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Asian business systems: institutional comparison, clusters and implications for varieties of capitalism and business systems theory

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We present an institutional comparison of 13 major Asian business systems—China, Hong Kong, India, Indonesia, Japan, Laos, Malaysia, the Philippines, Singapore, Korea, Taiwan, Thailand and Vietnam—with one another and five major Western economies—France, Germany, Sweden, the UK and the USA. We find five major types of business systems in Asia: (post-)socialist, advanced city, emerging Southeast Asian, advanced Northeast Asian and Japanese. With the exception of Japan, all Asian forms of capitalism are fundamentally distinct from Western types of capitalism. We conclude that the Varieties of Capitalism (VOC) dichotomy is not applicable to Asia; that none of the existing major frameworks capture all Asian types of capitalism; and that Asian business systems (except Japan) cannot be understood through categories identified in the West. Our analysis further suggests a need for the field to invest in further research on social capital, culture, informality and multiplexity.

Keywords: Asia, Varieties of Capitalism, social capital, culture, China, Japan
JEL classification: P1, P2, P50

1. Introduction

The exploration of Asian business systems[1] can look back on a long and proud history. Among its earlier classics are works such as Dore's (1973) comparison

[1]In this paper, we define 'Asia' to mean the land mass from India to Japan, excluding the territory of Russia. We use the term 'business system' to refer to the institutions—that is, the 'humanly devised constraints that shape human interaction' (North, 1990, p. 3)—governing economic activity inside and outside the firms, as identified in the models of Whitley (1999), Hall and Soskice (2001),

of British and Japanese factory organization; Aoki's (1988) research on the workings of the Japanese economy; Redding's (1990) exposition of ethnic Chinese capitalism in Southeast Asia; Whitley's (1992) work on East Asian business systems, which helped lay the foundation for one of the key works of the field, Whitley's (1999) elaboration of business systems theory; and Orrù *et al.*'s (1997) explorations of economic organization in East Asia.

Recent years have seen a surge of works seeking to expand the boundaries of our knowledge of Asian business systems and of extant theories and models in the field. The case of Japan has continued to attract much attention. A series of works have explored topics such as how the Japanese business system compares with those of other advanced industrialized economies (e.g. Berger and Dore, 1996; Dore, 2000; Streeck and Yamamura, 2001) and how it evolves over time (e.g. Dore, 2000; Yamamura and Streeck, 2003; Anchordoguy, 2005; Vogel, 2006; Westney, 2006; Witt, 2006; Aoki *et al.*, 2007; Lechevalier, 2007; Sako, 2008).

Research on other Asian economies, as well as wider comparative work, has likewise built steam. There has been a proliferation of focused studies especially of China (e.g. Huang, 2008; Witt and Redding, 2009; Robins, 2010), but also on other Asian economies individually (e.g. Andriesse and van Westen, 2009; Ritchie, 2009) or viewed as a cluster (e.g. Loveridge, 2006; Heugens *et al.*, 2009; Steier, 2009; Tipton, 2009). A number of works undertaking broad intra-Asian comparisons and surveys have emerged, including the volumes by Redding and Witt (2007) (China, Japan, Korea and ethnic Chinese business in Southeast Asia), Pascha *et al.* (2011) (China, Japan and Korea), Storz and Schäfer (2011) (China and Japan) and Boyer *et al.* (2012) (China, Japan, Korea and East Asia).

Yet much work remains to be done. The progress of science depends on the constant interplay of idiographic description and nomothetic theorizing, and thus less on logical procedures of deduction than on the inventing of testable explanations based on immersion in empirical reality (Popper, 1963; Tsoukas, 1989; Runciman, 2005; Babble, 2012). These can then be tested and possibly destroyed, but they must be conjectured first, and a way forward in this is describing and categorizing.

So far, the literature lacks a comprehensive and detailed overview of the institutional features of Asian economies in comparative perspective. In general, the

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Amable (2003), Redding (2005) and Hancké *et al.* (2007) and summarized in Table 1. Our definition of business system deviates from the original meaning proposed by Whitley (1999), who used the term for the institutional structure of firms, which in turn is derived from the societal institutional structure in which firms are embedded. However, in subsequent use, the focus of the term has widened to include institutions both at the firm and the societal levels (e.g. Edwards *et al.*, 2005; Redding, 2005; Redding and Witt, 2007), and even Whitley's own usage has been ambiguous (e.g. Casper and Whitley, 2004). We stay consistent with this evolved meaning.

further away one moves from Japan, the less well understood the institutional structures and dynamics of business systems in Asia become. Southeast Asian economies, for instance, are usually clustered together, sometimes jointly with Hong Kong and Taiwan (e.g. Whitley, 1992, 1999; Redding and Witt, 2007). There is some justification for this, in the sense that ethnic Chinese businesses produce much of the economic value in these countries. At the same time, institutional variations that are important for understanding these economies are unaccounted for. India, now the third-largest economy of Asia, is virtually *terra incognita* from a business systems perspective. We also do not know how the institutional structures of Asian economies compare and may form clusters of similar Asian varieties of business systems.

The scarcity of systematic and detailed comparative data means that we have not been able to leverage the full institutional diversity that Asia affords for testing and amending extant theory of institutional variations—lack of idiographic detail means foregone nomothetic progress.

The objective of this paper is to help address this issue. It starts at the idiographic level by presenting a comprehensive comparison of the institutional structures of 13 major Asian business systems—those of China, Hong Kong, India, Indonesia, Japan, Laos, Malaysia, the Philippines, Singapore, Korea, Taiwan, Thailand and Vietnam—as well as those of five major Western states—France, Germany, Sweden, the UK and the USA—as comparison points. Based on these data, the paper identifies five major clusters of Asian business systems: (post-)socialist economies, advanced city economies, emerging Southeast Asian economies, advanced Northeast Asian economies and Japan. Comparison with leading exponents of Western business systems suggests that except Japan, Asian business systems are fundamentally distinct from those of the West. Based on these findings, the paper argues that the VOC dichotomy is not applicable to Asia; that none of the existing major frameworks capture all Asian types of capitalism; and that Asian business systems (except Japan) cannot be understood through categories identified in the West. It further draws on a number of patterns visible in the comparative data to suggest at the nomothetic level that business systems theories need to incorporate and conceptualize social capital, culture, informality and multiplexity. The paper concludes with a brief summary.

2. Major models of comparative institutional analysis

There are two basic approaches to structuring a comparative institutional analysis. One is to let dimensions of variation emerge from the data, as Amable (2003) did for the advanced industrialized countries. The other is to draw on existing models to identify key dimensions of different types of business systems and to search for data relevant to these dimensions. We chose the latter approach for two reasons. First, given all the efforts at theory building and empirical research in the field and the elaborate models that have resulted, it seemed prudent to draw on this existing theoretical and empirical basis rather than to start from scratch—not least also given that two major models, Whitley (1992, 1999) and Redding (2005), were built with Asia in mind. Second, keeping dimensions consistent with existing models facilitates the drawing of conclusions about the utility of existing models for understanding Asia and about the possible directions of further theory building. By engaging existing theory, it is easier for idiographic description to facilitate nomothetic progress.

We structured our comparison around the key dimensions suggested in four major models of comparative institutional analysis: Whitley (1992, 1999); Hall and Soskice (2001), augmented by the critical evaluation by Hancké *et al.* (2007); Amable (2003); and Redding (2005). Table 1 summarizes these dimensions. As indicated in the leftmost column, we selected for our comparative analysis all eight institutional dimensions mentioned by at least two of these five works.

