

# INSTITUTIONAL VARIETY and INNOVATION PROCESSES

## A Geographical Perspective

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# INSTITUTIONS: *NOT* ORGANIZATIONS

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- **Organizations**

- Formal public entities, bodies, agencies
  - government legislative bodies, judiciary, departments/ministries
  - universities, research centres
  - multilateral entities (EU, IMF, BIS)
- Private entities
  - firms, producer associations, labour unions

- **Institutions**

- Frameworks, rules, ‘operating systems’
- Often (though not exclusively) ‘produced’ by organizations
- Formal: rule of law, democratic governance
- Informal: conventions, norms

# INSTITUTIONS AND ECONOMIC LIFE

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*“settled habits of thought common to the generality of men.”*

Veblen (1919)

*“basic norms, rules, conventions, habits and values of a society”*

Hollingsworth (2000)

*“social organization which, through the operation of tradition, custom, or legal constraint, tends to create durable and routinized patterns of behaviour”*

Hodgson (1988)

# INSTITUTIONS AND THE ECONOMY

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1. Institutions provide the **structure** to support daily economic transactions ( ‘economic life’ )
2. Institutions **interact** to produce distinctive economic structures and **sets of characteristic practices** within different geographical spaces (institutional geographies)
3. Institutions shape evolutionary economic **trajectories over time** (responses to shocks, developmental paths)
4. Institutions provide overall **stability** for the macroeconomy
5. Institutions are ‘the underlying determinant of the long-run performance of economies’ (North, 1990, p. 107)

# INSTITUTIONS AND THE FIRM

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- Property rights
  - Physical property (land, buildings, products)
  - Intellectual property, intangibles (ideas, discoveries, research results, designs, texts, images, music)
- Labour markets
  - How labour power is allocated
  - How wages, incomes are determined
  - How ‘surplus’ from production is distributed
- Employment relation
  - Relationship between owners/managers and workers
  - Distribution of power in the workplace
  - Role of workers (vs managers) in decision-making
    - Degree of ‘organization’ in the workplace (unions, works councils)
  - Stability, duration of employment tenure
  - Training regimes

# INSTITUTIONS AND THE FIRM

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- Capital markets
  - Public exchanges or private
  - Equity or debt (banks)
  - Reserve requirements for banks
  - Trading rules (insiders, etc)
- Corporate governance
  - Shareholders vs stakeholders
  - Reporting requirements for firms
  - Transparency/openness vs opacity
- Competition
  - Strong or weak
  - Regulation of anti-trust, monopoly, oligopoly
  - Co-operation, collusion, price-fixing, corruption
  - Strategic alliances, collaboration

# INSTITUTIONAL GEOGRAPHIES

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- Capitalism vs other modes of economic organization
  - Socialism, state capitalism, etc
- Capitalism: one size does not fit all (variety)
  - ‘Variegation’ by geographic territory (Peck and Theodore)
    - Nation-states, typically
    - Constellations of characteristic practices, norms, conventions, as well as attitudes, expectations, values that accompany them
    - Relatively stable, slowly changing over time
    - Interaction between different elements
  - National Business Systems (Whitley, Pauly & Reich)
  - National Innovation Systems (Lundvall, Edquist, Nelson & Winter)
  - ‘Varieties of Capitalism’ (Hall and Soskice, Thelen, Streeck)

## Varieties of capitalism – institutional complementarities (after Asheim 2008)

<b>VARIETIES OF CAPITALISM</b>	<b>Liberal market economies (LME)</b>	<b>Coordinated market economies (CME)</b>
<b>Financial regulation</b>	Equity (public markets), VCs, short-term returns	Long-term 'patient' capital, debt financing (banks)
<b>Corporate governance &amp; competition</b>	Shareholder value, limited business coordination; antitrust laws	Stakeholder value, strong business associations, cross-holding, networks
<b>Employment relation</b>	Decentralized bargaining, conflict-based workplace relations, low union density	Coordinated bargaining, statutory worker representation, co-determination
<b>Training &amp; employment</b>	Basic education and firm-specific training, short tenure, high turnover, high interfirm labour mobility	Vocational training, 'dual' systems (apprentice), long tenure, low turnover, low interfirm labor mobility
<b>Innovation systems</b>	Radical innovation, sharp breaks with existing processes, low barriers to entry and exit (spurs entrepreneurial activity)	Incremental innovation, continuous process development, higher barriers to entry and exit (discourages entrepreneurial activity)

# INSTITUTIONAL GEOGRAPHIES: REGIONAL MANIFESTATIONS

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- **Regional innovation systems**
  - Distinctive constellations of organizations and institutions
  - Sub-national scale
  - Focus: production, diffusion and exploitation/mobilization of knowledge
  - Key elements: universities, colleges, training systems, public research organizations, private R&D organizations, producer associations, entrepreneurial systems
  - Institutions produce/reproduce regionally distinctive practices over time
- **Regionally distinctive ‘cultures’**
  - Third Italy, Baden-Württemberg
  - Silicon Valley vs Route 128

# INSTITUTIONS: CONSEQUENCES FOR INNOVATION

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- Different ‘systems’ have different strengths
  - Tend to reproduce, accentuate these strengths over time
  - e.g. Germany and mechanical engineering compared to USA and high-tech start-ups (ICT, media)
  - Helps us understand where success in innovation is more (and less) likely to occur for a given institutional jurisdiction
- Institutions shape how national and regional economies evolve, react to change over time
  - Compare Germany’s implementation of advanced manufacturing technologies (1980s, 1990s) to experience in N America, elsewhere (Gertler)
  - Compare Germany’s response to the global economic downturn (2009+) to responses in other European, western economies: job-sharing retains human capital, know-how

# INSTITUTIONS: CONSEQUENCES FOR INNOVATION

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- National, regional institutional systems constitute assets (Maskell and Malmberg)
  - Source of competitive advantage
  - Interdependency, complementarity between different institutions makes the entire system difficult to replicate (and limits impact of any single institutional element on its own)
  - Difficulty of imitation (uniqueness) is an important source of value to the nation, region – foundation for economic success
- National, regional institutional systems can also become impediments to change
  - Source of competitive disadvantage when nature of competition changes over time
  - Interdependency, complementarity between different institutions makes the entire system difficult to modify in the face of economic challenges

# INSTITUTIONS: THE DIFFERENCE THEY MAKE

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- Help us understand why certain countries, regions develop particular specializations, capabilities over time
  - beyond comparative advantages stemming from relative location, climate, physical environment (Christopherson)
- Help us understand why the behaviour of firms, managers may be resistant to change
  - conscious and subconscious influence of institutions
- Help us understand why particular practices developed in one institutional context might be difficult to replicate in another national/regional context
- Help us understand the circumstances under which knowledge ‘travels’ readily across long distances (‘distanciated’ CoPs) – and when it doesn’t
  - Importance of institutional affinity and knowledge bases

# INSTITUTIONS: THE DIFFERENCE THEY MAKE

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- Help us understand why innovation in some countries is closely tied to entrepreneurial initiative, VC, etc, while in other settings it is more dependent on publicly funded R&D, product development by large firms, PROs
- Help us understand why inter-firm collaboration to foster innovation is easier to establish in some regimes than others
  - One size does not fit all when it comes to national/regional innovation policy
  - “Hence development strategies will need to be specifically tailored to the conditions of different regional institutional arrangements which shape... human capital and innovation” (Rodríguez-Pose, 2013, p. 1043)

Thank you

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