Market, Culture, and Authority: A Comparative Analysis of Management and Organization in the Far East[1]

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Three frameworks purport to explain industrial arrangements and practices: a market approach that emphasizes economic characteristics, a cultural approach that sees organization as the expression of patterned values, and an authority approach that explains organization as a historically developed structure of domination. The efficacy of each approach is tested in explaining the organizational structures of three rapidly growing East Asian economies: Japan, South Korea, and Taiwan. The paper argues through comparative analysis that organizational *growth* is best explained by market and cultural factors but that authority patterns and legitimation strategies best explain organizational *structure*.

Several social science disciplines have been interested in the structure and functioning of economic organizations. This widespread interest is largely grouped around three perspectives. Especially in economics (Chandler 1977, 1981; Teece 1980; Williamson 1981, 1985) but also in anthropology (Orlove 1986) and sociology (White 1981), scholars have studied economic decision making in regard to the conditions under which business firms

[1] Versions of this paper have been presented in the following locations: Pan Pacific Conference in Seoul; Tunghai University Seminar Series in Taiwan; Stanford University Organizational Studies Seminar Series; Regional Seminar on Chinese Studies, University of California, Berkeley; and the All-University of California Conference in Economic History at Asilomar, California. We greatly appreciate the helpful comments from many who attended these sessions and thank the following people who carefully read one or more drafts of this paper: Howard Aldrich, Manuel Castells, Tun-jen Cheng, Donald Gibbs, Thomas Gold, Chalmers Johnson, Cheng-shu Kao, Earl Kinmonth, John W. Meyer, Ramon Myers, Marco Orrù, Charles Perrow, William Roy, W. Richard Scott, and Gary Walton. We also wish to acknowledge and thank the following individuals for their help in some part of the research: Wei-an Chang, Ben-ray Jai, Hsien-heng Lu, Hwai-jen Peng, Cindy Stearns, Moon Jee Yoo, and Shuenn-der Yu. Hamilton also wishes to acknowledge the support of the Fulbright Foundation and the National Science Foundation (SES-8606582), which made this research possible. Request for reprints should be sent to Gary G. Hamilton, Department of Sociology, University of California, Davis, California 95616.

0002-9602/89/9407-0009$1.50.

arise and operate in relation to market-mediated transactions. We call this general perspective the "market approach." The second perspective on economic organization is the "cultural approach," which suggests that cultural patterns shape economic behavior. This perspective was formerly a preserve of anthropologists (e.g., Benedict 1946; Douglas 1979; see also Orlove 1986) but is now widespread among a large number of scholars from diverse backgrounds. Studies of corporate culture (Deal and Kennedy 1982; Peters and Waterman 1982; Kanter 1983) and comparative culture studies of Japanese (Ouchi 1981, 1984; Pascale and Athos 1981; Vogel 1979), Swedish (Blumberg 1973; Foy and Gadon 1976), Yugoslavian (Adizes 1971), and other nations' industrial practices have increased manifold in the past 10 years. The third perspective is a political economy perspective, which we call the "authority approach." Scholars in all social science fields have worked on economic organization from this wide-ranging perspective, from the seminal work of Marx (1930) and Weber (1958, 1978) to such recent studies as Granovetter (1985), Perrow (1981, 1986), Portes and Walton (1981), Haggard and Cheng (1986), Reynolds (1983), and Mintz and Schwartz (1985).

This paper assesses the relative efficacy of each of these three approaches in explaining the industrial arrangements and strategies of three rapidly developing countries of the Pacific region—South Korea, Taiwan, and Japan. We argue that, while market and culture explanations make important contributions to understanding, neither is alone sufficient. A market explanation correctly draws our attention to state industrial policies and entrepreneurial responses. But a market explanation cannot account for the distinctive and substantially different organizational arrangements that have appeared in the three countries. A cultural explanation, however, enables us to see, correctly, organizational practices in Japan, South Korea, and Taiwan as generalized expressions of beliefs in the relative importance of such social factors as belongingness, loyalty, and submission to hierarchical authority. But looking at culture alone obscures the fact that business organizations, no matter how well they accord with cultural beliefs, are fundamentally responses to market opportunities and conditions. Enterprise may be culturally informed, but it remains enterprise. Moreover, cultural variables are insufficiently distinguishable in the region to have clear explanatory force.

In this paper, we argue that the political economy approach with a Weberian emphasis produces the best explanation of the three. This approach incorporates elements of the market and culture explanations but does so from the point of view of the historically developed authority relations that exist among individuals and institutions in each society. We argue that market opportunities do indeed lead to innovations in organizational design but that these innovations are not simply a rational calculus of the most efficient way to organize. Organizational practices, instead, represent strategies of control that serve to legitimate structures of command and often employ cultural understandings in so doing. Such practices are not randomly developed but rather are fashioned out of preexisting interactional patterns, which in many cases date to preindustrial times. Hence, industrial enterprise is a complex modern adaptation of preexisting patterns of domination to economic situations in which profit, efficiency, and control usually form the very conditions of existence.