The resulting range of dimensions is consistent with the themes in the 2010 *Oxford Handbook of Comparative Institutional Analysis* (Morgan *et al.*, 2010),

Table 1 Institutional dimensions of leading models of comparative institutional analysis

Selected	Dimension	Whitley (1999)	Hall and Soskice (2001)	Amable (2003)	Redding (2005)	Hancké *et al.* (2007)
	Civil society role				yes	
yes	Education and skills formation	yes	yes	yes	yes	yes
yes	Employment relations	yes	yes	yes	yes	yes
yes	Financial system	yes	yes	yes	yes	yes
yes	Interfirm networks	yes	yes		yes	yes
yes	Internal dynamics of the firm	yes	yes		yes	yes
yes	Ownership and corporate governance	yes	yes		yes	yes
	Product markets			yes		
yes	Social capital (trust)	yes			yes	
	Social protection			yes		
yes	State role	yes			yes	yes

which is a survey of the state of the art. The one additional dimension the *Oxford Handbook* discusses is the nature of the national innovation system, which is not part of any of the other models. The *Handbook* does share with Amable (2003) a concern for social protection and social welfare. We chose not to pursue this dimension separately, as a survey of the role of state in society would subsume this dimension.

3. Asian business systems: a comparison

Any comparison of the Asian business systems surveyed here must rely largely on qualitative assessments. The underlying issue is that published comparative statistics that are readily available for advanced industrialized economies are often difficult or impossible to obtain for these economies.

One response to this challenge might be not to study Asian business systems and wait until solid comparable statistics become available. However, for much of Asia, we would then be waiting a very long time.

A second approach would be to work only with the statistics that are available. Some studies have taken this approach (e.g. Amable, 2003) and made great contributions. Such an approach is most likely to work where comparative statistics are plentiful—the advanced industrialized countries—and even there, not all the matters can be measured. As a result, existing theory, though derived mostly from OECD countries, relies extensively on constructs for which reliable comparative statistics do not exist. For instance, the notion of consensual decision-making in firms is as central to VOC theory (Hall and Soskice, 2001) as it is impossible to measure reliably across all advanced industrialized nations.

The issue of construct validity of comparative statistics has not necessarily been fully recognized in the field. For instance, the proportion of stock market capitalization over GDP is often used as an indicator whether a business system is market or bank based (e.g. Hall and Gingerich, 2009; Schneider and Paunescu, 2012). In fact, it is highly problematic without further qualitative judgment, considering fluctuations in valuations over time and by market (e.g. Japan has relatively high valuations, for no clear reason), foreign listings inflating market capitalization (e.g. Russian listings in the UK) and, especially for emerging markets, difficulties obtaining accurate GDP numbers. What we would need is a national measure of how much of the fresh money companies receive from external sources in a given year comes from which sources. Even for the advanced industrialized countries, this is next to impossible to get, with few exceptions (Witt, 2006). Similar issues plague other widely used measures, such as credit to the private sector over GDP, which does not distinguish between corporate and consumer loans, and graduation rates for vocational and tertiary education, which measure flow rather than stock and say nothing about the quality of such education.

As a result, much existing theory, including in the key foundational works by Whitley (1992, 1999) and Hall and Soskice (2001), is built on a third approach, qualitative comparative assessment. The methodological validity and utility of qualitative measures for the comparison of business systems has experienced extensive discussion and validation (Ragin, 2000, 2008).

Our own approach consequently represents a mix of statistics and qualitative data. Where reliable, comparable statistics with construct validity are available, we make use of them. Our main source, however, is a series of encompassing institutional analyses prepared by leading experts on the 13 Asian economies included here (Andriesse, forthcoming; Carney, forthcoming; Carney and Andriesse, forthcoming; Kondo, forthcoming; Lee and Hsiao, forthcoming; Redding *et al.*, forthcoming; Rosser, forthcoming; Saez, forthcoming; Suehiro and Wailerdsak Yabushita, forthcoming; Truong and Rowley, forthcoming; Witt, forthcoming *a*, *b*; Witt and Redding, forthcoming). For each economy, these experts have prepared a comprehensive survey of the institutional dimensions identified in Table 1, leveraging a large diversity of the most recent available empirical research and statistics on the various aspects of each business system. Since most of these empirical bases are context-specific and thus not comparative in nature, we have translated them to qualitative assessments. Tables 2–4 combine a summary of these findings with pertinent comparative statistics.

As Tables 2–4 indicate, there is large variation in institutional structures across Asian economies. However, there are patterns, which we will now explore in some detail, drawing on insights and examples from the above works as appropriate, before identifying clusters of similarity. Several empirical regularities present have important implications for extending and elaborating extant business systems theories, as we will argue later.

3.1 Education and skills formation

While universal education to decent levels can be assumed for the advanced industrialized nations of the West, the same cannot be done for Asia. As Tables 2–4 indicate, there is considerable spread in educational attainment. Basic skills, such as the ability to read and write, cannot be taken for granted, as evident in literacy rates among adults in Asia that range from 61% in India to full literacy in Japan. Except Japan, even the richer Asian economies of Hong Kong, Korea, Singapore and Taiwan have not yet attained the 99% literacy rates common in the West.

Table 2 Comparison of the institutional characteristics of 13 Asian business systems, part 1: China, Hong Kong, India, Indonesia and Japan

Category	Measure	China	Hong Kong	India	Indonesia	Japan
Education and skills	Adult literacy	0.922	0.969	0.610	0.904	0.990
	Education Attainment Index (2010)	0.623	0.837	0.450	0.584	0.883
	Employment tenure	Short (private), long (state-owned)	Short	Short (private), long (state-owned)	Unclear	Long
	Skills acquisition†	Private	Private	Private, some corporate	Private	OJT
Employment relations	Union density	16.1% (2007)	23.2% (2010)	6.9% (2008)	5.0% (2007)	18.5% (2010)
	Organization principle	Party-controlled single union	Industry	Industry	Company	Company
	State intervention in wage bargaining	High	Low	Low-medium	Medium	Low
	Coordination	5	1	2	2	3
	Belligerence: days lost to strikes, average 2000–2008	n/a	n/a	25,230,911	n/a	11,693
Financial system	Main source of external capital	Banks	Banks	Banks	Banks	Banks
	Allocation criterion†	Relationships, state	Relationships	Relationships, state	Relationships	Market, relationships
	Term	Long	Long	Long	Long	Long
Interfirm relations	Presence of business groups	Qituan qiye	Hongs	Business houses	Yes	Keiretsu
	Noteworthy other networks†	Communist Party, personal networks (guanxi)	Investment networks, SME networks	Caste- or religion-based networks, industrial clusters (IT)	–	Intra-industry loops with strong associations, R&D consortia, supplier and distribution networks

Continued

Table 2 Continued

Category	Measure	China	Hong Kong	India	Indonesia	Japan
Internal structure	Decision-making structure	Top-down	Top-down	Top-down	Top-down	Participatory
	Extent of delegation	Low	Some	Low	Low	Medium-high
	Main basis of promotion and pay raises†	Relationships	Relationships	Relationships, seniority	Relationships	Seniority
Ownership and governance	Main ownership form, large firms†	Family, state	Family	Family, state	Family	Public
	Main controlling owner†	Family, state	Family	Family, state	Family	Firms
	Investor Protection Index (out of 10) (2012)	5.0	9.0	6.0	6.0	7.0
Social capital	Interpersonal trust	High	High	High	High	High
	Institutionalized trust: rule of law	−0.35	1.56	−0.06	−0.63	1.31
State	Type†	Developmental and predatory	Regulatory	Predatory with developmental trend	Predatory	Residual developmental, welfare elements
	Decision-making†	Bottom-up and top-down	Bottom-up and top-down	Top-down, variation at state level	Top-down	Participatory through associations and committees
	Voice and accountability	−1.65	0.58	0.42	−0.06	1.05
	Government effectiveness	0.12	1.74	−0.01	−0.20	1.40
	Regulatory quality	−0.23	1.89	−0.39	−0.38	0.98

Sources: Thirteen chapters cited in the paper unless otherwise marked in Table 4.
†Given in the alphabetical order unless the relative order is indicated

