an there is no room for feed back or correction.

Ordering (p.39 - + p.150)

McFeat also has an interest in grasping how group culture is ordered. He understands group culture as the way its inflow of information becomes non-random in groups and its outcomes assumes a particular form. Ordering of information, tasks and groups are important aspects:

- (i) In *content (or information) ordering* (ordering so that information could flow through a group-culture) the group is a medium through which information may or may not flow with certain outcomes eventuating.

This flow depends on internal consistency and the capacity to subdivide into its constituent dyads: “As tasks become more complex, there is a tendency for information saturation to occur in center position, and therefore a need arises to spread information through the group into its peripheries, which, in turn, results in increased independence of peripheral positions from the center position.” (p.125) Small groups can become ‘autocratic’ when tasks remain simple and rules uphold the power at centre position.

- (ii) *Task ordering* (ordering of information for a group-environment relation) entails a working through or transformation toward a particular outcome that is governed by the capacities of group cultures to process information that identifies or defines a region of activity in a group’s external system. The emphasis is on the group’s relation to its environment, for example mediated through a particular kind of technology, which forms the group’s structure. The inflow of information in small-group centres around the definition of a task. Task defines environment relevance to instrumental behaviour. The task definition provides the data of culture. It is the information generated by a task makes the phenomenon cultural. Group-cultures assuming a form isomorphic with an environment are more specialized by virtue of having succeeded in that concerted effort. To achieve instrumental competence in an environment, a small group task definition has to become a productive link between the environment and the group, and with it, the group assumes structure. This implies informal, interpenetrating and interpersonal groups. However, a group also begins to draw boundaries around itself and, following the course of evolution, differentiate internal ones (p. 160-162).
- (iii) In *group ordering* (ordering of information that would organize definitions so that groups could create and maintain identities) it is important to discover models that endow group life with identity. (cf. Levi-Strauss). This refers to world views, systems of communication, and model generating society. Culture involves the transmission of models, which translate information into social action. Small-groups are one medium for the exchange of such information: medium refers to a specific group or institutional arrangement in space which provides the environment for the introduction, storage, retrieval and transmission of messages. Rituals are related to disjunctions requiring reconciliations and to uncertainty of outcome and importance of the activity (ref. Malinovsky p.106). Group ordering also involves the setting of boundaries: a group is the basis for ascription and exclusiveness and boundaries are maintained through interaction (not by isolation).

#### **2.4 How does the article / book help to describe or explain the viability, i.e. the capacity to respond to pressures and changes, of a chain configuration?**

A central concept in the book is task. Task ordering is essential to the group-environment relationship. Understanding the social and cultural nature of task-performance helps to understand how a small-group is capable of handling changes in its environment. The ordering of information and the structure of a small-group are important variables to explain the durability of a task group. Small-groups fail to achieve group-culture status because they dissolved once a task found completion; they did not transmit information; they could only store and retrieve. The first requirement of a group-culture lies in its capacity to order content in such a way that transmission is achieved. The content may facilitate task ordering, so groups would begin to structure themselves and produce an outcome which is isomorphic with the environment; or, group ordering of content may have significant consequences for the internal arrangement of the whole of group-cultures. (p. 126)

Group cultures have the capacity to handle personal change and the capacity to keep the group active at solving unsolved problems. To generate group-culture transmission is essential: transmission is the capacity to embody knowledge in forms which make it transmissible at a distance in time or space (Mead, p. 115).

Degrees of structure in a group and capacity to gain control over task-defined environment are related (p. 106). How do groups structure themselves in order to accommodate an existing structure of information content? Group-cultures live in interaction with living environments, whether they are natural, social or conceptual; an environment that is real displays greater or lesser structural requirements. A group’s external system (i.e. its task definition) reflects both environment and group structure [...] (p. 173).

The preoccupation of evolutionists has been with some maximal social unit of organization, which is difficult to follow for social anthropologists. In this book, the unit of microevolution is the small-group. The question raised by McFeat (p.175) "is not whether small-groups in complex societies are significant phenomena, but of how they are placed and to what extent through their networks, they can be instrumental in creating new conditions in the world". How strategically placed is any small-group which makes decisions and, therefore, how far-ranging are their effects (p.176)? Who will decide what the problems are that lend themselves to task-ordering in a group-culture, and who is going to select the chosen population, and what group ordering will result?

## **2.5 How would the article / book assess the impact of the institutional configuration on sustainable development?**

The concept task entails that the functioning of small-groups is considered as purposive. Hence, sustainability performance can direct tasks. Also, the book has an interest in how information ordering relates to group cultures. I think that the book would emphasize the formation of group cultures around a broad concept such as sustainable development by focusing on tasks, which means defining the group-environment relationship. Whether sustainable development has become part and parcel of a group culture can be understood by looking at the transmission of task information relevant for this group-environment relationship. This also depends on ordering principles and group structures.

## **2.6 What perspectives are offered for institutional design / social engineering?**

Can one experimentally create a small group? The book also helps to think about the design and organisation of experimental task groups. The interesting message is that you can introduce a task related group, which will order itself depending on task and contents of the information, and, eventually, develop itself towards a group culture, which sets the conditions for transferring task and contents over time and space. McFeat does not want to create a culture. This is a phenomenon dependent on interblending of customary, traditional, social organizational, technical and cognitive sets and 'personality' (p.111). When we experimentally induce a small-group, its activities cannot be known independent from its processing of a body of information. Groups assume structure through its definition of the task and become a group only by virtue of its activity relative to the stream of 'culture' (p.111). The book distinguishes four phases in the evolution of small groups (p.182): (1) conditions favouring one medium to another, upon which basis small-groups were formed; (2) transformation from small-groups to small-group cultures; (3) combination of the structure of information with task-ordering in a small group will force a transformation to a network; (4) the process of enlargement (e.g. councils).

Reordering can take place in relation to a specific set of problems that are more in the forefront of attention than those concerned with the structure of tasks or the integration of groups (p.187). I expect that this is likely to happen in the case of agri-food chains that embed their productive activities in new social contexts.

## **2.7 Snow ball: related literature**

- Hutchins, E., *Cognition in the wild*, 1995, MIT press: Cambridge, Massachusetts
- Richards, P., *Coping with hunger: hazard and experiment in a West African rice farming system*, 1986, Allen & Unwin: London



## 3 Institutional viability: a neo-Durkheimian theory

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By: Sietze Vellema

6, P. 2003. *Institutional viability: a neo-Durkheimian theory*. *Innovation, the European Journal of Social Science Research* 16(4): 395-415.

### 3.1 What is the key message?

The key question in the article is “under what conditions are institutions, policies and arrangement viable?” The article argues that institutions, policies and arrangements have the greatest chance of viability when they exhibit sufficient internal variety of the basic institutional forms, and when conflicts between these forms can be contained by one or more types of settlements. The article offers explanations for institutional failure, e.g. in policy or markets. It perceives viability as an outcome of settlements between four distinct solidarities or institutional modalities. It develops a typology of settlements between these elementary institutions. Settlements are fragile and prone to failure. If we understand more about the viability of institutions, it might also be possible to engage in more intelligent institutional crafting to enhance the viability of settlements.

### 3.2 What is the theoretical grounding?

The article builds on neo-Durkheimian cultural theory developed by Douglas, Wildavsky and Thompson, and it combines this with an interest in system dynamics by looking at positive, or self-reinforcing, feed back mechanisms and at negative, or correcting, feed back mechanisms operational between the solidarities described by cultural theory. Neo-Durkheimian cultural theory primarily looks at grid and group dimensions of institutional modalities or solidarities. The theoretical question then is how to add systems dynamics or models of change to this. Perry 6 tries to provide theoretical answers to how do institutions undermine themselves, undermine other institutions, or work to sustain themselves or others by using system dynamic

### 3.3 What framework or methodology does the article / book offer for analyzing the institutional configuration and/or functioning of a value chain?

Perry 6 uses a social definition of institution (p.397). By an *institution*, he means mean a formal or an informal constraining social rule, convention or norm (North, 1990, p.3), which structures interaction, which is recognized by those subject to it (Knight, 1992, p.2), as creating an accountability or some duty to provide an account of performance and be subject to appraisal and either sanction or reward, however informal (Douglas, 1980, 1986), and which leads to the forming of more or less stable social patterns (Jepperson, 1991, p. 145) (for a review of definitions, see Peters, 1999).

#### Institutional modalities / solidarities / statics

Neo-Durkheimian cultural theory situates institutional failure in a static context, providing a taxonomy of institutional modalities with specific strengths and weaknesses for their viability. This static model includes four elementary forms of social organization or hybrids of these. The four elementary forms are composed of a grid and a group dimension. The grid dimension represents the degree to which life and behaviour of individuals is circumscribed by conventions and rules or by externally imposed prescriptions; it reflects the extent to which space for individual negotiations is reduced. The group dimension represents the degree to which individual choice is constrained by group choice; it reflects the extent to which an individual's life is circumscribed by the notion of solidarity of the group he or she belongs to.

The grid-group framework leads to four solidarities, that is, institutional forms of social organization with a distinct style, which are labelled as hierarchy, enclave, individualism and isolate. Most empirical institutions are

hybrids representing some kind of combination of pressures from two or more of these solidarities. The four cultural biases, situated in social relations and organisational backgrounds, seem to capture the different institutional perspectives, or modes of social engagement.

#### Feed back mechanisms / models of change / dynamics

Neo-Durkheimian theory helps to map institutional modalities and social solidarities present within an empirical institution. A crucial thesis following from this is that the interactions between these four basic solidarities produce a non-linear disequilibrium system. Two basic forces, namely positive and negative feedback can be used to understand the viability of such a system. Positive feedback is about reinforcing characteristics, for example processes of organizational learning or path dependence in technology development. But it can also refer to vicious cycles eventually undermining the institution. By contrast, negative feedback is the phenomenon of resistance or corrective measures. A thesis derived from the neo-Durkheimian model is that solidarities as institutions tend to reinforce themselves and come into conflict in way that structure particular empirical processes of historical change. Uncontrolled forms of positive or negative feedback can be sources of institutional failure. Both feedback processes are ultimately derived from the same underlying dynamic of institutional self-assertion in reaction against the assertion of other institutions.

The transition resulting from this dynamics is related to the movement from social organisation to social disorganisation, which is not a simple linear transition. The transition trajectory reaches a tipping point. In moderation and balanced by other, forms of organisation can stabilize itself. Accordingly, Perry 6 has an interest in cohesion, defined as the degree to which institutional settlements based on negative feedback is able to constrain conflicts with other solidarities.

#### Settlements

Hence, the article looks for second-order analysis of the interactions and institutional arrangements between the first order, static taxonomy of distinct solidarities or institutional modalities. In order to constrain conflict or tension, any arrangements between institutional modalities must take the form of a 'settlement'. A settlement is some social or political accommodation, some pragmatic way of giving structure to co-existence, and therefore some way of limiting the aspirations to consistency and completeness for institutions of accountability. Settlements are like a *modi vivendi*: an arrangement constituting hybridity and concessions by each solidarity. Perry 6 works with the measure of external similarity.

Four types of settlement are distinguished (pages 404-407):

1. toleration of a specific institution – no solidarity vetoes or actively undermines another;
  2. separation or contingency – establishment of institutions that allow more or less distinct sectors with a local hegemony; for example, each form of social organisation is selected because of its appropriateness for a particular task or technology;
  3. exchange or mutual dependency – institutionalisation of reciprocal support, which is a feature of many complex organizations;
  4. compromise or hybridity – acceptance of constraints in making claims, usually involving a four-way hybrid that recognises difference and with capacities to shift between modalities.
- (p. 409)

### **3.4 How does the article / book help to describe or explain the viability, i.e. the capacity to respond to pressures and changes, of a chain configuration?**

Perry 6 defines viability as the capability of an empirical institution, or a set of empirical institutions, for being sustained within their environment, despite a wide range of external pressures and internal tensions short of *force majeure* so great that no set of institutions could be viable against it (the robustness conditions), albeit (if necessary) with some changes to that setoff institutions, but where those changes are such that most people would consider it to represent the continuity of substantially the same set of institutions. All institutions are vulnerable to pressures or shocks, but some are clearly more viable than others (p.398).

