



Contents lists available at ScienceDirect

Journal of World Business

journal homepage: [www.elsevier.com/locate/jwb](http://www.elsevier.com/locate/jwb)



# Institutional plasticity in public-private interactions: Why Japan's port reform failed

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## ARTICLE INFO

### Keywords:

Institutional plasticity  
Historical institutionalism  
Public-private interactions  
Port reform  
Japan

## ABSTRACT

This study applies the concept of institutional plasticity to analyze institutional change, and investigates why actors are unable to change institutions even when change is apparently necessary. Employing historical institutionalism, the analysis focuses on public-private interactions in the recent port reform in Japan. The study's findings reveal four limits to institutional plasticity due to the respective roles of key actors – the central government, the local port authority, and business entities – in the process of policy reform. The study suggests that while institutional plasticity may enable variation within an existing developmental trajectory or even creation of an entirely new path, insufficient institutional plasticity constrains the creation of new institutions and inhibits institutional change.

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## 1. Introduction

As globalization has progressed on multiple levels, it has influenced formal and informal institutional elements not only on global, national and sub-national levels but also on sectoral and cluster levels (Ghemawat, 2003; Griffith, 2010; Porter, 2000). Against this backdrop, businesses that used to be predominantly managed by the public sector have been exposed to global competition. To keep up with changes in external environments and remain competitive, institutional evolution in a business context is essential (North, 1990). Thus, a reform of public policy and effective interactions between public and private actors in the reform process are increasingly important to achieving successful institutional change and maintaining a competitive edge.

Public policy reform constitutes a critical part in improving a country's business environment. It also affects indigenous firms' competitiveness in a global market (Hillman & Keim, 1995; Mudambi & Navarra, 2002). If public and private institutions are not attuned to each other, both are liable to fail (Cantwell, Dunning, & Lundan, 2010; Kivleniece & Quelin, 2012). In the field of international business (IB) studies, therefore, there is a need for better-informed public policy that recognizes the vulnerabilities inherent in the development and enforcement of both public and private institutions (Cantwell et al., 2010). Previous institutional studies regarding the nexus between government policy and

business actors have developed our understanding of different dimensions of institutions such as institutional "push" and "pull" factors (Nguyen, Le, & Bryant, 2013; Puffer & McCarthy, 2007), interaction patterns of business-government relations in the home country of multinational enterprises (MNEs) (Rizopoulos & Sergakis, 2010), and mechanisms of emergent institutions (Henisz & Zelner, 2005). However, the analysis of the co-evolutional process with a focus on malleability of institutions and the enabling roles of involved actors is underdeveloped in IB research.

To contribute to this research agenda, this paper has twofold objectives. First, it applies the concept of "institutional plasticity" to explore institutional change, especially involving public and private actors. Institutional plasticity can be defined as "an elastic stretch of existing institutions and institutional arrangements through deliberate action and flexible interpretation of these arrangements by actors" (Notteboom, de Langen, & Jacobs, 2013: 29). Second, the study investigates why relevant actors are unable to achieve institutional change, even when change is apparently necessary because of changes in an international business environment.

The concept of plasticity originates from natural science, but it has been adapted across disciplines in social science. As Jackson and Deeg (2008) suggest, IB research could strengthen its links with other fields of scholarship to enrich our understanding of institutions. To provide a refinement to institutional change analysis, this study takes an interdisciplinary approach that draws upon historical institutionalism. Historical institutional analysis has a strong connection to IB theories, notably the evolutionary perspectives by which scholars can examine a complex web of

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causal associations grounded in a historical account (Cantwell et al., 2010; Hatani & McGaughey, 2013).

This study focuses on Japan's recent port reform, the so-called "Super Hub Port Project" (hereafter SHPP), implemented in the early 2000s. SHPP attempted to improve the deteriorating position of Japan's container ports in the global market. However, despite a number of policy dialogues among the central government, local authorities and business actors, the reform did not deliver any meaningful outcomes, and the government eventually admitted that SHPP had failed.<sup>1</sup> The study examines institutional plasticity in this context by taking account of the historical background of Japan's port industry and associated government policies.

Looking at public-private interactions through a historical lens is especially relevant to mature capitalist economies because, unlike emerging or transitional economies, they have established institutions in government-business relationships. While IB scholars have contributed a great deal to broadening our understanding of the institutional changes in transitional and emerging markets (e.g., Child & Tse, 2001; Kyj & Kyj, 2009; McDermott, Corredoira, & Kruse, 2009; Peng, Wang, & Jiang, 2008; Puffer & McCarthy, 2007), institutional analysis on developed nations has been less lively in IB, partly because it is assumed that most advanced democratic economies have similar formal institutions (Hillman & Keim, 1995; Sun, Peng, Lee, & Tan, 2015). However, various relational patterns of stakeholders exist within a single country, and a change process in institutions governing one sector can be different from change processes in other sectors (Henisz & Zelner, 2005; Rizopoulos & Sergakis, 2010).