Table 3 Comparison of the institutional characteristics of 13 Asian business systems, part 2: Korea, Laos, Malaysia, the Philippines and Singapore

Category	Measure	Korea	Laos	Malaysia	Philippines	Singapore
Education and skills	Adult literacy	0.979	0.730	0.887	0.926	0.925
	Education Attainment Index (2010)	0.934	0.432	0.730	0.684	0.751
	Employment tenure	Medium	Short (private), long (state)	Short	Short	Short
	Skills acquisition†	OJT, private	Private	Private	Private, some OJT	Companies, private
Employment relations	Union density	10.0% (2009)	n/a	10.2% (2007)	11.2% (2007)	17.6% (2009)
	Organization principle†	Company	Party-controlled single union	Company	Company	Mix of company, craft, industry
	State intervention in wage bargaining	Medium	High	Medium-high	Medium	Medium-high
	Coordination	3	5	n/a (low)	n/a (low)	3
	Belligerence: days lost to strikes, average 2000–2008	1,160,940	n/a (strikes illegal)	n/a	145,050	0
Financial system	Main source of external capital	Banks, non-bank financial institutions	Banks	Banks	Banks	Banks
	Allocation criterion†	Market, relationships	Relationships, state	Relationships, state	Relationships (conglomerate owned)	Relationships
	Term	Long	Long	Long	Long	Long
Interfirm relations	Presence of business groups	Chaebol	Yes	Yes	Yes	Yes
	Noteworthy other networks†	–	Communist Party	Personalistic, state-mediated	-	Government (GLCs)

Continued

Table 3 Continued

Category	Measure	Korea	Laos	Malaysia	Philippines	Singapore
Internal structure	Decision-making structure	Top-down	Top-down	Top-down	Top-down	Top-down
	Extent of delegation	Low	Low	Low	Low	Some
	Main basis of promotion and pay raises†	Seniority	Relationships	Relationships	Relationships	Performance, relationships
Ownership and governance	Main ownership form, large firms†	Public	State	Family, state	Family	Family, state
	Main controlling owner†	Family	State	Family, state	Family	Family, state
	Investor Protection Index (out of 10) (2012)	6.0	1.7	8.7	4.3	9.3
Social capital	Interpersonal trust	High	High	High	High	High
	Institutionalized trust: rule of law	0.99	−0.90	0.51	−0.54	1.69
State	Type†	Developmental	Predatory	Developmental, predatory	Predatory	Developmental, regulatory
	Decision-making	Top-down	Top-down	Top-down	Top-down	Top-down
	Voice and accountability	0.71	−1.63	−0.53	−0.09	−0.29
	Government effectiveness	1.19	−0.94	1.10	−0.10	2.25
	Regulatory quality	0.91	−1.03	0.58	−0.26	1.80

Sources: 13 chapters cited in the paper unless otherwise marked in Table 4.
†Given in the alphabetical order unless the relative order is indicated.

Table 4 Comparison of the institutional characteristics of 13 Asian business systems, part 3: Taiwan, Thailand, Vietnam

Category	Measure	Taiwan	Thailand	Vietnam	Sources
Education and skills	Adult literacy	0.961	0.926	0.940	CIA World Factbook
	Education Attainment Index (2010)	0.8 (own estimate)	0.597	0.503	http://hdrstats.undp.org/en/indicators/103706.html
	Employment tenure	Medium	Short	Long (SOEs), short (private)	
	Skills acquisition†	OJT, private	Private	Private	
Employment relations	Union density	37.3% (2010)	<10%	67% (2005)	http://www.uva-aias.net/208; ILO; chapters
	Organization principle	Company	Company, industry	Party-controlled single union	
	State intervention in wage bargaining	n/a	n/a	high	http://www.uva-aias.net/208
	Coordination	n/a	n/a	5	http://www.uva-aias.net/208
	Belligerence: days lost to strikes, average 2000–2008	55,234 (2008–2011)	45,217	n/a (5,000 strikes from 2000 to 2010)	ILO; chapters
Financial system	Main source of external capital	Banks	Banks	Banks	
	Allocation criterion†	Relationships	Relationships	Relationships, state	
	Term	long	long	long	
Interfirm relations	Presence of business groups	Qituan qiye	Glum thurakit	Yes	
	Noteworthy other networks†	Interlocks even among competitors, personal ties (guanxi)	Supplier networks	Personal ties, Communist Party	

Continued

Table 4 Continued

Category	Measure	Taiwan	Thailand	Vietnam	Sources
Internal structure	Decision-making structure	Top-down	Top-down	Top-down	
	Extent of delegation	Low	Low	Low	
	Main basis of promotion and pay raises†	Relationships, seniority	Relationships	Relationships	
Ownership and governance	Main ownership form, large firms†	Family	Family	Family, state	
	Main controlling owner†	Family	Family	Family, state	
	Investor Protection Index (out of 10) (2012)	6.3	7.7	3.0	http://www.doingbusiness.org/data/exploretopics/protecting-investors
Social capital	Interpersonal trust	High	High	High	
	Institutionalized trust: rule of law	1.01	−0.20	−0.48	http://info.worldbank.org/governance/wgi/
State	Type†	Developmental	Developmental, predatory	Predatory with developmental trend	
	Decision-making	Top-down	Top-down	Top-down	
	Voice and accountability	0.90	−0.56	−1.43	http://info.worldbank.org/governance/wgi/
	Government effectiveness	1.21	0.09	−0.31	http://info.worldbank.org/governance/wgi/
	Regulatory quality	1.18	0.19	−0.58	http://info.worldbank.org/governance/wgi/

Sources: 13 chapters cited in the paper unless otherwise marked.
†Given in the alphabetical order unless the relative order is indicated.

A similar picture emerges in the United Nation's education index, which measures the mean years of schooling received and the expected years of schooling for adults and children, respectively. The underlying assumption is that *ceteris paribus*, more time spent in school will result in higher education levels and lower rates of illiteracy. Higher levels of the indicator express greater educational attainment in terms of schooling received. There is considerable variance on this measure, ranging from 0.432 in Laos to 0.934 in Korea. Within the full UNDP sample of 188 countries, Laos ranks 151st, Korea, 6th. The other economies in the sample run the gamut.

In terms of acquiring skills for employment, we see a clear pattern. In a majority of Asian economies, the acquisition of professional skills is left to private initiative. In a number of countries, private employers try to provide at least some skills training, though usually at a low level. Public vocational training systems are usually very weak. This may partially be related to a shared cultural notion that manual labor is a reflection of academic failure, with parents usually steering their children away from vocational training schools. In addition, the curricula of existing vocational training programs tend to be misaligned with the requirements of employers. Extensive on-the-job training (OJT) is essentially a Japanese phenomenon, though the practice is also evident, to a lesser degree, in Korea and Taiwan.

The reluctance of employers to provide extensive OJT is related to employment tenures, which tend to be short-term across most countries in the region. While not all countries provide comparative statistics of employment tenures, the evidence on most countries reports frequent job hopping and high employment turnover rates. As has been argued (e.g. Hall and Soskice, 2001), this discourages the formation of firm-specific skills. Exceptions are Japan, Korea and Taiwan, which is consistent with OJT in these countries. In addition, state-owned enterprises in China, India, Laos and Vietnam maintain relatively long terms of employment. This should enable them to provide OJT to their employees. In practice, however, the absence of systematic human resource development programs and incentive structures encouraging the acquisition of valuable skills means that little such OJT occurs. In addition, relatively low levels of development in these latter economies and their associated industrial structures, with an emphasis on labor-intensive rather than skills-intensive production, are likely to work against the widespread implementation of OJT.

3.2 Employment relations

All 13 economies feature labor unions. Unionization rates run from about 5% in Indonesia to about 37% in Taiwan. Vietnam emerges as an outlier with a unionization rate of about 67%, comparable with northern European nations.