Viability is a function of the nature of the balance between different basic kinds of feed back operative in a social system. Perry 6 has a focus on negotiation process and accommodation of conflicts. Each organization can balance itself, but beyond that point, feed back between solidarities can go to the extremes and lead to disorganization.

For Perry 6 the *key to institutional viability consists in the attempts to institutionalise some kind or kinds of settlement between the forces of positive and negative feedback, which gives them some space to operate* (social systems are inherently dynamic and in disequilibrium, and cannot be made static), *but which moderates both the violence of their own oscillations and of their destructive dynamics and of their encounter with each other.* This introduces the feature known in system theory as requisite variety. Excluding solidarities would provoke counter-assertion; a viable and consistent social system gives articulation to all four social solidarities. Cohesion in a system is achievable when modalities have a moderating effect on others. A vital institution exhibits sufficient internal variety or external similarity. Viability is a function of the nature of the balance of different kinds of feedback operative in a social system.

### **3.5 How would the article / book assess the impact of the institutional configuration on sustainable development?**

Inter-organizational or cross-functional teams or alliances can be expected to play a vital role in the desired improvement process towards sustainability. This article emphasises that settlements between solidarities are crucial for making institutional arrangements coherent and work for a common goal. Therefore, it seems wise to realise that a code of conduct or a sustainability standards include a social settlement between institutional modalities and that specific measures may be needed to avoid institutional failure. External pressures may threaten the viability of institutions and/or settlements between institutional modalities. There may also be internal pressures, for example related to perceived justness or fairness of a chain configuration by producers. Consequently, institutional crafting means coping with disequilibria, feedback and conflicts between rival solidarities. The article understands viability as the condition of robustness: this may provide guidance to sustainability strategies, because these rely on settlement achieved by requisite variety and institutional accommodations between the four solidarities. These settlements, however, will be of a fragile nature.

### **3.6 What perspectives are offered for institutional design / social engineering?**

For Perry 6, the aim of institutional crafting is to try to compensate for as many of the organisational weaknesses of each of the solidarities at once, whilst recognising the inevitable instability of institutional arrangements that attempt this. The challenge is not an optimisation problem but a coping problem. While crafting the institutional architecture of, for example, an agri-food chain, it is important to understand how this structures interactions, patterns behaviour and governs transaction and this is not merely a matter of composing a primarily technical distribution of tasks. Perry 6 warns for the illusion that institutions can be fully designed. However, institutions do change, he argues, sometimes in response to the unintended consequences of deliberate attempts to craft their characteristics. It seems worthwhile to develop theoretical models that help to foresee the consequences of such action with reasonable levels of confidence. This provides an alternative for theoretical models that celebrate single kinds of institutions (“more markets” or “more associations”) rather than explain institutional failures. He also observes that theory on institutional successes tend to be very empirical or based on a limited number of cases, and not well grounded in theory. Failure studies emphasize the importance of looking at interactions and system effects. The article looks particularly into the structure of settlements rather than into the negotiation process or the empirical contents of presenting and underlying conflicts, or the nature of the mediation fora and mediating actors. The theoretical framework offered by the article shows that the forms of settlement available are bounded but helps to produce an account of the institutional dynamics that make for several kinds of settlements.

### 3.7 Snow ball: related literature

- Douglas, M., How institutions think, 1987, Routledge & Kegan Paul: London
- Douglas, M., Wildavsky, A., Risk and Culture: An Essay on the Selection of Technical and Environmental Dangers, 1982, University of California Press: Berkeley
- Durkheim, E., The division of labour in society, 1984 (1893)
- Hood, C., Control over bureaucracy: cultural theory and institutional variety, 1996, Journal of Public Policy, 15 (3): 207-30.
- Hood, C., The art of the state: culture, rhetoric and public management, 2000, Oxford University Press: Oxford
- Perrow, C., Normal accidents: living with high risk technologies, 1984, Princeton University Press: Princeton
- Thompson, M., Ellis, R., Wildavsky, A., Cultural theory, 1990, Westview Press: Boulder
- Thompson, M.G., Grendstad, G., Selle, P., Cultural theory as political science, 1999, Routledge: London



# 4 Reinventing strategies for emerging markets: beyond the transnational model

By: Myrtille Danse

*London, T. and Hart, S.L. 2004. Reinventing strategies for emerging markets: beyond the transnational model. Journal of International Business Studies, 35: 350-370.*

## 4.1 What is the key message?

With established markets becoming saturated, multinational corporations (MNCs) have turned increasingly to emerging markets (EMs) in the developing world. Such EM strategies have been targeted almost exclusively at the wealthy elite at the top of the economic pyramid. Recently, however, a number of MNCs have launched new initiatives that explore the untapped market potential at the base of the economic pyramid, the largest and fastest-growing segment of the world's population. Reaching the four billion people in these markets pose both tremendous opportunities and unique challenges to MNCs, as conventional wisdom about MNC global capabilities and subsidiary strategy in EMs may not be appropriate. How MNCs can successfully enter these low income markets has not been effectively addressed in the literatures on global and EM strategies. An exploratory analysis, involving interviews with MNC managers, original case studies, and archival material, indicates that the transnational model of national responsiveness, global efficiency and worldwide learning may not be sufficient. Results suggest that the success of initiatives targeting low-income markets is enhanced by recognizing that Western-style patterns of economic development may not occur in these business environments. Business strategies that rely on leveraging the strengths of the existing market environment outperform those that focus on overcoming weaknesses. These strategies include developing relationships with non-traditional partners, co-inventing custom solutions, and building local capacity. Together, these successful strategies suggest the importance of MNCs developing a global capability in social embeddedness.

## 4.2 What is the theoretical grounding?

The authors analyze international business theory, but observe that most of the research on subsidiary entrepreneurship has focused on developed countries in North America and Europe. This limits theorising to countries at the same stage of economic development and having the same cultural orientation towards entrepreneurship. The authors indicate that MNCs are accustomed to creating competitive advantage through patents, brands and contracts. For this, they are careful to enter markets where their proprietary technology and knowledge cannot be protected through enforceable legal mechanisms.

To address this uncertainty, MNCs entering emerging markets look for ways to overcome limitations in the business environment. They design boundaries to protect internal resources and capabilities from unintended spill over, and look for partner organizations that wield substantial capability to fill voids in the business environment.

Based on conventional international business research, MNCs are suggested to rely on proven global capabilities to incrementally adapt existing business models and a familiar subsidiary strategy based on controlling resources, extracting knowledge, and leveraging economies of scale and scope. Internalization, of the modifying (national responsiveness), leveraging (global efficiency), or sharing (worldwide learning) of existing products and resources within firm boundaries will allow MNCs to overcome liabilities of foreignness in serving the new market. Most (international business) IB researchers seem to assume that local business environments in emerging markets will evolve into an economic setting that is familiar to Western managers. The authors argue that just a small part of the economy will evolve in that direction, and that 30-60% is informal economy.

Entry into these markets may require global capabilities beyond the adaptive skills of national responsiveness or the centralized control inherent in global efficiency, and a market entry strategy that moves past a reliance on imported business models based on extracting knowledge and protecting and controlling resource flows.

The authors report on exploratory research they conducted, which they based on the strategy of Jin in 1984. The objective was to conduct an analysis of firm strategies for low-income markets in emerging economies that would help to build theory on how companies successfully enter these business environments and to develop constructs that would facilitate future hypothesis testing. Data collection was done by an exhaustive search for existing cases and other archival information on low income markets entry by multinational, local companies and NGOs, followed by in depth analysis of 24 ventures. Concurrent with the collection and analysis of archival materials and the development of case studies, interviews and discussions were held with managers at MNCs engaged in launching business ventures in low-income markets. Based on the findings, the researchers defined 4 propositions, which are used to discuss the results obtained. General conclusion is that the conventional transnational model currently used highlighted potential limitations when entering an emerging market. Firms will need to develop a fourth capability, which is social embeddedness, which allows them to understand and leverage the strengths of this new market environment. Firms may need to expand the potential field of alliance partners, including non profit organizations and community groups, as well as local and even village level governments. MNCs must recognize that social contracts and social institutions dominate; traditional partners may lack relevant expertise, and social performance matters. Rather than looking to overcome weaknesses in the business environment, firms entering these markets should craft a strategy that envisions organizations, institutions and knowledge in the external environment as a basis for creating competitive advantage.

The article is related to the disciplines of development economics and cultural anthropology. The focus of the research provides opportunities for collaboration between business administration, development economics, macro economics, cultural anthropology, and industrial engineering.

#### **4.2 What framework or methodology does the article / book offer for analyzing the institutional configuration and/or functioning of a value chain?**

Vertical coordination is analyzed based on relation between a foreign firm interested in entering a new, emerging market, and the importance to create linkages with non traditional business partners to be able to develop business activities in this context. In this case, entering markets for me is a first step of creating or getting connected to local value chains. The authors urge the need for collaboration with non traditional partners such as NGOs and community leaders to be able to get connected to these local chains.

Embeddedness in this article is the key word for western firms to enter in an effective way low income market segments in emerging economies. Embeddedness is defined as the ability to create competitive advantage based on a deep understanding of, and integration with, the local environment. This capability involves the ability to create a web of trusted connections with a diversity of organizations and institutions, generate bottom up development and understand, leverage and build on the existing social infrastructure.

Division of labour is not analyzed in this paper. Related is the emphasis of the authors on creating sustainable relations with not traditional business partners. Organizational hybridity is referred to as well. The authors do recommend to search for new business partners, but do not go that far that they recommend the integration of business and non business actors to be able to access low income market segments in emerging markets, so in my opinion they do not touch this topic.

The merit of this analytical approach is exemplified by the case of Unilever's Indian subsidiary, Hindustan Lever Limited (HLL). HLL is one of the companies the author present as a successful example with its strategy to serve low income market segments in emerging markets. HLL uses a wide variety of partners to distribute its products, and also supports the efforts of these partners to build additional capabilities. For example, HLL provided opportunities and training to local entrepreneurs, and was not afraid to experiment with new types of

distribution, such as selling via local performers and village street theatres. In addition, managers were also aware that existing biases about the process of local economic development could be constraints as the firm entered new low-income markets. They therefore required new employees to spend 6 weeks living in these markets, and actively sought local consumer insights and preferences as they developed new products. By encouraging a creative and flexible market entry process, HLL has been able to generate over \$1 billion in revenues from operating in low-income markets in India alone.

There has been an increase of international sourcing of agro food products for the European and US markets. This sourcing is partially done by buying local production from existing producers, and partially done by the expansion of production of western companies in developing countries. To comply with the requirements of the European and US markets, production in developing countries has to comply with high quality standards. This has created the need for producers in developing countries to access new knowledge and technology, to be able to meet these standards. This knowledge and technology is available in European and US markets, but this does not mean that they can be transferred easily to these markets, since the majority of these markets consist of smallholder farmers with limited resources. If USA and European companies want to benefit from the increasing demand for knowledge and technology in these emerging markets, they need to adjust their conventional internationalization strategy.

#### **4.4 How does the article / book help to describe or explain the viability, i.e. the capacity to respond to pressures and changes, of a chain configuration?**

The article does not specifically focus on chain configurations, but the analysis they make of the business model used as internationalization strategies by firms and the problems they encounter in emerging markets shows some pressures due to the specific characteristics of the chain configuration in an emerging market context. Based on the research findings they recommend to focus stronger on the creation of linkages with non traditional business partners to be able to understand and eventually influence the chain configuration in this context.