We pursue this argument in the following sections. First, we introduce the recent economic history of the three countries of interest and describe their current patterns of industrial organization. South Korea, Taiwan, and Japan offer an unusual opportunity for comparative analysis. The economy of each was virtually destroyed by war, World War II in the cases of Japan and Taiwan and the Korean War in the instance of South Korea. In recent years, all three nations have rebuilt their economies and achieved extraordinary rates of economic growth, yet each has a different dominant form of organizational structure. Second, we employ in turn market, culture, and authority relations explanations, suggesting the distinctive contribution and limitation of each to analyzing the three cases and explaining their differential outcomes. Finally, we suggest how our analysis of these three East Asian economies, and the relative superiority of the authority relations approach, has implications for industrial analysis, including the American case as it is currently understood.

RECENT ECONOMIC DEVELOPMENT IN JAPAN, TAIWAN, AND SOUTH KOREA

Forty years ago, at the end of World War II, Japan lay in ruins, its industrial core shattered and its colonial empire of Korea and Taiwan severed. Taiwan, a largely agricultural society, was also leveled by the war, and "three-quarters of [its] industrial capacity was destroyed" (Little 1979, p. 454). Moreover, Taiwan absorbed fleeing migrants from the Chinese mainland, who arrived with Chiang Kai-shek's armies and government. Taiwan's population jumped from fewer than 6 million people in 1944 to 8 million in 1950, a more than one-third increase in about five years (Kuznets 1979, p. 32). Similarly, 32 years ago Korea emerged from a civil war that destroyed its economy and killed 1.3 million of its people. The southern agricultural portion of the country was separated from the industrial north. South Korea lost its supply of manufactured goods, hydroelectric power, and the bituminous coal that powered its railroads (Bunge 1982, p. 24).

TABLE 1

VALUE OF EXPORTS IN JAPAN, SOUTH KOREA, AND TAIWAN IN MILLIONS OF U.S. DOLLARS

	Japan*	South Korea†	Taiwan‡
1965	8,452	175	450
1970	19,318	835	1,481
1975	55,753	5,081	5,309
1980	129,807	17,505	19,810
1984	170,132§	29,253§	30,456

* From *Abstract of Statistics on Agriculture, Forestry and Fisheries,* Japan, 1982.
† From *Korea Statistical Handbook,* National Bureau of Statistics, 1985.
‡ From *Statistical Yearbook of the Republic of China,* Directorate General of Budget, Accounting, and Statistics, 1984.
§ From United Nations, *Monthly Bulletin of Statistics,* 1985.

Yet, in the 1980s, these three countries are the centerpiece of a rapidly industrializing Asia (Hofheinz and Calder 1982; Linder 1986). They have not only rebuilt their economies but have also become the wonder of the developing and developed worlds. Japan's success is the envy of American and European nations: in 1984, Japan's gross national product was the second highest in the capitalist world (Economist Intelligence Unit 1985*a*), with growth and investment rates double the United States' (Vogel 1979). Taiwan's GNP increased an average of 10.6% a year in the decade 1963–72, and in the decade 1973–82, a period that includes a world recession, it increased 7.5% a year (Myers 1984). In 1949, Taiwan's per-capita income was less than $50 U.S. In 1970, it was around $350, and, in 1984, $2,500 (Minard 1984, p. 36). South Korea's economic development did not accelerate until the 1960s, but in the decade 1963–72 manufacturing exports grew 52% a year (Little 1979), and between 1962 and 1984 industrial production increased at an average rate of 17% (Economist Intelligence Unit 1985*b*). In 1962, South Korea's per-capita GNP was $87 U.S., in 1980, $1,503 (Bunge 1982, p. 109), and in 1983, $1,709 (*Monthly Bulletin of Statistics* 1985). All three countries' economic success has largely been fueled by exports. Table 1 shows the extraordinary growth in the countries' export sectors. In 1984, Japan's trade surplus to the United State was about $40 billion (*Direction of Trade Statistics* 1985, p. 242); Taiwan's was nearly $10 billion (more than twice Japan's on a per-capita basis) (*Taiwan Statistical Data Book* 1985, p. 205); and South Korea's was $3.2 billion (*Direction of Trade Statistics* 1985, p. 248). By any economic measure, the growth of these northeast Asian economies is unprecedented and has led many to refer to this economic success story as the "Asian Miracle."