The dominant organizational principle is the company union. Accordingly, the degree of coordination across these economies tends to be low to medium. Major exceptions to the rule are the nominally socialist economies of the region, that is, China, Laos and Vietnam. These countries have party-controlled, unitary unions, such as the All-China Federation of Trade Unions (ACFTU). Given high levels of centralization, the level of coordination in these economies is consequently high. However, this is not necessarily to the advantage of labor; for instance, in labor disputes, the ACFTU usually sides with employers. Party-controlled unions are essentially tools of state control rather than civil society representatives of labor interests.

A relatively strong desire of states to remain in control of the economy is also visible in the extent of state intervention in wage bargaining. Such intervention is high in the socialist economies. Most of the other nations, to the extent data are available, show considerable levels of state involvement, with only Hong Kong and Japan scoring low. The means of such involvement vary. In Korea, for instance, the government has created a tripartite commission. In Singapore, by contrast, the union movement has *de facto* been brought into the fold of government, with union leaders receiving cabinet-level posts.

Belligerence of unions likewise varies considerably, though the statistics on this point are patchy. Some countries, especially socialist ones, outlaw strikes and do not report official statistics of strike activity. In the countries for which statistics are available, strike activity is generally moderate. This is sometimes the result of restrictions. For instance, in Singapore, the right to strike officially exists, but given the incorporation of unions in government, the last registered strike occurred in 1986. Wild cat strikes are discouraged by the fact that any group of five or more persons not registered with the authorities may constitute an unlawful assembly. On the other side of the spectrum, in Japan, high levels of alignment between workers and management and participatory decision-making keep the need to strike low. Korea and especially India stand out as high-strike countries, with 1.2 and 25 million strike days in an average year between 2000 and 2008. However, in both of these countries, the recent trend has been downwards.

3.3 Financial system

The main source of external financing is banks. A common pattern is that business groups maintain their own banks or similar financial institutions, which they can tap for long-term funding on preferential terms. For instance, the leading Korean conglomerates use non-bank financial institutions such as insurance companies that they own.[2] In most Asian markets, officially licensed lending

[2]Korean law forbids conglomerate ownership of banks.

coexists with an informal banking landscape serving firms usually excluded from access to banks or markets. For instance, the informal banking sector of China is estimated at about CNY 3–4 trillion, which is about one-third of the size of the total financial system (Yao, 2011). The importance of such informal finance for understanding economic activity can be considerable. In the Chinese case, informal finance is the main avenue of obtaining external funding for the private sector, which accounts for about two-thirds of Chinese GDP.

The main criteria for allocation of credit across the region are relationships and state direction. Relationships often involve joint ownership of lender and creditor, as in the Korean example above, but also long-standing business relationships akin to the German Hausbank model. In China, India, Laos and Vietnam—all countries with a central planning background—state influence on capital allocation remains strong. There, the major banks remain in the hands of the states and engage in policy-driven directed lending, with preference given to state-owned enterprises. The hand of the state is also visible in countries with developmental state elements, such as Malaysia and Singapore, where industrial policy targets certain sectors or firms for further development.

Given the mix of bank-led finance and allocation based on relationships or state direction, capital is usually available for the long-term for the recipients of such loans—that is, funds will tend not to be withdrawn quickly in response to adverse developments, as would typically be the case in Anglo-Saxon environments (Whitley, 1999; Hall and Soskice, 2001).

3.4 Interfirm relations

The key characteristic in this category is the presence of business groups across all Asian nations. These are usually defined as large conglomerates that are ultimately owned and/or controlled by the same party, typically a family or the state. Again Japan proves to be the exception, in that its business groups, or *keiretsu*, have no one ultimate owner or controlling party, an aberration based on antitrust policies the US occupation enacted following World War II.

Absent from the picture, except for Japan, are the kinds of institutionalized long-term cooperative ties among different firms present in some of the continental European economies (Hall and Soskice, 2001).

Other forms of cooperation across firms are based on party networks, especially in communist countries where the party retains ownership and control of at least some firms and permeates the private sector through measures such as the mandatory unionization of employees under party-controlled unitary labor unions. Important are further personalistic ties, that is, personal relationships on an individual level. These networks enable, among others, the finding of new business opportunities and occasional, *ad hoc* cooperation in production networks in which large orders are filled by distributing the work across several independent enterprises.

3.5 Internal structure

Decision-making in Asian firms is usually hierarchical and top-down. Centralization is usually high, with major decisions resting in the hands of top management. Only Japan features a relatively participatory mode of decision-making cutting across levels and functions.

Accordingly, the degree of delegation in Asian firms is generally low. Management below the top level is usually a conduit of orders from the top, supervising whether instructions are properly executed. The main exception from this rule is Japan, as a participatory structure cannot work without some delegation. Hong Kong and Singapore similarly show some delegation. In general, the extent of delegation correlates positively with levels of institutionalized trust, as discussed later.

The key criteria for promotion are relationships and, less so, seniority. Relationships are important especially at top levels, which in private businesses are usually reserved to relatives of the owning family or their close and trusted friends. In state-owned enterprises, relationships with governing parties or powerful individuals are important. Seniority—time spent working for the company—is a key component in Japan and Korea, but important also at lower levels of state-owned enterprises across the region.

3.6 Ownership and corporate governance

In most Asian economies, family ownership is dominant. This is true in particular for the business groups already noted. In nominally socialist economies, there is also an important element of state ownership, and where state-owned enterprises are listed on stock exchanges, the state usually retains a controlling stake. Only in Japan and Korea are the largest firms majority publicly held.

In line with ownership patterns, management control of firms usually also rests with families or the state. Family ownership is partially a function of the relative youth of modern economic development in most of Asia, in the sense that many firms, even large ones, were founded relatively recently. It is also connected to the absence or relative recency of institutionalized trust, discussed later, which not only discourages delegation but also the separation of ownership from control that is crucial for modern enterprises. Korea is unusual in that firms are majority publicly owned but family controlled, a trick accomplished through creative shareholding patterns such as pyramidal and circular shareholdings. Japan is again an outlier in that firms essentially control themselves, a feat accomplished through a combination of high levels of friendly and accommodating long-term shareholders and fairly weak implementation of formally strong corporate governance rules.

In line with the importance of family and state control, corporate governance rules, intended to guard the interests especially of minority shareholders, are generally weak. Best of class are Singapore and Hong Kong, with both economies being highly reliant on foreign investments and their stock markets attracting large volumes of foreign listings. On the other hand, Vietnam is only beginning to understand the concept of corporate governance, and Laos has only two firms listed on its recently founded stock exchange. In general, families usually retain a controlling stake in firms even if they decide to list them. Where conglomerates are involved, pyramids and circular shareholdings as well as shares with multiple voting rights entrench family control and help the owner families reap a disproportionate share of profits.

3.7 Social capital

Consistent with Whitley (1999) and Redding (2005), we define social capital as trust (for a review article supporting this and the following conceptualizations of social capital, see Esser, 2008). We follow these prior works in distinguishing two basic types of trust: (i) interpersonal trust, that is, the kind of trust that exists between two persons on the basis of prior experience that suggests that the respective other will be honest and uphold debts of reciprocity (usually involving family and friends), and (ii) institutionalized trust, which based on the presence of a system that keeps others honest.

Across the board, Asian economies are rich in interpersonal trust, as expressed in extensive networks of reciprocal relationships between individuals, both inside the firm and outside. This is consistent with the well-established finding in the literature that individuals in Asian societies tend to build stronger interpersonal networks, both inside the family and with friends, than their Western counterparts and tend to leverage them for business (cf. Redding, 1990; Fukuyama, 1995; Hamilton, 1996; Lin, 2001; Hitt *et al.*, 2002).