#### **4.5 How would the article / book assess the impact of the institutional configuration on sustainable development?**

Creating relations with non traditional partners helps firms to understand and influence the institutional configuration of value chains in developing countries.

#### **4.6 What perspectives are offered for institutional design / social engineering?**

In pursuing low-income markets in developing countries, firms must adjust to an environment where social, not legal, contracts dominate, and where accurate knowledge about potential consumers is not readily available. Assessing context-specific information appears to require a more participatory approach in which all parties need to be willing to share information. This extends far beyond the idea of 'national responsiveness' (adapting pre-existing solutions to local conditions), which pervades the existing literature on global strategy.

#### **4.7 Snow ball: related literature**

- Chambers, R., *Whose Reality Counts? Putting the First Last*, 1997, ITDG Publishing: London.
- Soto, de, H., *The Mystery of Capital: Why Capitalism Triumphs in the West and Fails Everywhere Else*, 2000, Basic Books: New York.
- London, T. and Rondinelli, D.A., *Partnerships for learning: managing tensions in nonprofit organizations' alliances with corporations*, 2003, *Stanford Social Innovation Review* 1(3): 28–35.



# 5 Managing subsidiary knowledge creation: the effect of control mechanisms on subsidiary local embeddedness

By: Myrtille Danse

*Andersson, U., Bjorkmans, I., Forsgren, M. 2005. Managing subsidiary knowledge creation: the effect of control mechanisms on subsidiary local embeddedness. International Business Review 14(5): 521-538*

## 5.1 What is the key message?

The importance of embeddedness rests on two basic assumptions. First, closeness in relationships with specific customers, suppliers and other counterparts improves the subsidiary's ability to absorb new knowledge from the environment. Second, innovative behaviour, as a distinctive activity is something that goes on as much within business relationships as within firms. Given the importance of local (external) network embeddedness for an MNC subsidiary's ability to create new knowledge, a crucial question is what factors affect this local embeddedness. Despite its obvious relevance, few efforts have been made in the MNC literature to deal with this issue. In this paper, the authors hypothesize that a subsidiary's local embeddedness is influenced by headquarters use of different control mechanisms, and that local embeddedness, in turn, is an important antecedent to a subsidiary's level of knowledge creation. The model is tested on a database of MNC subsidiary's in Finland and China. The results indicate that MNC headquarters can indeed influence subsidiary local network embeddedness, which in turn enhance subsidiary knowledge creation.

## 5.2 What is the theoretical grounding?

First the authors use network theories for the definition of MNCs, which is a differentiated network of internationally dispersed units. For this a MNC is not only an intra-organizational network, but also the environment of each MNC unit is itself a network of other organizations such as customers, suppliers, regulators and competitors.

After that, the authors define the concept of embeddedness, since this concept has been used in former research to define a firm's network. Applied in the MNC context, this concept refers to the extent to which individual relationships in the local market, with customers, suppliers, competitors, etc. can serve as a source of knowledge. An underlying idea is that actors who are strongly tied to each other, are in a better position to exchange information, and therefore, to learn more easily from each other. Thus, a subsidiary's position to identify new knowledge in its environment, and its ability to assimilate this knowledge depends on the closeness of its dyadic relationships with different business partners. The authors question conclusions taken from earlier analysis of MNCs as a differentiated network, that the intended roles and characteristics of subsidiaries differ, control systems should also differ. Their argument is that little research has been done on the actual effects of different control systems used by headquarters. For this, the authors decided to analyze how different control mechanisms applied by the corporate headquarters affect such embeddedness.

To analyze MNC control, the authors use agency theory, since the relationship between headquarters and a subsidiary can be viewed as a principal-agent relationship. Headquarters can use direct (behaviour) control or output control. Direct control implies intervention by headquarters in the subsidiary's on-going operations, through centralized decision making and/ or direct supervision by headquarters representatives. Output control implies evaluation of the subsidiary's performance through use of evaluation criteria such as financial performance, market share, productivity or knowledge development.

The research is defined based on a model with 5 hypotheses. Subsidiary local embeddedness and the degree of knowledge creation by the subsidiary are the dependent variables. The independent variables are direct control,

knowledge development and net/operating profit as a performance evaluation criterion. Since some other factors may be associated with subsidiary local embeddedness, some control variables were defined: the degree of value chain integration, size of subsidiary, form of establishment of the subsidiary, the breadth of the subsidiary's operations, and the location of the subsidiary. Data for the study were collected through structured face-to-face interviews with top managers of Finnish and Chinese subsidiaries of Western owned MNCs. The final data set covered 140 subsidiaries (79 Finnish and 61 Chinese).

Conclusions from the research are: that headquarters control mechanisms matter for subsidiary local embeddedness. A control system, which explicitly applies knowledge development as a performance evaluation criterion, has positive effects on the subsidiary's propensity to develop close relationships with local business partners and thereby create more new knowledge than otherwise would be available. MNC headquarters should make sure that foreign subsidiary managers perceive knowledge development and net/operating profit as important performance evaluation criteria. Direct control in terms of use of expatriates has a negative impact on subsidiary embeddedness. This result implies a dilemma for MNCs, the dual search for certainty and flexibility.

The article is related to the disciplines of organization theory (organizational learning theories), strategic management theory and international business theory (Dunning, OLI Paradigm).

### **5.3 What framework or methodology does the article / book offer for analyzing the institutional configuration and/or functioning of a value chain?**

Vertical coordination is analyzed based on the dependent relation between buyer supplier typified by the relation between MNC head quarter and its foreign subsidiary. The central topic of the research is subsidiary embeddedness as an important variable for the MNCs overall competitive strength.

In this case embeddedness is considered as the relationships between differentiated networks of internationally dispersed units (MNC) and its relationships with customers, suppliers and other counterparts. With regard to the division of labour, this is analysed is between MNC expatriates and management of foreign subsidiaries.

Looking at organizational hybridity, the authors emphasize the importance that an MNC is not only an intra-organizational network but also that the environment of each MNC unit is itself a network of other organizations such as customers, suppliers, regulators and competitors.

Agro food chains can be characterized by different levels of actor involvement and dependency. There are very loosely tight relations of almost anonymous suppliers and buyers, but also very strongly tight relations, networks that can almost be typified as an MNC. For the actors of these type of chains, the paper provides interesting findings on the influence control mechanisms and knowledge exchange between the dominant buyer and dependent supplier can have on the suppliers possibilities to become socially embedded and have a good relations with other vital actors.

### **5.4 How does the article / book help to describe or explain the viability, i.e. the capacity to respond to pressures and changes, of a chain configuration?**

The researchers put the social embeddedness of subsidiaries as a dependent variable, since it appears that this factor can be considered a variable of importance for the MNCs overall competitiveness. The researchers focus specifically on the impact of headquarters control mechanism on subsidiary embeddedness, since corporate management systems might have possible impact on the competitive position of the overall MNC.

### **5.5 How would the article / book assess the impact of the institutional configuration on sustainable development?**

It considers the trade of between control and trust as vital for the effective relation between chain actors and their environment. Sharing knowledge with the local subsidiary and creating local responsibility for knowledge sharing, improves social embeddedness.

### **5.6 What perspectives are offered for institutional design / social engineering?**

Strategy making in the periphery of an organization is more inductive, externally oriented and explorative while in the centre it is more deductive and oriented towards planning and improving the existing strategy. Expatriates are probably more inclined to apply the latter form of strategy making, while the subsidiary as a local unit is more inclined to search for a more externally oriented strategy. To build up close and long lasting relationships with external partners is an important element of such a strategy.

### **5.7 Snow ball: related literature**

- Nohria, N., Goshal, S., The differentiated network- organizing multinational corporations for value creation, 1997, San Francisco: Jossey- Bass Publishers.
- Uzzi, B., Social structure and consequences of embeddedness for the economic performance of organizations: the network effect, 1997, American Sociological Review, 61, 674-698.
- Lane, P.J., Lubatkin, M.A., Relative absorptive capacity and interorganizational learning, 1998, Strategic Management Journal, 19, 461-477.





# 6 Market institutions in sub-Saharan Africa – theory and evidence

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By: Gerdien Meijerink

*Fafchamps, M. 2004. Market Institutions in Sub-Saharan Africa – Theory and Evidence. Cambridge, Massachusetts: MIT Press.*

## 6.1 What is the key message?

The main objective of market institution policy is to facilitate trade, which can take place in even the crudest institutional environment. In such a situation, trade revolves around long-term personal relationships, around personal exchange. But the institutional challenge here is to move from personal to impersonal exchange (cf. North). The classical approach to this challenge is to change (i.e. modernize) laws and the court system. However, in practice change goes beyond contract law and court and many have a hybrid nature in that they combine government intervention with private or collective action, which is a significant departure from the standard (economic) approach. However, Fafchamps does underline that a change in law is often necessary, what kind and how much will change from country to country, and concludes: “ the key about market institutions is that improvements require subtle modifications in the legal environment that help economic agents better perform their market exchange functions”.

## 6.2 What is the theoretical grounding?

New institutional economics, contract theory, game theory, property rights. Fafchamps often uses (mathematical) modelling as an analysis tool. It makes a link to law (breach of contract, judicial systems), anthropology (kinships ties etc), and sociology (social capital, trust, discrimination). And this outlines the perspective on interdisciplinary collaboration – how do informal rules such as norms, values, kinship ties relate to market exchange, and more specifically, how do these informal rules substitute or complement formal rules.

## 6.3 What framework or methodology does the article / book offer for analyzing the institutional configuration and/or functioning of a value chain?

It does not take a chain perspective, but analysis the coordination problem in markets (with a network perspective). In the book the exchange of commodities among “players” (market actors) are determined, taking links among them as given. The emphasis is put on the relationship between connectivity, power and commodity flows. It uses four premises:

- Economic agents have access (at little or no cost) to local information (e.g. their technology and preferences)
- Because of the possibility of moral hazard, truthful revelation of local information is suspect and needs to be independently verified – or in other words, because it is not always in the interest of economic actors to reveal all information to trading partners (about their costs, actions etc), information exchanged needs to be verified.
- The collection, verification, and dissemination of economically relevant information is costly (e.g. costs of searching for an identifying potential buyers and sellers)
- There are fixed costs in information processing. So, information costs increase less than proportionally with the size of market transactions.

The term network has, according to Fafchamps, not found its way into economic jargon. He uses it in the sociological sense and mathematical sense (i.e. graphs: where individuals are nodes and relationships are links). The concept of network comes to full fruition when the definition of a link is broadened to include other useful economic functions (besides exchange of goods) such as information contract enforcement and information sharing, which are central to the functioning of the labour, credit and insurance markets. Economic transactions are embedded in a social context (see the work of Granovetter).

Fafchamps' model lets the number of links an agent has represent its network capital. Thus, economic agents derive some advantages from the position they occupy in a network of business relations. Agents at the centre of a dense network are expected to collect rents. He analyses then where network capital comes from, and relates to sociology literature that highlights the role of family and kinship. But a more individualistic approach is also conceivable by hypothesizing that individuals build up business contacts on their own. In a chapter on ethnicity and discrimination, Fafchamps explores these in the interplay of trust (and reputation), trade and ethnicity or religion.

Fafchamps analyses data collected from various markets in SSA to test his hypotheses. In one, he has examined how African manufacturers gain access to supplier and bank credit, and how they grant credit to their customers. According to Fafchamps, a better understanding of these processes helps to assess not only barriers to enterprise development in Africa, but also how markets emerge. Taken that statistical discrimination and network effects can exclude certain groups from credit markets and more generally from normal commercial practices, he provides preliminary evidence from data in Kenya and Zimbabwe, that network effects are present and deserve serious attention. Black (i.e. non Asian) and female entrepreneurs find it more difficult to access credit and therefore prevent them from joining the mainstream by-firm growth. Exclusion mechanisms may become a self-perpetuating process, and the presence of negative feedbacks could explain why small groups (e.g. the Indians) are able to dominate particular industries or activities. Excluded firms are forced to resort to alternatives and generally, less efficient ways of contracting with each other. Fafchamps concludes that "because large segments of the entrepreneurial population are prevented from reaching their potential, growth and development are stunted."

