

INSTITUTIONAL VARIETY and INNOVATION PROCESSES

A Geographical Perspective

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INSTITUTIONS: *NOT* ORGANIZATIONS

- **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

“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

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

- 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

- 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

- 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)

| VARIETIES OF CAPITALISM | Liberal market economies (LME) | Coordinated market economies (CME) |
|-----------------------------------------------|---------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------|
| Financial regulation | Equity (public markets), VCs, short-term returns | Long-term 'patient' capital, debt financing (banks) |
| Corporate governance & competition | Shareholder value, limited business coordination; antitrust laws | Stakeholder value, strong business associations, cross-holding, networks |
| Employment relation | Decentralized bargaining, conflict-based workplace relations, low union density | Coordinated bargaining, statutory worker representation, co-determination |
| Training & employment | 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 |
| Innovation systems | 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

- **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

- 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

- 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

- 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

- 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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