In contrast, there is considerable variation in the presence of institutionalized trust. Institutionalized trust enables strangers to do business with each other without much fear of opportunism because there is fair recourse in case of disputes. One proxy measure is the extent of the rule of law in a given economy. The range of institutionalized trust thus operationalized ranges from very low in Indonesia, Laos and the Philippines to very high in Hong Kong and Singapore. Not captured in this measure are further dimensions of institutionalized trust for which no similar comparative measures exist, as we will discuss later.

3.8 The role of the state

Most states in the region fall either into the developmental state or into predatory state categories (cf. Johnson, 1982; Evans, 1995), with some of them representing hybrid cases. The clearest predatory states are Indonesia, Laos and the Philippines. India, arguably, also best fits into this category, a point vividly illustrated by recent mobile phone and coal corruption cases that cost the Indian treasury an estimated USD 39 billion and USD 210 billion, respectively, in lost revenues. Others, such as China, combine predatory elements, in which top leaders and their families use the state to enrich themselves, with industrial policies modeled, with some license, on the Japanese template. Developmental states include Korea, Singapore and Taiwan, with some residual elements visible in Japan. Clear welfare state elements are visible only in Japan. Regulatory states, defined as those aiming at creating regulatory frameworks enabling free and fair competition, include Hong Kong and, outside government promoted sectors, Singapore.

Decision-making in most Asian states is statist. The exception is Japan, which tends toward corporatism, in the sense that policy formulation involves participation of various sectors of society, notably industry associations, and is usually consensual. China and Hong Kong mix top-down statism with a strong bottom-up element. In Hong Kong, this occurs because many areas of economic activity are unregulated, allowing actors to evolve their own informal institutions. In China, local variations in institutions, often breaching formal institutions, have been a central element in economic policy-making since the 1990s. Successful institutional innovations diffuse across different localities and inform national-level institutional changes (Xu, 2011). In line with these variations, the extent of voice given to the citizens and accountability of government to the citizens varies widely, with China and Laos virtually tied at the low end and fully democratic Japan taking the top score.

In terms of outcomes, there is considerable variation as expressed in government effectiveness and quality of institutions. Worst on both dimensions is Laos, best are Hong Kong and Singapore. Japan, Korea, Taiwan and less so Malaysia occupy positions toward the top, with the remaining countries retaining considerable upside potential.

4. Types of Asian business systems in comparative perspective

To identify the different types of Asian business systems present in our sample, we submitted the data in Tables 2–4 to hierarchical cluster analysis. For comparison with the West, we added five representatives of major forms of Western capitalism identified in the literature: France as an exemplar of 'mixed' or state capitalism; Germany as a case of continental coordinated capitalism; Sweden as an example of social-democratic capitalism; and the UK and the USA as illustrations of liberal market capitalism (Whitley, 1999; Hall and Soskice, 2001; Schmidt, 2002; Amable, 2003; Hancké *et al.*, 2007).

We recoded qualitative data in form of dummy variables. For instance, differences in employment tenure were captured in three dummy variables, one for short-term, one for medium-term and one for long-term employment. Variables with missing data had to be omitted. Since this would have left us with only one variable for employment relations, we imputed a union density of 0.5 for Laos; the actual value is unknown, and the value has no impact on the result for Laos but lets us retain the variable. All measures were normalized to eliminate distortions arising from differences in numerical magnitude across variables.

We employed hierarchical cluster analysis as implemented in Stata 12 (StataCorp, 2011*b*) using the Gower dissimilarity measure, which is suitable for mixed continuous and categorical variables as present in our data (StataCorp, 2011*a*). Since there is no theoretical reason to prioritize one type of linkage over another, we ran multiple analyses using different linkage specifications. We found that the resultant clusters are robust across specifications.

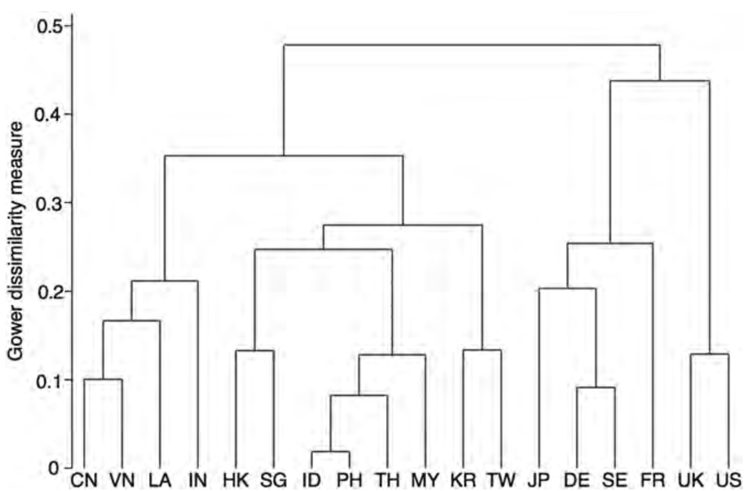

Figure 1 Dendrogram of clusters of Asian business systems.

Table 5 Pairwise Gower dissimilarity matrix (institutional distances)

	CN	HK	IN	ID	JP	KR	LA	MY	PH	SG	TW	TH	VN	FR	DE	SE	UK
Hong Kong	0.406																
India	0.170	0.420															
Indonesia	0.275	0.269	0.283														
Japan	0.594	0.504	0.608	0.511													
Korea	0.457	0.346	0.466	0.315	0.255												
Laos	0.207	0.499	0.271	0.299	0.582	0.502											
Malaysia	0.219	0.305	0.240	0.137	0.505	0.316	0.313										
Philippines	0.268	0.263	0.297	0.019	0.505	0.310	0.300	0.134									
Singapore	0.395	0.133	0.367	0.261	0.469	0.311	0.492	0.185	0.255								
Taiwan	0.407	0.287	0.421	0.216	0.369	0.134	0.487	0.214	0.210	0.251							
Thailand	0.272	0.251	0.242	0.080	0.498	0.309	0.368	0.114	0.085	0.186	0.208						
Vietnam	0.100	0.440	0.195	0.249	0.578	0.443	0.127	0.208	0.245	0.382	0.375	0.257					
France	0.428	0.287	0.440	0.343	0.295	0.307	0.472	0.400	0.335	0.359	0.317	0.392	0.414				
Germany	0.608	0.405	0.576	0.532	0.191	0.380	0.651	0.587	0.519	0.477	0.443	0.527	0.592	0.244			
Sweden	0.589	0.367	0.549	0.506	0.216	0.410	0.604	0.559	0.500	0.438	0.452	0.498	0.532	0.222	0.091		
UK	0.660	0.296	0.647	0.469	0.452	0.329	0.587	0.510	0.463	0.368	0.370	0.478	0.637	0.353	0.415	0.428	
USA	0.604	0.249	0.588	0.463	0.498	0.419	0.594	0.502	0.457	0.375	0.485	0.473	0.644	0.397	0.465	0.493	0.129

Figure 1 shows the resultant clusters, and Table 5 presents the attendant pairwise dissimilarity measures, or 'institutional distances' (cf. Jackson and Deeg, 2008). The main Asian clusters are, from left to right: the (post-)socialist countries of China, Vietnam, Laos and India, the latter clustering here because its socialist heritage of central planning and state control of the economy remains strong; the advanced city economies of Hong Kong and Singapore; the remaining Southeast Asian nations; and the advanced Northeast Asian economies of Korea and Taiwan.

The Western economies as well as Japan cluster separately from the Asian economies. They form two large branches, broadly consistent with the notion of coordinated (CMEs) and liberal market economies (LMEs) (Hall and Soskice, 2001). Consistent with prior treatment in the literature of Japan as a case of coordinated capitalism (e.g. Hall and Soskice, 2001; Redding and Witt, 2007), Japan falls into the coordinated branch, between the two Germanic economies and France.