Interestingly, when Fafchamps analyses agricultural trade, he finds that ethnicity and religion only have a limited effect on agricultural trade in Benin, Madagascar and Benin. Networks matter, and better connected traders have larger and more prosperous businesses. However, members of all groups start more or less from an equal footing to accumulate network and working capital. This ease of entry probably explains why scores of Africans, many of whom are women, flock into agricultural trade as an income earning opportunity.

#### **6.4 How does the article / book help to describe or explain the viability, i.e. the capacity to respond to pressures and changes, of a chain configuration?**

The book helps to explain why market exchange is the dominant form in agricultural trade, and why there are so few hierarchies (i.e. organizations). With respect to the viability of a chain configuration I think this book helps explain the impediments that underpin much of Africa's development. The institutional arrangements that can be observed in Africa are a result of the lack of a well functioning institutional environment.

#### **6.5 How would the article / book assess the impact of the institutional configuration on sustainable development?**

See above: Excluded firms are forced to resort to alternatives and generally, less efficient ways of contracting with each other. Fafchamps concludes that "because large segments of the entrepreneurial population are prevented from reaching their potential, growth and development are stunted".

## 6.6 What perspectives are offered for institutional design / social engineering?

Fafchamps finds it extremely difficult to formulate policy implications or advice on institutional change. He writes: "Drawing policy prescriptions from economic analysis is a hazardous endeavour. The reason is that while the analysis itself is based on rigorous scientific principles, policy prescriptions are not. Neither could they be since by definition, they are about changing the current state of affairs and thus about something that does not exist – and cannot be studied."

But he still tries to focus attention to potential remedies to inefficient market institutions (because of information asymmetries and enforcement problems). Incremental institutional change can help reduce enforcement problems and improve access to markets and credit. Institutions that will take care of transaction costs and information asymmetries may fail to emerge because of (i) coordination failure (economic agents fail to coordinate their actions), (ii) institutional innovation failure (e.g. credit card) and (iii) authority failure (decentralized self-enforcing mechanisms cannot rely on the coordinated use of force).

He gives advice for countries with undeveloped market institutions, intermediate market institutions and developed market institutions. He also dedicates a section on "special policies for agricultural markets".

## 6.7 Snow ball: related literature

- North, D.C., *Institutions, Institutional Change, and Economic Performance*, 1990, Cambridge: Cambridge University Press.
- Granovetter, M., *Economic action and social structure: the problem of embeddedness*, 1985, *American Journal of Sociology* 91(3):481-510.
- Greif, A., *Contract enforceability and economic institutions in early trade: The Maghribi traders' coalition*, 1993, *American Economic Review* 83(3):525-48



# 7 Transaction-cost economics and the organization of agricultural transactions

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By: Gerdien Meijerink

*Masten, S.E. 2000. Transaction-cost economics and the organization of agricultural transactions. In: M. Baye, ed. Advances in Applied Microeconomics: Industrial Organization. New York: Elsevier, pp. 173–95.*

## 7.1 What is the key message?

In contrast to textbook characterizations of agriculture as the quintessential spot market, agricultural transactions display a broad range of governance arrangements.

## 7.2 What is the theoretical grounding?

This chapter is based on transaction costs economics (developed by Coase and Williamson), which is an important element of New Institutional Economics. Masten is now the chair of the International Society of New Institutional Economics.

The main substantive contribution of transaction-cost economics has been to relate the limitations and costs associated with organizational alternatives to the attributes of transactions in a discriminating fashion.

It relates to (neo-classical) economics (which tends not to take into account transaction costs), industrial organization (questions such as “why do manufacturers buy some components and make others?”) and one might argue to business administration.

Perspectives for interdisciplinary -beta gamma- collaboration lie in the interaction between (agricultural production) technology and governance arrangements. Technological innovation can induce institutional innovation. But specific (technological) characteristics of agricultural production also determine the governance arrangement found in agri-food chains.

## 7.3 What framework or methodology does the article / book offer for analyzing the institutional configuration and/or functioning of a value chain?

It uses the logic and predictions of transaction-cost economics to analyze agricultural transactions. Masten discusses the problems of coordinating vertical exchange. Whenever two or more parties transact they face a decision of how to govern their relationship. Their joint interest is to undertake activities that enhance total surplus. But each transaction also involves a potential source of conflict: given the gains to be derived from trade, each party will wish to arrange the terms of trade in such a way as to appropriate as large a share of those gains as possible. Organizations and institutions are, from the transaction-cost perspective, the means through which transactors attempt to regulate this behaviour. The broad goal is to adopt governance arrangements that promote efficient adaptations while economizing on the costs of reaching agreements and resolving disputes. Processes as well as outcomes thus matter (from Williamson).

Though the logic and predictions of transaction –cost economics have been shown to apply to a broad range of institutions and an increasing number of industries, there has been little systematic analysis of agricultural transactions in transaction-cost terms. This void is not for lack of interesting organizational questions to explore. Even a cursory scan of the agricultural landscape reveals considerable diversity and variation in the way agricultural transactions are governed. E.g. why does McDonalds’s subcontract its food processing operations

in the US and why has it integrated those operations in the former Soviet Union? Why did highly integrated multinational firms dominate the banana industry for most of its history?

Masten (p. 183) does add some word of warning about the use of the transaction cost approach: "The literature is replete with case studies and anecdotes illustrating transaction cost propositions. These studies have been valuable, above all, for the crucial detail they offer. A limitation of case studies, however, is their vulnerability to charges of ex post rationalization. Attempts to compare the costs of organizing under alternative arrangements confront a basic selection problem: transaction costs cannot be directly observed for organizational forms not chosen. (...) As a result, claims that a particular organizational arrangement minimizes transaction costs are easy to make and impossible to refute."

Masten does not really address social embeddedness, as this is not the focus of the paper. However, Masten does refer to the legal system that regulates the duties procedures, sanctions etc available to the transactors. Although he does not elaborate this point, it is an important issue when we focus on value chains in developing countries where the legal system often does not work for small scale transactors (farmers, traders etc). A de facto informal "legal" system consisting of norms, values, social pressure etc. (which can be seen as social embeddedness) substitutes (partly) for the de jure legal (formal) system.

Because Masten takes a general approach of "transactors" it does not make a difference between different actors in the chain (or whether these are public or private). However, Masten does refer to different governance arrangements, which can be simple market exchange, contracting or internal organization (hierarchy):

- Simple market exchange: this applies to spot markets: parties are generally free to bargain or not bargain as they please. Moreover, once a transaction is consummated, the parties have relatively few ongoing obligations and may, for example, use or dispose of the items procured in whatever manner they choose. However, this also provides transactors a tactic to extract rents: parties to a simple exchange may haggle, stall or walk away from the deal altogether if they are dissatisfied with the terms currently tendered; courts will rarely intervene to force parties to come to terms. Thus, although flexible, market transactions are relatively exposed to the potential for hold ups and free riding.
- Contracting: where hazards of simple market exchange are severe, parties may seek to use contracting or integration to protect their relationship. Contracting, however, is also subject to a variety of well-known hazards and limitations. It is impossible to cover the full range of possible contingencies, thus contracts are always incomplete. Contract enforcement may be imperfect and costly.
- Internal organization: this has traditionally been viewed as offering greater control and superior access to information relative to market exchange. By allocating residual rights of control over the use and disposition of assets, ownership restricts the ability of non-owners to withhold assets from production and thus limits hold-ups. In addition differences in the legal defaults, sanctions, and procedures governing transactions between employers and employees support greater discretion and control in response to change and superior access to information within the organization/firm. The benefits of internal organization are limited however by the bureaucratic inefficiencies that inevitably plague large organizations. "As successive transactions are brought within the firm, additional demands are placed on managers' scarce time and attention, increasing the probability of mistakes and the costs of organizing".

A hybrid will combine parts of the three main organizational arrangements.

On vertical coordination, Masten first introduces asset specificity. Asset specificity is usually defined as the extent to which the investments made to support a particular transaction have a higher value to that transaction than they would have if they were redeployed for any other purpose. The most conspicuous attribute distinguishing agricultural goods from other commodities is their perishability and much of the coordination task

in agriculture is related to assuring that foodstuff are produced, processed, and distributed in a timely fashion. Secondly, because of the high weight-to-value ratio of many agricultural products, site (or location) specificity is also likely to be a potential concern in agricultural transactions. Finally, attributes like uncertainty, complexity, and similarity should play a role in agricultural transactions.

Masten gives several examples that explain governance arrangements found in vertical coordination. E.g. processing fresh fruits and vegetables where a processor and a farmer are dependent on each other to deliver. Default by either party will mean a hold-up problem. "The resulting exposure to hold ups explains the widespread use of forward contracts and the protective role of agricultural bargaining cooperative in governing fruit and vegetable transactions." Transaction costs economics helps to explain or understand different governance arrangements that can be found in agricultural transactions.

#### **7.4 How does the article / book help to describe or explain the viability, i.e. the capacity to respond to pressures and changes, of a chain configuration?**

When pressures and changes modify transaction costs, one would expect also a modification in governance arrangements.

#### **7.5 How would the article / book assess the impact of the institutional configuration on sustainable development?**

The article does not really. But using transaction costs economics does say something about the effectiveness and efficiency of governance arrangements, which are necessary for sustainable development.

#### **7.6 What perspectives are offered for institutional design / social engineering?**

No perspectives are given directly. It aims to understand the emergence and evolution of different governance arrangements. This can help us understand "what works and why", which can be helpful in institutional design.

#### **7.7 Snow ball: related literature**

- Williamson, O., *The Economic Institutions of Capitalism*, 1985, New York: Free Press.
- Coase, R., *The Problem of Social Cost*, 1960, *The Journal of Law and Economics*, III(October): 1-44.
- Knoeber, C., *An alternative mechanism to assure contractual reliability.*, 1983, *Journal of legal studies*, 12, 333-343.





# 8 Global commodity chains and African export agriculture

By: Giel Ton

*Daviron, B., Gibbon, P. 2002. Global Commodity Chains and African Export Agriculture. Journal of Agrarian Change, 2(2): 137-161*

## 8.1 What is the key message?

The article presents a conceptual framework for the analysis of global commodity chains. It presents the picture of increased vertical coordination after the dissolving of the African marketing boards for peasant export crop agriculture in the 1980s, after the 'Washington Consensus': market liberalization that led to increased 'buyer drivenness'. The authors stress the importance of quality conventions (from public to private standards) that 'institutionalize' this buyer drivenness, and point to the fact that through this, there tends to be a change in the division of labour and in the distribution of value between chain actors. They point to specific market and non-market relations that coordinate transactions within the chain. "... agents have varied and frequently contradictory objectives or interests... functional coordination only comes about through the emergence of a chain 'driver' – the expression of a relation of power in a commodity chain." Special focus is on the way how African smallholders are impacted by these trends, e.g. in the cocoa, coffee and cotton chain.

## 8.2 What is the theoretical grounding?

The theory is grounded in 'economic geography', a cross-section of economy, geography and sociology that studies especially the differential impact of the working of the economy on different locations – concentration, clusters, global patterns of specialization, First versus Third World, etc. Per definition this favours gamma-beta integration, as the beta's in Wageningen are usually interested in cropped land and landscapes.

Furthermore, it draws from institutional economics, when it looks for non-market based mechanisms in which the division of labour and the realization of the value of the commodity are secured. It links three schools: Anglo-Saxon Global Commodity Chain analysis and French Convention Theory; and builds on the issues developed in New Institutional Economics on horizontal and vertical coordination.