In addition, this study deepens its analysis by focusing on a subnational context. Consideration of local state institutions as an analytical milieu is crucial in understanding globalization, because they articulate the integration process of local spatiality into the global economy (Keil, 1998). Furthermore, the study puts forward probable limits to institutional plasticity and underlying factors that the public and business actors invoke. To do so, this study distinguishes between the central government and local authorities in the category of the public actor. The analysis reveals that institutional plasticity is constrained by key actors' limited insights into changes occurring in the competitive landscape of an international market. It suggests that not only conceptions of path dependence that emphasize lock-in or increasing returns in developmental trajectories but also insufficient institutional plasticity constrains the creation of new institutions, and subsequently inhibits institutional change. By doing so, the study aims to extend the institutional analysis.

The remainder of this paper is organized as follows. The next section introduces analytical frameworks. Section 3 provides the précis of the port industry. After the explanation of methods in Section 4, Section 5 presents findings. Drawing upon the findings, Section 6 discusses limits to institutional plasticity and suggests propositions. Section 7 concludes.

## 2. Analytical framework

### 2.1. Historical institutionalism and the role of institutional actors

Historical institutionalism offers strong explanatory power for policy reform in areas where not only historical policy dialogues but also business actors and their industry-specific norms affect the reform process (Béland, 2009). History can be used as an interpretative device by actors who are involved in institutional change (McGaughey, 2013). It also allows us to uncover the long-term effects

of specific phenomena (Jones & Khanna, 2006). With the notion that history is not just a chain of independent events but a dynamic evolutionary process in which different actors shape one another, historical institutionalism sheds light on the interactive effects of multiple causal variables (Steinmo, 2008). While the mainstream view of institutions sees them as "humanly devised constraints" (North, 1994: 360), historical institutionalists consider them "the formal or informal procedures, routines, norms and conventions embedded in the organizational structure of the polity or political economy" (Hall & Taylor, 1996: 938, *emphasis added*).

Historical institutionalism concerns itself with how various institutions are embedded in the historical dynamics of the capitalist economy. This embeddedness is often explained by the concept of path dependence, which refers to self-reinforcing processes shaped by history (Nelson & Winter, 1982). This implies that contingent events in the past influence a later sequence of events by which actors are liable to reach a certain outcome (Kickert & van der Meer, 2011). Once a path has been taken, the main actors adjust their strategies to accommodate the prevailing pattern, which can lead to a "locked-in" situation (Thelen, 1999; Vergne & Durand, 2010). Path dependence highlights the difficulty of institutional change due to the cumulative commitments that the actors previously made on the existing path (Hutzschenreuter, Pedersen, & Volberda, 2007). The change process of public policy, in particular, tends to be path dependent due to long-term patterns grown out of historical traditions (Kickert & van der Meer, 2011; Pierson, 2000a). Institutional change can be difficult not just because institutional actors are used to a given institutional setup, but also because changing the rules requires new commitments and considerable up-front costs. Since the actors invested previously in learning and developing the current rules of the game, they are unwilling to incur any new costs (Steinmo, 2008).

Opposing the notion of incremental change, which is a main feature of path dependence, some scholars advocate disruptive changes to institutions (e.g., Hoffman, 1999; Sewell, 1996). However, seemingly abrupt radical reform at the surface level can be the consequence of long-term incremental pressure that has crossed a certain threshold (Kickert & van der Meer, 2011). It should also be noted that path dependence does not necessarily mean that past experience always determines the future. Even in public policy, many small changes would possibly lead to a "real" change by adding new patterns (Kickert & van der Meer, 2011). Hence, institutional analysis based on a simple dichotomy between incremental change and disruptive change should be avoided because, due to the complexity of institutions, it is not always clear which type of institutional change eventually works better in different settings (Streeck & Thelen, 2005).

Path-dependent models of politics suggest that interaction effects create divergent contextual effects and causal factors (Mahoney, 2000). The different historical traditions and norms that different types of actors hold are likely to lead to different solutions even for the same problem (Boyer & Hollingsworth, 1997). Given that institutional environments are diverse, "path dependence is not a coherent process in itself but covers a variety of possible directions to take shape" (Notteboom et al., 2013: 29). Although previous studies on institutions have emphasized institutional convergence drawing upon the idea of institutional isomorphism (DiMaggio & Powell, 1983), such homogenization could occur only when participating actors are willing to conform to the given rules of the game (Alchian, 1950; Tomlinson, 2012). Such an institutional setting will be rather rare in public-private interactions, because the public actor and the private actor have markedly different interests and are influenced by different normative and regulative mechanisms. As such, even if institutional isomorphism may be present at one level, institutional processes at multiple levels can result in diverse outcomes due to

<sup>1</sup> This statement appears in the minutes of the working group meeting for the Government Revitalization Unit of Japan's Cabinet Office held in October 2010.

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