We ran an additional series of cluster analyses in which we separated Chinese and Indian private and state business. The rationale for doing so was that we wanted to see how the institutional structures of private business, which in both countries is the driving force of growth and accounts for about two-thirds of GDP (Saez, forthcoming; Witt and Redding, forthcoming), fit into the overall picture. Figure 2 shows the results. As prior works have suggested (Redding and Witt, 2007), Chinese private business broadly clusters with the poorer Southeast Asian economies, which tend to be dominated by ethnic Chinese businesses. Indian private business is on the same branch as Chinese private business and the poorer Southeast Asian nations, but splits off earlier into a sub-cluster of

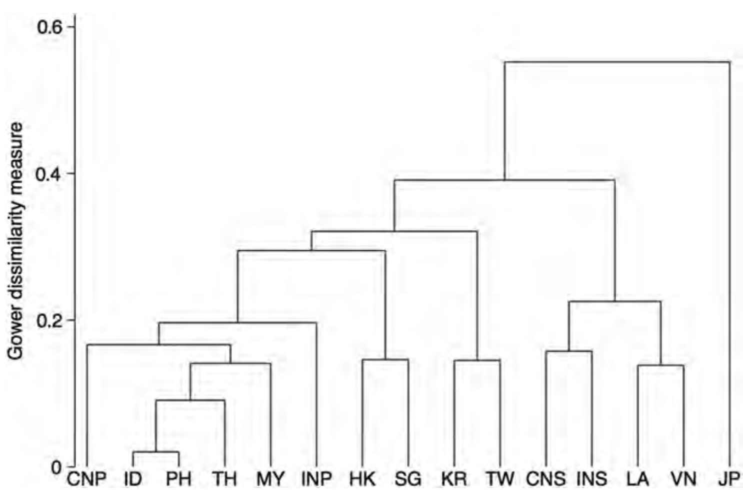

Figure 2 Dendrogram of clusters of Asian business systems—China and India split into private- and state-owned business systems (XXP, private; XXS, state-owned).

its own. State businesses in both countries cluster with one another and, at a higher level, with Laos and Vietnam, as one would expect.

This structural similarity of Chinese and Indian business may at first seem surprising. The most striking contrast between these nations is that India is socio-culturally highly diverse, while China is both different from India and homogenous. A second obvious contrast is that between the democracy of India and the autocracy of China.

Despite these differences, their business systems have many common features, as is readily apparent when one compares the institutional characteristics of the two economies in Tables 2–4. Of these, perhaps the most significant are the inefficiency of the state institutions on which the economy depends, the vibrancy of the private sector despite selectivity in capital allocation, the dominance of bank financing, the power of personally dominated large firms with crony capitalist connections (in India, business houses; in China, local corporates), management skill shortages and weak delegation, endemic corruption and predatory tendencies, dis-organized labor, weak educational quantity and debilitatingly weak institutional trust. They share a daunting future as they face the challenges of the expanded rationalisms of modernizing and they do so being more similar than they may at first seem.

There are also important historical parallels. First, China and India share several formative decades of re-birth as states from the late 1940s, in each case with a Marxist political ideology, and with a continued legacy of very heavy government. Second, post-1980 they evolved out of this in parallel by adopting market discipline and the use of controlled influences from outside. Third, they have encouraged alliances of various mercantile forms between strongly entrepreneurial business initiatives and government-sourced funding and licensing.

Overall, our results are broadly consistent with the clusters of Asian capitalisms identified by Harada and Tohyama (2012), which to our knowledge represents the one prior piece of this kind. However, the present results improve and extend on the work of Harada and Tohyama in a number of ways. First, geographical coverage is widened to include India and Vietnam, two important and fast-rising economies, as well as Laos. As a result, we know that China does not constitute a singular case, as concluded by Harada and Tohyama, but is part of a larger cluster of (post-)socialist economies. Second, the dimensions used to produce the present results are compatible with leading models of business systems analysis. Third, the measures underlying the present analysis draw on the institutional structures in Asian business systems not as published in official rules and regulations, but as actually practiced, a point that is of great relevance in Asia, as we will discuss (cf. also Aoki, 2007). Fourth, the clusters derived in this paper emerge entirely from the data, and we refrain from reassigning economies to different clusters based on reinterpretations of the results. Fifth, representation using dendrogram allows for a more fine-grained picture of similarities and differences to emerge. Among others, it becomes clear how different from the rest of Asia Japan really is—consistent with the oft-heard comment in Japan that its business system represents a kind of 'Galapagos'—while Harada and Tohyama paired it with Korea. We also see that Indonesia, Malaysia, the Philippines and Thailand are part of one larger cluster. And finally, we are able to parcel out the institutional structures governing state-owned and private business in China and India, allowing us to generate a sense of how these driving forces of economic development in both countries compare with other Asian business systems.

5. Implications for business systems theory

The data and analyses presented above have important implications for business systems theory, which we will spell out in this section. We commence by drawing conclusions from the results of the cluster analysis before turning to larger points.

The overall conclusion from the cluster analysis is that none of the existing business systems typologies adequately categorizes the institutional variations visible in Asia and the West. This is most immediately obvious for what still remains the leading framework for classifying business systems, the VoC approach of Hall and Soskice (2001) distinguishing between CMEs and LMEs. The original geographic scope of the VoC framework was limited to the Western OECD countries and Japan, and our cluster analysis shows that despite all the arguments over the past decade about variations within the dichotomy, there is some justification in applying this approach to said set of OECD economies. Compared with the differences between the West and Asia, the variations inside the West seem to be minor.

When it comes to understanding Asia, however, the VoC framework clearly falls short. All Asian economies, except Japan, cluster on a completely different branch than the countries the VoC framework identifies as CMEs and LMEs. To be fair, the framework was not designed for Asia. That, however, has not prevented people from trying to make it fit Asia. Our findings suggest very strongly that such efforts to categorize the Asian economies using the CME–LME dichotomy are misguided.

Viewed more broadly, the cluster analysis suggests that none of the other major typologies—those by Amable (2003) and Whitley (1999)—are complete.[3] This is again a function of geographic scope. Amable's work focused on the West, so one would not expect it to apply to Asia. Whitley (1999) took into account the Northeast Asian context, and arguably, three of the six types of capitalism he

[3]Redding (2005) focuses on identifying dimensions of variation without developing a typology of outcomes.

identifies—fragmented, state-organized and collaborative—correspond roughly to the clusters on Chinese private business, Korea and Taiwan and Japan in Figure 2. Missing from his account, then, would be the cases of the advanced city states as well as those of the post-socialist economies (though one might respond, with some justice once private business is parceled out, that the latter cannot be called 'capitalism').

Rather, our research brings the total number of known types of capitalism in Asia and the West to at least six and possibly as many as nine: four in Asia (post-socialist, advanced city state, emerging Southeast Asian, advanced Northeast Asian) plus some two to five in the West (including Japan), depending on the specific typology for the West one subscribes to. It stands to reason that further empirical work on other geographies, such as South America and the Middle East, will yield further types.

Our analysis further suggests that in search of these types, it may not be fruitful to attempt to generalize categories identified in one context to another. Schmidt (2009), for instance, applies a label derived in the European context, that of 'state-led market economies' (SMEs), to Korea and Taiwan. Our cluster analysis is inconsistent with this categorization, and as Table 5 shows, France is institutionally closer to Sweden, Germany, Hong Kong and Japan (none of them 'SMEs') than to Korea or Taiwan. Even if one uses only the various state-related measures in Tables 2–4 to cluster countries, France clusters with Germany, Japan and Sweden, not with Korea or Taiwan. Rather, the cluster analysis suggests that Asia and the West are two very different beasts indeed, and trying to apply to one a lens designed for the other is unlikely to lead to a full understanding.

The data presented in this paper further open up a number of questions and suggestions for further refinement of business systems theory. In particular, the evidence underlines the need for business systems analyses to incorporate social capital and cultural elements as well as the need of conceptualizing variations in the extent of informality in the business system and its interplay with formal institutions. In addition, the coexistence of multiple, dissimilar business systems within the same economies raises questions about our conceptualizations of institutional change and the larger question of institutional convergence.