## 8.3 What framework or methodology does the article / book offer for analyzing the institutional configuration and/or functioning of a value chain?

Vertical coordination is in their view the integration of different groups of actors, not essentially the integration of technical stages/operations. They see two disadvantages of the latter definition: firstly, the reduction to logistics instead of social relations between actors and, secondly the fact that the criterion for differentiating between different specific processes is unclear.

Horizontal coordination is defined as the 'situations of use or operation of a common resource by several agents or entities.' These resources can be based on natural resources, infrastructure (Anglo-Saxon tradition). But can also comprise collective goods like quality standards; territorial reputations; future markets (convention theory). The way that this horizontal coordination is done involves especially non-economic transactions between these agents. This non-market context can be seen as the 'embeddedness' of the commodity chain; close to the 'institutional environment' in institutional economy.

Global Commodity Chains analyzes the dynamics in commodity chains and the way on which buyers increasingly pose additional services to suppliers. Qualities that in the past had to be performed by the buyer (packing, selecting, etc.) are now 'demanded'. Comparable to 'turn-key' production systems: the provider is responsible for much more than delivering technological inputs. The buyer-drivenness is stimulated by the 'branding' and

niche marketing of commodities according to 'innovation' and R&D on consumer segments. Daviron and Gibbon see this as a re-definition of the division of labour between various sets of actors in the sector. The most well-known example in the agricultural sector is the study of Dolan and Humphreys about the fresh vegetable chain. Overseas suppliers have to comply increasingly with public and private standards, package and bar-code them, deliver on a call-off basis, etc. "Chains once supplied by smallholder producers in Africa are now supplied by large-scale farms under direct control of exporters." In some sectors, (e.g. computers or processed foods, there are increasingly 'leading suppliers' with a 'full-service' approach supplying different brands.

Convention Theory focuses on 'quality conventions' as specific institutions that structure and legitimize these additional requirements. "Agreement between individuals, even when limited to market transaction contract, is not possible without a common framework, without a constitutive convention." They study how these conventions have emerged historically and are re-drawn to better serve the interest of the involved interest groups, especially dominant firms. Conventions go beyond North's concept of institutions (rules of the game in a society... the humanly devised constraints that shape interaction') as they also describe the relation to these rules of agents, technologies and forms of enterprise.

There can be a plurality of conventions that can be used for the construction of agreements between agents. They mention Eyenard-Duvernay, who distinguishes different modes of arbitrating quality and distinguishing four types of conventions which can be deployed by an enterprise:

- a trade/market convention with price as sole criterion
- an industrial convention: with measurable standards as definition of quality
- a domestic convention: quality defined in terms of origin and tradition added by others:
- a civic convention; quality defined by its reference to socio-political (or environmental) impact.

Although they can exist together (with tensions etc.), they are often used to characterize historical periods in a sector. For cocoa and coffee they illustrate the shift from public standards to private standards. The public standards made it possible to source from different locations and transactions in time. Diversity in qualities is created by actors specific for each sector, but all tend to be more downstream than before, indicating greater buyer-drivenness.

Marketing boards reduced transaction cost/entry barriers for cultivation by many smallholder producers. They created a context of 'free' services and sometimes price stabilization instruments that boosted peasant production. Furthermore, they used uniform quality standards that facilitated serving the need for country specific varieties in blends (coffee, cocoa) or the marketing of specific fibre quality (cotton). Quality requirements were set in a way that they were attainable by smallholder producers.

With the breakdown of the international commodity agreements and the dismantling of the marketing boards, the dynamics of the GCC (more quality/serviced demanded from suppliers) came in. Without coordinated private controls, the disappearance of public controls has undermined the credibility of national origins. This domestic convention is increasingly (in cocoa) replaced by industrial conventions. In other sectors through tracking and tracing, conventional geographic origin is redundant. Some are replaced by sub-national (terroir) conventions, and civic conventions (fair trade, organics) come up. Arbitration of quality is increasingly shifted from national to international and from public to private, especially in resource-poor countries.

#### **8.4 How does the article / book help to describe or explain the viability, i.e. the capacity to respond to pressures and changes, of a chain configuration?**

The article provides us with an idea on how chains are changing. The state led peasant supplied agro-export chains have been successful in boosting production and cushioning price fluctuation. The erosion of horizontal coordination between countries and within countries has created 'viable chains' but increasingly demanding specific qualities of supply. There is a tendency to serve the demand for diversified products (eroding the concept of commodity), be it by grinders (cocoa), textile industry or, by producers marketing their specific local

qualities (coffee). "Where diversity is generated in a commodity chain thus seems to depend on market structure/degree of buyer-drivenness and the distribution of capacities for technical innovation and/or collective action. In general though, there seems to be a tendency for the generation of diversity to shift downstream toward different categories of buyer."

The capacity to respond to these buyer-driven demand changes depend on the ways in which the state creates institutions that facilitate quality control according to the private standards. So countries with still a remnant of marketing boards, or countries with specific quality or volume, will be preferred by the buyers and will be the focus of production, to the detriment of countries that do not have/create these conditions.

### **8.5 How would the article / book assess the impact of the institutional configuration on sustainable development?**

The authors will look at the revenues in the chain, and especially the part that stays behind in developing countries and in smallholder pockets. They implicitly use the production volume and generated wealth in a country for smallholders as a proxy for 'good' and 'bad' chains (e.g. positive evaluation of Ghana's cocoa marketing board).

### **8.6 What perspectives are offered for institutional design / social engineering?**

The paper is more analytical than 'engineering'. However, to make the commodity chains more inclusive to smallholders, they point to the importance of public quality norms and the infrastructure to enforce/support the attainment of these norms by producers. They also indicate the importance to specialize in local specific qualities that can be used in the global sourcing. To become attractive (fair trade, organic, geographical denominations, etc.) producers have to foster their horizontal coordination to generate local specific but homogenous quality attributes.

### **8.7 Snow ball: related literature**

- North, D. C., *Institutions, Institutional Change and Economic Performance*, 1990, Cambridge University Press
- Olson, M. A. W., *The logic of collective action: public goods and the theory of groups*, 1971, Harvard University Press, Revised edition
- Ponte, S. and P. Gibbon, *Quality standards, conventions and the governance of global value chains*, 2005, *Economy and Society* 34(1): 1-31.



# 9 Markets and states in tropical Africa: the political basis of agricultural policies

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By: Giel Ton

*Bates, R.H. 1981. Markets and states in tropical Africa: the political basis of agricultural policies. Berkeley: University of California Press.*

## 9.1 What is the key message?

Bates presents an analysis of the 'logic' that makes that policies are not necessarily optimal for economic development. He describes the 'rationality' of public intervention as a result of political interests in three markets: markets of agricultural commodities, market of factor inputs, and market of consumer goods. Farmers' incomes are a result of the prices in these three markets. Cheap food policies and overvalued exchange rates (to import cheap consumption goods and capital goods to the city) are the most common outcomes in Africa. Export income is affected by an overvalued exchange rate and further squeezed by mechanisms to create budget for public spending to create political loyalty and political stability (high promises/expectation after independence).

## 9.2 What is the theoretical grounding?

The book is a response to some dominant schools in the 1970s, which explained development/underdevelopment by looking at international trade and power (dependency theory) and its translation in commodity prices (unequal exchange). Bates focused instead on the 'nation internal' relations of power and prices. It has been viewed as one of the key works that was used to legitimate the structural adjustment policies for the reduction of state intervention and fostering the free market to 'make prices right' for producers. However, Bates sees himself (in the 2005 introduction) more as an analytical description of how Africa works, without supporting these political-normative conclusions.

His analysis crosses the boundaries between economics, sociology and political science. However, his search for 'mechanisms' makes him especially a political economist. This book is a very good example of the 'rational choice theory', but without too much modelling, and, instead, a wealth of intelligent observations on crucial policy moments in Africa from independence to 1980s.

As it has the merit to first describe the political situation in post-independence Africa in a journalist style, and later make plausible explanations on the 'logic/rational' behind such 'un-sound' policies, he may well be very useful for beta-gamma integration. It makes the world a bit more comprehensive. It explains a bit why certain technological innovations are generated or adopted; and gives an avenue to look for realistic agricultural policy making.

## 9.3 What framework or methodology does the article / book offer for analyzing the institutional configuration and/or functioning of a value chain?

Bates draws on sector policies in several African countries. And explains the resulting policies as a result of 'bargaining power' of economic interest of the economic sector for macro-economic policies (exchange rates) and the necessity of the state to generate income (taxes) and maintaining political support (projects and programs). Vertical coordination in the 1970s was especially done by the state, through the exchange rate and the marketing boards, in a context of advocacy of interest groups and political pressure/considerations.

He describes the 'real' coalitions and their lobby strategies: farmers' organizations; industries; political parties; etc. And concludes that the unsound African (1970s) agricultural policies can only be discontinued when the government start taxing extractive industry instead of agricultural exports; and when farmers come to organize themselves as a sector to effectively lobby for their interest against the manufacture sector. He has a positive look to the indirect effects of the lobby of commercial farmers for the majority smallholder sector, as they both have interest in higher prices.

However, his analysis of the division of labour within the food chain(s) is less well developed, than the division of labour between food agriculture, commodity export agriculture and manufacture.

Hybridity in chain configurations can be found in the 'balancing' between the three sectors: due to political pressure the configurations results in better prices (better configuration) for one of these groups to the detriment of the other groups. However, these pressure result also in major inefficiencies and bottlenecks that reduce the performance of these chains as creators of products, value and employment.

Marketing boards became a crucial mechanism of increasing government income. Remnants from colonial time, initially they used to stabilize price fluctuations and had significant reserves and assets, but increasingly marketing boards became an instrument for rural development / political clientelism and affected farm prices; especially in countries with a non-land based elite and with an unorganized rural sector. Instead of higher prices to producers, the instrument to obtain political legitimacy became the discretionary use of the surpluses of the marketing boards for projects in target areas, with target beneficiaries. A major pull factor were the political promises and expectations after independence that led to a drain on market board resources for short term improvements/effects for the population in general (or specific political important voter groups).

The relevance of this work of Bates for analyzing the functioning of an agri-food chain can be summarized as follows:

- The analysis is a bit static and tends to ignore urban-rural linkages and the importance of the service sector. He divides (like many scholars of that time) the economy in a manufacturing sector and an agricultural sector, growth in these sectors is virtually unlinked in this model. .
- It is important to know that chain development is not occurring just because of 'good intentions', but that it is part of a political constellation where the need for legitimization of the government (appease voters, rebels or federalists) is very important and is also the 'boundary' in which these processes will act.
- The rational choice of interest groups may very well lead to suboptimal decisions on value chain development, especially when 'representative organisations' have to re-structure their political legitimacy towards their members. It shows the benefit of critically analyzing the drivers of interest of the participants in sector policies or chain development processes

#### **9.4 How does the article / book help to describe or explain the viability, i.e. the capacity to respond to pressures and changes, of a chain configuration?**

The book gives an explanation of mechanisms that constrain decision making on agricultural policies. It explains why agricultural policies might lead to eroding chain viability instead of fostering it. As such it is an analytical tool that has a historical focus, and sheds light on the political moments that have created tensions between interest groups involved in the sector/chain, especially between farmers and the state. These tensions have led to the establishment of institutional arrangements (like marketing boards, trade policies, licensing mechanisms, etc.) that resolved the tensions (at least at that moment) and become an institutional feature of the value chain or of the enabling environment for chain development.

### **9.5 How would the article / book assess the impact of the institutional configuration on sustainable development?**

Bates main point is to highlight that a configuration that makes the government less reliant on price-taxing export commodities would make that the producers receive better incentives to grow higher value commodities instead of basic food. On another line, higher food prices would increase production and productivity, and the adoption of higher yielding technology crucial for agricultural growth and sustainable development.