5.1 Social capital

As already stated, we define social capital as trust (Whitley, 1999; Redding, 2005; Esser, 2008).[4] Within that category, we distinguish between interpersonal trust,

[4] We are aware that there is a range of competing definitions of the term, varying, among others, by discipline. We request that readers used to other definitions of the term mentally substitute 'trust' for 'social capital' throughout the text.

which is based on knowledge of the honest disposition of the other, and institutionalized trust, which is based on the confidence that the other will act honestly because there is a system in place that sanctions dishonesty (Whitley, 1999; Redding, 2005; Esser, 2008). Our concern in this section is with the latter kind, for which the data suggest a great deal of variation across Asian economies (Tables 2–4).

Seen as a collective good, institutionalized trust may be disaggregated into three components (Esser, 2008):

- *System control.* The availability of social control and a certain level of attention to the fate and action of other members of an entire social network, e.g. in a family or a business network or a societal reputation.
- *System trust.* A climate of trust in the network, meaning that there is confidence in its working.
- *System morality.* The validity of norms, values and morality within a group, organization or society.

To understand the workings of institutionalized trust, an ideal starting check-list would include (i) the legal system, (ii) the systems of regulation, (iii) the state of civil society, (iv) the society's openness, and the quality and quantity of information, and (v) the reliability of credentials such as educational diplomas. A good comparative measure is available only for the first of these. While we have used this as a proxy measure of institutionalized trust in general (Tables 2–4), we would like to underline the importance of understanding its other forms and expressions. Institutionalized trust in Japan, for instance, relies relatively little on its legal system and relatively much on reputational mechanisms that can be used to sanction offenders informally, which may be captured under the third component listed above (cf. Witt, 2006).

Two of the major business systems models underlying this paper—Whitley (1999) and Redding (2005), both of them developed with Asia in mind—have incorporated social capital in general and institutionalized trust specifically. Similarly, economists and legal scholars have recognized the relevance of institutionalized trust, usually narrowly interpreted as functioning legal systems, for explaining variations in economic outcomes (e.g. La Porta *et al.*, 2000).

In contrast, most business systems research has not. The tendency to bracket institutionalized trust in the field is understandable given that most business systems models were developed within the context of the Western advanced industrialized nations, plus Japan, to explain variations within this set of economies. There, however, institutionalized trust is essentially universally present. For instance, for the 19 Western countries explored in Hall and Gingerich (2009), the mean score for the rule of law index is 1.62, with a standard deviation of 0.39. The lowest scoring country is Italy, at 0.38. All other countries score above 1.0, and the high score is 1.97 (Finland). As a result, this variable and the underlying concept do not afford much explanatory leverage for these countries, though it might be useful in conceptualizing the positioning of the Mediterranean countries against the rest of the sample (mean without France: 0.87, mean with France 1.04, mean of 15 other countries: 1.78).

In contrast, in our Asian sample, the mean score is 0.30, with a standard deviation of 0.91 and a range from −0.63 (Laos) to 1.69 (Singapore). This has important implications for other elements of the business system, and we choose to emphasize two in this paper. The first is the tendency for businesses to form business groups. This pattern is universal in Asia, though the Japanese postwar implementation is unusual, as explained earlier, and will be bracketed from this discussion. A leading explanation of the emergence of business groups is that they represent responses to the absence of a reliable legal framework that, among others, can be used to enforce contracts (Khanna and Palepu, 1997). As a result, firms prefer to internalize transactions that in Western markets would occur on an arm's length basis and form conglomerates.

The second is the high levels of family control of firms across the region. Only in Japan and Laos does this form of governance play no role in the major enterprises in the economy. Lack of institutionalized trust seems to underlie this phenomenon as well (Redding, 1990). Absent institutionalized trust, business leaders will fall back on delegating important tasks to people they trust as persons. These could in principle include long-term friends, but in general, nowhere is interpersonal trust as automatic and strong as within the family. Separating ownership from control, as is often the case in northern European family-owned businesses in which professional managers run the company, is not seen as a viable option because there are no reliable means of ensuring that third parties will act honestly.

It would seem odd to try to explain two constant outcomes with a factor that shows considerable variance. In particular, the question arises as to why environments with high institutionalized trust, such as Hong Kong and Singapore, retain business group structures and family control. The apparent contradiction is resolved when we consider that Hong Kong and Singapore, and also Korea and Taiwan, had vastly lower degrees of institutionalized trust in the not-so-distant past. In the 1960s, for instance, Singapore was notorious for corruption, and as late as the 1980s, a government minister was prosecuted for this reason. The business groups extant today thus emerged in more unsettled times, and the general inertia inherent in any organization is likely to prevent their sudden disappearance. In addition, Hong Kong and Singaporean business groups have high levels of business activities in neighboring countries with much lower levels of institutionalized trust, which is likely to reinforce inertial forces.

5.2 *Culture*

Culture is commonly defined as the 'social construction of reality' (Berger and Luckmann, 1966) or as the 'software of the mind' (Hofstede, 1997). Culture is dangerous territory, and most social scientists prefer to stay away from it, not least because of its 'sulfuric odor of race and inheritance' (Landes, 2000, p. 2). Yet there is growing evidence that culture *does* matter and can be conceptualized and handled in scientifically acceptable ways. Serious scholars such as Douglass North have incorporated it in their theories (North, 2005). Others hint at a role for culture in business systems. For instance, Hall and Soskice (2001) suggest that institutional configurations are based on 'shared understandings', and Fligstein (2001) speaks of 'conceptions of control' for explaining corporate governance structures. Considerable effort has gone into identifying the key dimensions of culture and measuring them with rigor (e.g. Hofstede, 1997; Bond *et al.*, 2004; House *et al.*, 2004), including how culture changes across time (Ralston *et al.*, 1997).

Similar to social capital, the models by Whitley (1999) and Redding (2005) include cultural dimensions, though Whitley avoids the term 'culture'. In contrast, most of the literature on business systems stays away from culture, apart from hints as quoted above. In addition to a general aversion to culture in the social sciences, it is arguably the case that within the context of the advanced industrialized Western nations, the explanatory leverage of cultural variables (at least those with published metrics) may be limited. Figure 3 shows a scatterplot locating the same 19 Western nations as for our discussion of social capital and the 13 Asian nations compared in this chapter along the two dimensions of culture that are essentially undisputed among scholars in that field: power distance, which is a measure of hierarchy, and individualism, which is a measure of the extent to which a society is group-based. Both measures are highly correlated, as group-based societies usually rely on hierarchy to establish order within groups. As is clearly visible, the advanced industrialized nations tend to cluster in the bottom left quadrant, meaning they tend toward low hierarchy and high individualism. The Asian nations cluster in the upper right quadrant, implying high hierarchy and greater importance of groups. Noteworthy is again that southern European nations tend to fall in between.

The existence of relatively strong hierarchical values in Asia—and indeed, in southern Europe—is consistent with the prevalence of top-down decision-making in firms (again except Japan). While decision-making in Anglo-Saxon countries is interpreted as top-down as well (Whitley, 1999; Hall and Soskice, 2001), there are important differences in quality and degree. While Anglo-Saxon managers seek input from subordinates before reaching decisions, this is rarely the case in Asian contexts.