### **9.6 What perspectives are offered for institutional design / social engineering?**

Political economic incentives are critical for the motivations of chain actors. Institutional design is important to find effective institutions that balance the interest of the different part of the national economy. From a political stance, Bates would look for the creation/support to coalitions of interest groups that in the long run will benefit from higher agricultural prices and increased rural consumption and try to make these the prime actors in defining economic and agricultural policies.

### **9.7 Snow ball: related literature**

- Lipton, M., Why Poor People Stay Poor: urban bias in world development, 1977, Cambridge, Massachusetts: Harvard University Press
- Krueger, A.O., The Political Economy of the Rent-Seeking Society, 1974, American Economic Review 64, no.3:291-303
- Amin, S., Neo-Colonialism in West Africa, 1973, Monthly Review Press, New York





# 10 Organisational complexity: organizing through the generation and sharing of knowledge

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By: Olga van der Valk

*Lorenzo, L.G., Kalantzis M., Cope B. 2003. Organisational complexity: Organizing through the generation and sharing of knowledge. International Journal of Knowledge, Culture and Change management, Vol 3, Article MC03-0023-2003.*

## 10.1 What is the key message?

Organizational knowledge is not an individual-based asset, but is generated and shared in social interaction. It is a shared context where individuals can interact with each other. Through the membership to different teams and groups individuals transcend the organization and boundaries and connect with its wider environment. Knowledge cannot be managed, but must be enabled in “knowledge spaces” where both new knowledge and organised structure can co emerge.

## 10.2 What is the theoretical grounding?

Two polar positions are mentioned in article, one that considers knowledge as an attribute or possession of the organisation or of its individual members –‘knowledge workers’-. The organization is viewed as a “machine” and knowledge as part of the structural system of the organization, giving it a comparative advantage. As knowledge is considered an “object” or resource owned by the organization, it is manageable through a “knowledge system”.

The second perspective looks at knowledge from a systemic point of view, as a dynamic, generative and emergent process. Knowledge represents a sense of ‘reality’ that is shared by particular social groups, and is sustained by social processes. Experiences and explanations are only relevant when considered meaningful by the social collective: social groups decide what is “memorable” and how it will be practised. As knowledge needs language to be transmitted, it is therefore always historically and culturally specific. Thus (organizational) knowledge is not individually based, but product of interaction, communication and social processes: the ability to use and to interpret becomes indicative of one’s membership and participation in that social group. People in teams belong to more than one group inside, as well as outside, the organization, making the boundaries of the organization blurred, not rigid.

Analysis thus focuses not on individuals or systems, but on interaction between both. Therefore an organization should focus on coordinating and enabling (not managing) the knowledge processes occurring among different collectives within and around the organization.

The article is related to organization theory (sociology): Max Weber, (bureaucracy as most effective form of organizing and exercise of control on the basis of knowledge) and systems theory: Argyris (double-loop learning), Senge (the fifth discipline) and social psychology (Weick).

Knowledge is not content only, a “package” that can be transferred through training or access to databases / information systems. Strengthening communication in the chain means enabling spaces of interaction between people.

### 10.3 What framework or methodology does the article / book offer for analyzing the institutional configuration and/or functioning of a value chain?

Methodology used for analyzing a case study is qualitative with emphasis on processes and meanings rather than measurement in terms of quantity: 10 semi-structured interviews, virtual observations of teleconferences and analysis of employee's stories coming from in-depth interviews, groups discussions and meetings.

In the case-study the interaction between a multinational Corporation and a separate spin-off internet company (NIB) is analyzed. The Corporation is based in London, while the NIB consists of several teams in India. The study analyzes a team characterized by living and working in different countries, and by using technology supported communication rather than face to face communication. The new business unit NIB was not successful in time and was reorganized. Two aspects are analyzed:

- Separating NIB from the Corporation in terms of networking and knowledge exchange
- Virtual communication for knowledge exchange

Looking at the first, the concept of identity comes around. Identity: the separate business unit created insecurity about roles and responsibilities when reassigning tasks / contracting new people: do I belong to Corporation or NIB? What are the consequences of my behaviour for status, job security, and career opportunities?

Separation created extra-organizational barriers for mutual learning. It made participation more difficult, to learn "how to play the field", with consequences for ownership, individual responsibility (engagement). It gave difficulties in mutual engagement in London and India, and in how to deal with internal dissent (problems not communicated to Corporation).

The second, virtual communication for knowledge exchange, relates to "Being in touch". Virtual communication and usage of the technology also shapes the way a group interacts and its shared interpretative framework (shared assumptions and beliefs). It makes the development of social ties and interpretation of the communication more difficult. There was no continuous daily working life, no overlapping working spheres.

Garcia concludes that the participation and maintenance of the social networks within the organisation is central to the employees' stories, replacing the old organisational setting based on a rationalized bureaucracy with a very clear and identifiable receptor at the end of that communication line. The individuals included in the network are being empowered by this transformation, but it also leads to extreme vulnerability for those excluded from the network, and with little bargaining power to negotiate working conditions. The 'development' seems to be towards more dependence on communication channels and on how people communicate rather than on who is at the other side of the communication channel.

Vertical coordination is not analyzed: case was in terms of diversification. Corporation wanted to develop a differentiated use of core business and establish new relationships with customers. The new business unit was supposed to open up new markets, establish their own niche and provide value back to Corporation.

Regarding to horizontal social organization, organizational hybridity is looked upon: the line between extra-organizational and intra-organizational networks becomes blurred with spin-off companies and (consequent) virtual communication: networks will differ in character, and access to and understanding their "culture" is more diverse within the organization and even within working teams. This influences knowledge exchange.

There is an implicit categorization of types of organizations in the article. Description of network organizations as tending to be less hierarchic, there tend to be less rules and procedures that frame communication, therefore knowledge may be "lost". Organizations become more "stretched" and participation (ownership, individual responsibility) becomes an issue.

**10.4 How does the article / book help to describe or explain the viability, i.e. the capacity to respond to pressures and changes, of a chain configuration?**

Social networks are enablers in allowing people to share and develop new ways of relating and sharing without having to go through very standardized / explicit organisational arrangements to do so. However they have 'continuity and maintenance' needs on their own. They have their own emergent structural properties and underlying logic that can present itself as a constraint for 'new comers' that need to 'play the system' before they can gain access to and use it.

**10.5 How would the article / book assess the impact of the institutional configuration on sustainable development?**

Organisations that develop networks internal to their organization are able to deal with knowledge more effectively; whereas through external networks they can have better access to additional intellectual and market resources co-evolving better with their environment. It is the coordination and eventual co-evolution of these internal and external networks that equip organizations to enable spaces where knowledge sharing and creation can occur.

**10.6 What perspectives are offered for institutional design / social engineering?**

It is not sufficient to pass on information along the market chain, or make it available to actors, "knowledge spaces" will need to be developed, so people / actors can interact and create common frameworks and "sense of reality".

**10.7 Snow ball: related literature**

- Hall, S., Guy, du, P., Questions of cultural identity, 1996, London: Sage.
- McGrawth, J.E., Time, interaction and performance (TIP): "A theory of groups." , 1991, Small group research 2(2) :147-174
- Thomas, J.B., Sussman, S.W. and Henderson, J.C., Understanding Strategic Learning: Linking organisational learning, knowledge management, and sense making, 2001, Organisational Science 12(3): 331-345.
- Weick, K. E., Sense making in organizations, 1995, London: Sage.



# 11 A theory of structure: duality, agency and transformation

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By: Olga van der Valk

*Sewell, Jr. William, H. 1992. A Theory of Structure: Duality, Agency and Transformation. The American Journal of Sociology, 98(1): 1-29*

## 11.1 What is the key message?

Critics of the classical concept “structure”, as elaborated by Lévi-Strauss and French structuralism, claim that the concept does not explain conflict or change. They also argue that it tends to reduce actors to “cleverly programmed automatons”. By interpreting the definition of “structure” given by Giddens, Sewell argues that agents are empowered by structures, both by the knowledge of cultural schemas (“rules”) that enable them to mobilize resources and by the access to resources that enables them to endorse schemas. Therefore the term “structure” is dynamic, not static, reproduced or transformed by human agents. Structure is thus the result of processes of social, dialectic interaction between schemas and (human and nonhuman) resources.

## 11.2 What is the theoretical grounding?

The theory by Lévi-Strauss attempts to reach through abstractions the very deep structure of human brain itself, through the recognition of binary oppositions (female/male; hot/cold; the rules of language versus appliance). Other anthropologists have used his method of seeking recurrent patterns of binary oppositions in order to specify the assumptions, practices, and beliefs of particular peoples.

Sewell attempts to overcome criticism on the theory of structuralism as being indifferent to questions of power, domination and social change, by recognizing the agency of social actors, and build the possibility of change into the concept of structure. He takes the definition of structure by Anthony Giddens on the “duality of structures”. Structures shape human behaviour, but it is people’s practices that constitute (and reproduce) structures. Giddens therefore speaks of human agency and structure as not being opposed, but supposing each other. Structures must not be conceptualized as simply placing constraints on human behaviour, but as enabling. “Structure” therefore is a process, not a steady state.

Sewell first argues that in line with the definition by Giddens, structures are virtual: they are not equivalent to the empirically observable patterned social practices that make up social systems, but the principles patterning these practices. While social practices can be discerned in time and space, structures do not exist concretely in time and space (but only as ideas or schemas in human brains, to be “instantiated in action”).

Sewell uses this notion of the virtuality of structure to argue that rules (Sewell prefers to speak of “schemas”, not to confound the concept with formally stated prescriptions which rather are results of schemas, such as contracts etc.) can be considered as virtual, as they can be generalized and transposed (to new situations) and are not bound by time or space. The concept “resource” on the other hand, according to Sewell cannot be considered as purely virtual, as they do exist in space and time. Sewell considers therefore resources as effects of schemas (determining their meaning / value). He underscores the duality of structure by emphasizing that schemas are also effects of resources: they must be validated by the use of resources in order to be reproduced.

Sewell argues that change is generated by the operation of structures internal to a society, because of:

- The multiplicity of structures  
Societies are based on practices that derive from many distinct structures, each with different

logics and dynamics. In this sense, Sewell refers to Bourdieu in that social actors are capable of applying a wide range of different and even incompatible schemas and have access to heterogeneous array of resources.

- Transposability of schemas  
Knowledge of a schema by definition means the ability to transpose or extend it, that is, to apply it creatively to new contexts.
- Unpredictability of resource accumulation  
As schemes are transposable, their enactment is never predictable. Differentiated validation of schemas will lead to their potential modification.
- Multiplicity of meaning  
Resources derive their meaning from schemas, but their meaning is never entirely unambiguous, and can empower different actors and influence different schemas.
- Intersection of structures  
Structures intersect, overlap and can be discerned at different levels.

Sewell takes Bourdieu to include the concept of “human agency” and to underline the importance of knowledgeability of actors, as it defines the ability to act creatively in the application of schemas in social interaction. He considers the term “habitus” by Bourdieu as equivalent to “structure”.

This knowledge is culturally and historically determined and by the specific range of cultural schemas and resources available in a person’s particular social milieu (gender, wealth, ethnicity, education). Structures empower people differently. Sewell considers agency not as individual, but as “profoundly social or collective”.

The transpositions of schemas and remobilizations of resources that constitute agency are always acts of communication with others. Sewell concludes therefore that personal agency is laden with collectively produced differences of power and implicated in collective struggles and resistances.