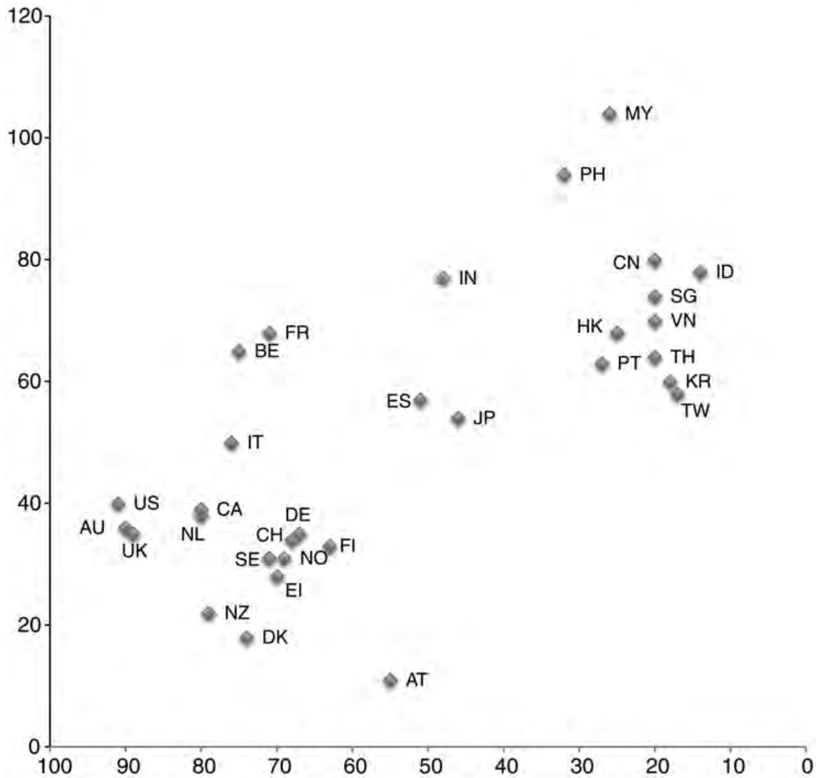

Figure 3 Power distance and individualism—Western and Asian economies. Vertical axis is power distance, higher values mean stronger hierarchy. Horizontal axis is individualism, lower values mean stronger group orientation. Source: http://geert-hofstede.com/.

5.3 Informality

Not expressed in any single variable but pervading all of Asia and influencing most if not all aspects of Tables 2–4 is a strong element of informality, which we define as reliance on informal (uncodified) institutions such as unwritten norms, conventions or codes of behavior (cf. North, 1990). In some cases, informal institutions simply supersede formal institutions, as in Chinese employment relations, which are *de jure* tripartite but *de facto* centralized under the Communist Party. In other cases, institutions complement formal ones, as in the Japanese practices of long-term or lifetime employment and the seniority principle, both of which are informal practices (and continue in practice, despite rhetoric to the contrary; cf. Witt, forthcoming *a*). In some cases, these institutions support institutional change by necessitating or preparing institutional change (for the general mechanisms, cf. Witt, 2006). For instance, deviation from formally codified laws and regulations paired with local variation in such deviations has been a key mechanism for formal institutional change in China and evolving information about the feasibility of formal institutional innovations (for a review, cf. Xu, 2011). In other cases, they retard it, as in the circumvention of newly instituted corporate governance rules in Japan (cf. Dore, 2007).

This dimension seems underappreciated and undertheorized in the business systems literature. Of the main models used in this paper, none incorporates it. Similarly, the bulk of the business systems literature more generally has focused on formal institutions. For instance, Streeck and Thelen (2005) explicitly exclude informal institutions, and most of the edited volume by Aoki *et al.* (2007) explores changes in the formal structure of Japanese corporate governance. At some level, this emphasis on formal structure is justifiable, as the focus of most business systems research has been on advanced industrialized countries, where economic actors generally play by the official rules of the game. However, once we move to southern Europe or Japan, this alignment of practice and structure starts to deteriorate. For instance, Dore (2007) illustrates how the structural changes noted in the other chapters of the edited volume by Aoki *et al.* (2007) were not necessarily followed by changes in actual practice. And once we leave the advanced industrialized world, correspondence between formal structure and practice tends to break down, as in the case of China. This suggests a need to acknowledge, in the words of Aoki, that 'the law defines the formal rules, but [what] we should ultimately be concerned with are [sic] the "ways by which the game is actually played"' (Aoki, 2007, p. 434). The data in Tables 2–4 represent an effort to do exactly this: they reflect the actual workings of the respective business systems, regardless of whether they follow formal institutional structures.

The extent of informality is probably linked to the degree of institutionalized trust. In the absence of a reliable formal institutional structure, actors will evolve their own informal institutions as functional substitutes. Conversely, institutionalized trust is difficult to develop in the presence of embedded and entrenched informal institutions. There is also likely to be a linkage to culture, in that informal institutions are easier to sustain in group-based societies, which feature higher levels of group conformity pressures (Hofstede, 1997). The experience of Asia suggests that these connections, and the role of informality more generally, need incorporating into business systems theory.

5.4 Multiplexity

A final feature of Asian business system worth underlining is that of multiplexity, which is the presence of multiple business systems within the same economies. China and India, for instance, feature coexisting state-owned and private sectors following different rules of the game. While the state-owned business systems have been shrinking in both countries, current rates do not suggest that they will disappear anytime soon; indeed, recent years seem to have seen a renewed interest in China in preserving a hard core of state-owned enterprises.

Multiplexity is not part of any of the models on which this paper draws, though Whitley's (1999) model probably permits for this in that it identifies two ideal types that are present within the national boundaries of Germany. In the literature more widely, the notion of rigid, nationally based punctuated equilibria has slowly given way to theories of incremental institutional change in which increasing heterogeneity in practices drives change (e.g. Aoki *et al.*, 2007; Lechevalier, 2007). If institutions are flexible (or weak) enough, however, to permit high levels of variance, one possible end result is the emergence of multiple punctuated equilibria, and thus multiple business systems, in the economy. Viewed from that perspective, the emergence of a subgroup of Japanese firms with the trappings of a more Western-style corporate governance regime (Jackson and Miyajima, 2007), for instance, may not be the beginnings of systemic institutional change in Japan, but an adaptive response around a new equilibrium point by a select group of firms. A case in point is similarly the unintended rise of the Chinese private business system following the 1978 reforms, which in effect established a second business system in China.

The presence of multiplexity raises important questions. One is what preconditions allow the coexistence of multiple business systems in the same institutional space. High levels of institutionalized trust are likely to be inimical to it, unless different rules are written for different parts of the economy. Informality of institutions, on the other hand, may be conducive to it. Likewise, information codification and diffusion may play a role, as suggested for China by Boisot *et al.* (2011).

A second question relates to the concept of institutional convergence. There is now general agreement in the business systems literature that such convergence among the advanced industrialized countries has been at best partial. However, if we allow for multiple equilibria within the same national context, then the question of institutional convergence at the national level becomes moot, as firms subject to convergence pressures may create their own equilibrium points.

6. Conclusion

In sum, we have presented a comprehensive comparison of the institutional structures of 13 major Asian business systems—those of China, Hong Kong, India, Indonesia, Japan, Laos, Malaysia, the Philippines, Singapore, Korea, Taiwan, Thailand and Vietnam—with one another and five major Western economies—those of France, Germany, Sweden, the UK and the USA. Based on these data, the paper has identified the presence of five major types of business systems in Asia: (post-)socialist economies, advanced city economies, emerging Southeast Asian economies, advanced Northeast Asian economies and Japan. The analysis further suggests that with the exception of Japan, which bears similarities with France, Germany and Sweden and clusters with them on the same branch, all Asian forms of capitalism are fundamentally distinct from Western types of capitalism.

These findings suggest, first and foremost, that the traditional dichotomy of CMEs versus LMEs (Hall and Soskice, 2001) is not useful for understanding Asian business systems. Indeed, none of the existing major frameworks (Whitley, 1999; Amable, 2003) account for the full range of categories visible in Asia and the West, though Whitley's comes closest. The data also speak against efforts to understand Asian business systems (except Japan) through a Western or European lens, such as that of SMEs. Our analysis of Asia further suggests that the business systems literature should invest in the further development of theory and empirical research on social capital, culture, informality and multiplexity.

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