Sewell identifies himself as a “theoretically self-conscious social historian”, but argues in line with anthropology and the elaboration of Lévi-Strauss’ (French) structuralism by different anthropologists (Marshall Sahlins: the economic rational man, material determinism) and sociologists (Giddens, Bourdieu). Bourdieu opposed to Rational Choice Theory, considering that social agents do not continuously calculate according to explicit rational and economic criteria. Rather, social agents act according to their “feel for the game” (the “feel” being, roughly, habitus, and the “game” being the field, that is the setting in which agents and social positions are located). Bourdieu is influenced by Max Weber (symbolic systems and social order) and Émile Durkheim and Claude Lévi-Strauss (social structures)

The theory gives a better understanding on the use of (material) resources according to its meaning in different cultural schemas, that is, other ways of “rationalizing” economic human behaviour.

### **11.3 What framework or methodology does the article / book offer for analyzing the institutional configuration and/or functioning of a value chain?**

Article is on a very abstract level, does not include methodologies for appliance of theory to empirical situations. It is very strong on the social embeddedness, because it links the use of (human and nonhuman) resources to their meaning given by human actors who in turn are enabled and limited by mental schemas, existent in all aspects of social interaction. Thus, resources are assigned multiple meanings besides economic value, which can be source of resistance to intervention and innovation in the chain.

The examples given in the article are not result of applying the analytical approach, but rather clarifications of the argumentation. An example used is the meaning of blankets: where a huge staple of blankets in the Hudson bay, accumulated by Kwakiutl chiefs, are demonstrations of power of the chief, in another context it would just

be “a means of keeping a lot of people warm”. Thus blankets are used by agents to change or confirm a social status quo (accumulated power by chiefs), as they receive their meaning through cultural schemas.

Another example is given by Sewell with priesthood: the priest’s power to consecrate the host is derived from schemas at two different levels. First the priest’s training has given him mastery of a wide range of explicit and implicit techniques of knowledge and self-control that enable him to perform satisfactorily as a priest. Second, he has been raised to the dignity of the priesthood by an ordination ceremony which has mobilized the power of apostolic succession.

In analyzing an agri-food chain, the article is specifically important when considering the international character of chains. The more varied the (cultural) schemas in value chains, the more difficult it will be to understand the “rationality” of other agents in the chain, as the assignment of meaning to resources and to social action will not be “understandable” without knowledge of both structures and schemas. The intersection of structures is particularly important.

#### **11.4 How does the article / book help to describe or explain the viability, i.e. the capacity to respond to pressures and changes, of a chain configuration?**

Viability will be determined by the communication within the chain and the “knowledgeability” of schemas by stakeholders and their creativity and position (access to resources) to act upon them. Nevertheless, “knowledgeability” can be used to reproduce or to transform configurations, according to how human agents use resources to validate schemas.

#### **11.5 How would the article / book assess the impact of the institutional configuration on sustainable development?**

The article does not refer to value chains nor sustainable development. It could be argued though, that sustainable development, in the sense of durable, continuous development, cannot be viewed without taking into account the characteristics of structures (multiplicity, transposability, multiplicity of meaning of resources). Innovation and the “dialectical interactions” between schemas and human agency depend on the creativity of human agents and the way (kind, extent) they are empowered by structures.

#### **11.6 What perspectives are offered for institutional design / social engineering?**

This can be considered a flaw in the argumentation of Sewell: in the beginning of the article he mentions the tendency of patterns and relations to be reproduced, even when actors engaging in the relations are unaware of the patterns or do not desire their reproduction. This “unawareness” points at knowledge of schemas being implicit and unconscious. Thus it can be argued that human agency is determined by exposure to structures and schemas in time, to understand ongoing negotiations and human interaction in structures with unfamiliar schemas (principles, rules). Because of its unconscious character, communication will not suffice to fully understand human interaction directed by unfamiliar schemas or to successfully intervene. Related, Bourdieu considers language not only as a means of communication, but also of power.

#### **11.7 Snow ball: related literature**

- Bourdieu, P., Outline of a theory of Practice, 1977, Cambridge University Press
- Giddens, A., The constitution of society: outline of the theory of structuration, 1984, Berkeley and Los Angeles: University of California Press





# 12 Implementation: how great expectations in Washington are dashed in Oakland

By: Huub Wilbrink

*Pressman J. and Wildavsky A.B. 1984. Implementation: how great expectations in Washington are dashed in Oakland; or why it's amazing that federal programs work at all, this being a saga of the economic development administration as told by two sympathetic observers, who seek to build morals on a foundation of ruined hopes. Third Edition – Expanded. Berkeley: University of California Press.*

## 12.1 What is the key message?

Amongst others, agenda-setting, policymaking processes, allocation of resources were traditional subjects of governance and political studies. With the publication of this book, the issue of implementation was put in the spotlights for the first time. The main conclusion of the book is that implementation, even under the best of circumstances, is exceedingly difficult. In many programs numerous approvals and clearances have to be obtained from a variety of participants. This is what Pressman and Wildavsky call the “*complexity of joint action*”. Not only can these needed approvals and clearances delay the implementation, but they do not always match either. The diversity of the persons taking the decisions on the clearances and approvals are an explanation for this, something which the rational-policy school of thought neglects. So contrary to the at the time propagated synoptic-rational character of policy interventions, we have to recognize that implementing policies is a process that evolves, adjusts and changes to the context. In this respect implementation bears many similarities to the tough processes of policy-making.

We have to recognize that even ordinary circumstances present serious obstacles to implementation and inhibit learning. Apparently simple sequences of events depend on complex chains of reciprocal interaction. One should thus not separate implementation from policy making, as implementation is a process, an evolution instead of a revolution. The separation of policy design from implementation is fatal.

## 12.2 What is the theoretical grounding?

At the time Pressman & Wildavsky wrote ‘Implementation’, there was no previous literature on which “to rely for guidance” to put it in their words. They do not claim to have undertaken a comprehensive analysis of implementation, nor that they have a full understanding of the problems and/or solutions regarding implementation.

Several terms exist for implementation, from carrying out, accomplish, to fulfil, produce or complete. Pressman and Wildavsky use the definition “the degree to which the predicted consequences take place.” The predicted consequences are laid down in a policy, which can be regarded as a compromise between visions, goals, and ways to reach them. A *policy* is a hypothesis containing initial conditions and predicted consequences. If X is done at t1, then Y will result at t2. Implementation would then be the ability to achieve the predicted consequences after the initial conditions have been met. It *does not* refer to creating the initial conditions.

A *program*, furthermore, should be distinguished from a policy. A *program* consists of (governmental) action initiated in order to secure objectives whose attainment is problematical. A program exists when the initial conditions – the “if” stage of the policy hypothesis – have been met: “the conversion of a hypothesis into (governmental) action”. The initial premises have been authorized. The degree to which the predicted consequences (the “then” stage) take place, we will call *implementation*. Thus implementation is a process of interaction between the setting of goals and actions to achieving them.

A program can be conceived as a system in which each element is dependent on each other. Unless one stage is cleared, we cannot move to the next. The stages are related from front to back, but the other way around as well, they influence each other in both ways.. Each part should be build with the other in view. Program implementation becomes a seamless web. Implementation is then the ability to forge subsequent links in the causal chain so as to obtain the desired results.

We have to keep in mind the time factor; *implementation* is not taking place in a static environment. As circumstances change, goals alter and initial conditions are subject to slippage. In the middle of implementing a program, the distinction between the initial conditions and the subsequent chain of causality begins to erode. Once a program is underway, implementers become responsible both for the initial conditions and the objectives towards they are supposed to lead.

The longer the chain of causality, the more numerous the reciprocal relationships among the links and the more complex implementation become. Apparently simple sequences of events depend on complex chains of reciprocal interaction. This is what Pressman and Wildavsky call the "*complexity of joint action*". Looking into this complexity of joint action, Pressman and Wildavsky distinguish between decision points and clearances. The former is each time an act of agreement has to be registered for a program to continue. The latter is each time a participant has to give its consent to go on with the proposed stage of the program.

A learning possibility has to be incorporated in the implementation process. As Pressman and Wildavsky put it: bureaucracy and coordination are false messiahs, whose invocation only serves to obscure problems. The real devil: divorce of implementation of policy. Learning fails because events are caused and consequences are felt by different organizations. Ideas and execution should not be separated.

Wildavsky (the main author) has been a lifelong opponent of the rational perspective that dominated the thinking of policy and politics for a long time. One of his teachers and tutors is Lindblom, famous for his 'incrementalism' laid down in his famous 'The science of muddling through'. Furthermore, Pressman & Wildavsky acknowledge that actors do not act completely rational, they operate in a 'bounded rationality' (Simon). The last work of Wildavsky was Cultural Theory, which he wrote Michael Thompson and Richard Ellis. Based on the works of Douglas, they introduced a typology of five ways of life- egalitarianism, fatalism, individualism, hierarchy, and autonomy- to serve as an analytic tool in the examination of people, culture, and politics.

The lessons from this case-study can be linked to the devising and implementing of any program. The fact that evaluation and learning is only touched upon in the last chapter, and only in the Third edition of 1984 as in the first two editions there was no attention at all, clearly shows the necessity of linkages with theories on learning of organizations.

### **12.3 What framework or methodology does the article / book offer for analyzing the institutional configuration and/or functioning of a value chain?**

Pressman and Wildavsky looked at the implementation of a federal government program in Oakland which created 43 instead of the planned 3000 jobs with a total cost of 23 million dollar. The program lacked drama and conflict and had only a minimum of publicity.. There were no obvious conflicting interests and contradictory legislative criteria. No opposition on local level existed. All major participants throughout the program insisted that they believed in the program and that there were no fundamental disagreements among them. Furthermore, the EDA made effort to overcome obstacles that were know to have hampered other programs. E.g. only one federal agency was involved, there was only one major local recipient, the 23 million dollars was committed immediately. It is unlikely to find many programs that will be simpler in that they involve fewer participants or less complicated arrangements. By choosing this case they were able to solely focus on the implementation of the program.

The probability of program success sharply decreases as the number of clearance points increase. Most importantly however is the mere fact that “implementation should not be divorced from policy”. Programs fail too often because all the effort, respect, and enthusiasm is are given to design, obtaining initial support, from the participating community and funding, while the implementation stage is regarded as the easy part, involving routine, technical questions that can always be worked out later, as long as the program itself is sound: “those seemingly routine questions of implementation were the rocks on which the program eventually founded”. The most hazardous rocks are not the technological or financial, but the people problems. The target areas of policies are made up of people, people who are affected in one way or another by the policies.

Interest groups tend to surface; they constitute the major problem area. They have to be kept in mind, involved in the program and still know that they will come around from unexpected angles. Every public project now matter how innocent it may appear to planners will probably appear threatening to interest groups out there. So contact them, easing setbacks. Despite how thorough one is still interest power destructive groups will appear.

Looking at the sheer number of decision points in the Oakland program is a good quantitative example of the difficulties of implementation. While none of the participants expressed disagreement with the goal of the providing jobs for minorities through the building of public works, this does not mean that they were ready to make the decisions, provide the clearances, ad come to the agreements necessary to speed the program on its way. By counting, only the major, decision points (the ones that determine the course of the program or that had to be passed in order for the program to continue), Pressman and Wildavsky found a total of 70 decision points. When a program depends on so many actors, there are numerous possibilities for disagreements and delay.

Beyond those initial difficult decisions, there were a number of points along the way at which clearance had to be received if the program was to continue. In order to get by all the decision points, the program required dozens of clearance actions by a wide range of participants. In situations of high controversy and mutual antagonism, the probability that these actions would be favourable or taken in a reasonable time might be quite small. In the table below, you find the left column representing the variable: probability of agreement on each clearance point.

<i>Probability of Agreement on each clearance (variable)</i>	<i>Probability of success after 70 clearances</i>	<i>No of agreements that reduce probability below 50%</i>
80	0.000000125	4
90	0.000644	7
95	0.00395	14
99	0.489	68

Looking at the table, we can conclude that the probability of agreement by every participant on each decision must be exceedingly high for there to be any chance at all that a program will be brought to completion.

As there is no agreement among scholars what a decision point is, it is difficult to pinpoint the exact number of them in these case. We could easily double them without a problem, with just merely downgrading their criteria.

Looking into the before-mentioned complexity of joint action in the case of the Oakland project, one delay succeeded another, the major individual participants changed, and so did the understanding they had with each other. Agreements were made, eroded and remade. The machinery for implementation did not move fast enough to capture the agreements while they lasted. In the middle of implementing a program, the distinction between the initial conditions and the subsequent chain of causality begins to erode. Once a program is underway, implementers become responsible both for the initial conditions and the objectives towards they are supposed to lead. Why should made in what seems a bygone era retain their original binding force? Anyone can

understand why agreement is subject to modification over time. Actors change, there are diverse perspectives, multiple clearances have to be made, all these are the kind of things that are found in any program.

#### **12.4 How does the article / book help to describe or explain the viability, i.e. the capacity to respond to pressures and changes, of a chain configuration?**

The case-study is on a federal and thus government program. This implies a bureaucratic hierarchy relation between several actors involved, which could explain the enormous amount of decision points and clearances. However, the lessons learned are interesting for any actor in any setting looking for a policy to implement. Especially with agricultural food chains, in which actors are linked to each other, one has to keep in mind that agreeing on a policy does not make it happen. If a chain driver wants to implement a program, the same problems will surface. Spaces to learn have to be build into the implementation process as well.

#### **12.5 How would the article / book assess the impact of the institutional configuration on sustainable development?**

Creating space for learning is crucial in the implementation of policies. In the case of agricultural trade and sustainable development, with the enormous numbers of actors involved, devising policies is not enough. Implementing it is at least as difficult. Acknowledging this in the design of the programs/policies is essential

#### **12.6 What perspectives are offered for institutional design / social engineering?**

Policies affect people, people with different interests. Incorporating interest groups in the policy-making and the implementation process is crucial to a successful implementation. Creating an environment, in which learning from all each other is stimulated, can help achieving the goals set.

#### **12.7 Snow ball: related literature**

- Douglas, M., Natural symbols – Explorations in cosmology, 1970, Routledge, London
- Durkheim, E., Le suicide, Etude de sociologie, 1897, Paris
- Bourdieu, P., Outline of a theory of practice, 1977, Cambridge University Press
- Lindblom, C., E., The Science of Muddling Through, 1959, Public Administration Review 19, No. 2: 79-88.

# 13 Essence of decision: explaining the Cuban missile crisis

By: Huub Wilbrink

Allison, G. and Zelikow, P. 1999. *Essence of decision: explaining the Cuban missile crisis. Second Edition. New York: Addison-Wesley Longman.*

## 13.1 What is the key message?

In the second edition of 'Essence of Decision: Explaining the Cuban Missile Crisis' (The first edition was published in 1971), Allison and Zelikow aim to: "Explore the influence of unrecognized assumptions upon our thinking about events like the missile crisis." They argue that answers to questions are powerfully affected by basic assumptions we make, categories we use, and our angle of vision. One can assume that governmental behaviour can be most satisfactorily understood by analogy with the purposive acts of individuals. This can be fruitful, but obscures as well as reveals. Obscure as the decision maker of (governmental) policy is obviously not one calculating individual but is rather a conglomerate of large organizations and political actors. The book is therefore critique of the Rational Analysis, or as Deborah Stone puts it, the 'Rationality project' (Stone, 2001) in which the actual policymaking 'deviates' from pure rational analysis. The separation of political science and government studies was increasingly bridged by looking not at planning, organization and finance, just as e.g. Wildavsky, Rourke, Seidman and Kaufman, but at questions of power, influence and conflict on the government agenda.

In order to show this, Allison and Zelikow outline three basic frames of reference with which they analyze the famous Cuban Missile crisis from October 1962. Model 1: The Rational Actor, Model 2: Organizational Behaviour, Model 3: Governmental Politics. Each framework is in effect a "conceptual lens". By comparing and contrasting the three frameworks, they show what each magnifies highlights and reveals as well as what each blurs or neglects. They also demonstrate how alternative conceptual lenses lead one to see, emphasize and worry about quite different aspects of events. Ultimately, the three frames, or lenses, are used together, complementing en supplementing each other, as: "not only do lenses lead analyst to produce different explanations of problems that appear, in their summary questions, to be the same. Lenses also influence the character of the analyst's puzzle, the evidence assumed to be relevant, the concepts used in examining the evidence, and what is taken to be an explanation."

The authors acknowledge that it is not possible to fully understand and explain a decision-making process, not even when the three lenses are combined, which they exemplify with a quote of John F. Kennedy: *The essence of ultimate decision remains impenetrable to the observer –often, indeed, to the decider himself.... There will always be the dark and tangled stretches in the decision-making process – mysterious even to those who may be most intimately involved. (John F Kennedy in a preface to Theodore Sorensen's, Decision-Making in the White House: The Olive Branch and the Arrows, 1963.)*

## 13.2 What is the theoretical grounding?

Model 1: The Rational-Actor

The Rational-Actor model is still commonly used in explaining (government) behaviour. It is based on the classical idea that action originates from rational underlying goals. Events are therefore explained when actions of organizations can be deemed reasonable, given strategic goals and objectives. Problems are between unitary rational actors. One concentrates on the logic of action, without reference to any particular actor. Predictions about what a nation will do or would have done are generated by calculating the rational thing to do in a certain situation, given specific objectives.

The first model looks at an organization as a single entity, not looking at the influence of the organizational machinery (Model 2) or actors (Model 3) on the decision-making process. The assumptions that important events have important causes, i.e. monoliths perform large actions for large reasons, which should be balanced by the appreciation that:

- Monoliths are black boxes covering various gears and levers in a highly differentiated decision-making structure and
- Large acts result from innumerable and often conflicting smaller actions by individuals at various levels of organizations in the service of a variety of only partially compatible conceptions of national goals, organization goals and political objectives.

#### Model 2: Organizational Behaviour.

Organizational theory provides the foundation for the second model, e.g. the works of Herbert Simon, James March and Richard Cyert is used, which emphasizes the distinctive logic, capacities, culture and procedures of large organization that constitute a government. What model 1 sees as acts and choices, are thought of as *outputs* of large organizations functioning according to regular patterns of behaviour.

The attention is on certain concept: existing organizational components, their functions and their standard operating procedures for acquiring information, defining feasible options, and implementation. If organizations produced an output of a certain kind at a certain time, that behaviour resulted from existing organizational structures, procedures and repertoires, An event is explained when the relevant organization and patterns of organizational behaviour from which the action has emerged have been identified. Predictions identify trends that reflect existing organizations and their fixed procedures and programs.

#### Model 3: Governmental Politics

Governmental Politics focuses on the politics of a government. This model is closest to Allison's heart, as Ball puts it, basing this model on the works of his promoter Neustadt on presidential power, Lindblom's work on processes as partisan mutual adjustment and e.g. Gabriel Almond, Samuel Huntington, Warner Schilling and Roger Hillsman. What happens is understood as a resultant of bargaining games among players in the national governments. Which results of what kinds of bargaining among which players yielded the critical decisions and actions? The attention is focussed on certain concepts: the players whose interests and actions impact the issue in question, the factors that shape the players perceptions and *stands*, the established and stands, the established procedure or '*action channel*' for aggregating competing preferences, and the *performance* of the players. If government performed an action, that action was the resultant of bargaining among players in this game. An event is explained when he or she has discovered when who did what to whom that yielded the action in question. Predictions are generated by identifying the game in which an issue will arise, the relevant players and their relative power and bargaining skill.

Decision-making outcomes are not the product of rational choice, nor the output of established routines, but the political resultant of complex interaction processes in a bureaucracy.

Allison and Zelikow employ the often-used example of a chess match to distinguish between the three models:

#### **Chess example**

A metaphor used is the one of a chess game. Foreign policy often been compared to moves and sequences of moves in a game of chess. Imagine a chess game in which the observer could only see a screen upon which moves in the game were projected, with no information about how the pieces came to be moved. Initially, most observers would assume – as Model 1 does – that an individual chess player was moving the pieces with reference to plans and tactics toward the goal of winning the game, But a pattern of moves can be imagined that would lead to some observers after watching several games, to consider a Model 2 assumption: the chess player might no be a single individual but rather a loose alliance of semi-independent organizations, each of which moves it's pieces according to standard operating procedures. For example, movement of separate sets of pieces might proceed in turn, each according to a routine, the king's rook, bishop, and their pawns repeatedly attacking the opponent according to a fixed plan. It is conceivable, furthermore, that the pattern of play might suggest to an observer a Model 3 assumption: a number of distinct players, with distinct objectives but shared power over the pieces, could be determining the moves as the resultant of collegial bargaining. For example, the black rook's move might contribute to the loss of a black knight with no comparable gains for the black team, but with the black rook becoming the principal guardian of the palace on that side of the board.

### **13.3 What framework or methodology does the article / book offer for analyzing the institutional configuration and/or functioning of a value chain?**

'Essence of decision making' can be applied to all aggregate actors whom one encounters in normal everyday life, a value chain as well. One can say a food chain is a conglomerate of, (loosely) allied organizations, each with a substantial life of its own. With this in mind the second and third model seems to be appropriate lenses to analyze the functioning of decision-making processes within the in the chain. Allison and Zelikow advocate the use of all three lenses however. At one level three models produce different explanations of the same event; at another level the models produce different explanations of quite different occurrences. The glasses one wears magnify one set of factors rather than another in ways that have multifarious consequences: "Conceptual models not only fix the mesh of the nets that analysts drag through the material in order to explain a particular action; they also direct the analyst to cast nets in select ponds, at certain depths, in order to catch the fish he is after."

By applying the frameworks Model 1 can provide a satisfactory big picture. But, more frequently, when an explanation or prediction is sought for a specific action, the question arises in context. Model 2 and 3 are than needed. He models can thus be seen as complementary: Model 1 fixes the broader context, the larger national patters, and the shared images. Within this context Model 2 illuminates the organizational routines that produce the information, options and action. Model 3 focuses in greater detail on the individuals who constitute a government (value chains) and the politics and procedures by which their competing perceptions and preferences are combined. Each, in effect, serves as a search engine in the larger effort to identify all the significant causal factors that determine an outcome.

### **13.4 How does the article / book help to describe or explain the viability, i.e. the capacity to respond to pressures and changes, of a chain configuration?**

As stated above, a chain can be seen as a conglomerate of, (loosely) allied organizations, each with a substantial life of it's own. While the book focuses principally on explanation, inferences that come from explanations and prediction (or betting), the central arguments have important implications for an array of related assignments, including: 1) *evaluation* or appraisal of actions by individuals, institutions, or aggregates; 2) *prescription* of what is to be done; and 3) *management* of a sequence of actions, by oneself or by a group, to achieve a chosen objective.

Predictions or bets about future events are, in effect, the logical flipside of explanations. Further assignments including evaluation prescription require more than explanation. But each rests on a foundation of judgements about the causal process involved – judgements that differ significantly depending on which of the conceptual models informs the assessment.

By looking at the explanation of past events, one can single out ways to increase the viability of a chain configuration in the future..

### **13.5 How would the article / book assess the impact of the institutional configuration on sustainable development?**

There is no specific attention on the impact of institutional configuration on sustainable development.

### **13.6 What perspectives are offered for institutional design / social engineering?**

The institutional designs of value chains are very diverse, something which should be acknowledged when analyzing a value chain and when looking for ways to ensure a higher/larger viability. Allison and Zelikow show that is not so easy to change an institutional design of a value chain.

### **13.7 Snow ball: related literature**

- Ball, D., The blind man and the elephant – A critique of bureaucratic politics theory, 1974, Australian Outlook, No. 4: 301-322
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