The similarities of Japan, Taiwan, and South Korea go beyond economic recovery in the wake of wartime destruction; in fact, other similarities might seem to account for their common economic development (Cumings 1984; Hofheinz and Calder 1982). All three countries have few natural, especially mineral, resources. Their success cannot be explained by the discovery of oil reserves, as in some comparably successful developing nations in the Middle East. Nor is land the source of their wealth. Taiwan, South Korea, and Japan are among the most populated countries in the world in relation to cultivable land, "higher even than Egypt and Bangladesh and four times as high as India" (Little 1979, p. 450). Clearly, these are nations dependent on industry for wealth. They received economic aid and direction from the United States to repair and restart their economies, but the aid alone, which was given to other countries as well, cannot explain the rapid development there (Amsden 1979; Haggard and Cheng 1986; Little 1979; Hofheinz and Calder 1982; Barrett and Whyte 1982). Historically and culturally, the three are intertwined. Japan colonized Taiwan in 1895 and Korea in 1910, pursuing similar colonial policies in each (Cumings 1984; Myers and Peattie 1984). While each nation has its own language and ethnicity, China has, historically, had influences throughout the region. Korea and Japan, like Taiwan, have been deeply influenced by Confucian and Buddhist traditions. All three have relied on exports as a means for economic expansion.

In sum, the similarities are substantial. In fact, they are so great and the fate of the three countries so interlinked historically that Bruce Cumings (1984, p. 38) insightfully argues that "the industrial development in Japan, Korea, and Taiwan cannot be considered as an individual country phenomenon; instead it is a regional phenomenon. . . ." He further argues: "When one [country] is compared to another the differences will also be salient, but when all three are compared to the rest of the world the similarities are remarkable."

Despite these similarities, Japan, South Korea, and Taiwan have substantially different forms of enterprise or firm organization, particularly in the export sectors of their economies. Moreover, in each country the firm is embedded in a network of institutional relationships that gives each economy a distinctive character.[2] The important point here is that, if one looks only at individual firms, one misses the crucial set of social and

[2] Although true for all three societies, Japan is best known for these extrafirm networks. So prevalent and important are these networks in Japan that Clark (1979, pp. 95–96) suggests that they constitute a "society of industry": "No discussion of the Japanese company can disregard this context. The society of industry circumscribes, for example, the organization and administration of the company."

political institutions that serves to integrate the economy. Taking advantage of Granovetter's very useful discussion (1985), we argue that the firm is "embedded" in networks of institutionalized relationships and that these networks, which are different in each society, have a direct effect on the types of firms that develop, on the management of firms, and on organizational strategies more generally. The particular forms of economic embeddedness in each society, particularly in relation to political institutions, allow for the activation of different organizational designs to achieve industrialization.

THREE PATTERNS OF INDUSTRIAL ORGANIZATION

In Japan, two interrelated networks of firms are crucial for understanding the operation of the Japanese economy, and particularly the export sector. These networks represent two types of what Caves and Uekusa (1976) call "enterprise groups." One type of enterprise group consists of linkages among large firms. These linkages are usually loosely coupled, basically horizontal connections among a range of large firms. Although such firms differ in terms of size and prestige (Clark 1979, p. 95), the linkages between them are what Dore (1983, p. 467) calls "relational contracting between equals." These groupings of firms are intermarket groups and are spread through different industrial sectors (Vogel 1979, p. 107). The second type of enterprise group connects small- and medium-sized firms to a large firm, creating what economists (e.g., Nakamura 1981; Ozawa 1979; Patrick and Rosovsky 1976) call a "dual structure," a situation of "relational contracting between unequals" (Dore 1983, p. 465). Both types of enterprise groups make centrally located large firms and associations of large firms the principal actors in the Japanese economy. As a result of these enterprise groups, assets are distributed throughout a range of different types of firms, as shown in table 2.

The best-known networks of large firms, or *grūpu,* are the *kigyo shudan,* or intermarket groups, which are the modern-day descendants of the pre–World War II *zaibatsu*. These networks are normally groups of firms in unrelated businesses that are joined together by central banks or by trading companies (Clark 1979; Caves and Uekusa 1976). In prewar Japan, these groups were linked by powerful holding companies that were each under the control of a family. The *zaibatsu* families exerted firm control over the individual firms in their group through a variety of fiscal and managerial methods. During the U.S. occupation, the largest of these holding companies were dissolved, with the member firms of each group becoming independent (Bisson 1954). After the occupation, however, firms (e.g., Mitsui, Mitsubishi, and Sumitomo) regrouped themselves, but this time allowing for only limited concentration of fiscal resources in

TABLE 2

Distribution of Assets of Large Japanese Corporations, by Group Affiliation

Affiliate Group	Percentage of Total Assets 1955	1962	1965
Public corporations whose capital is wholly or partly government owned	62.2	50.1	38.3
Affiliates of long-term credit banks whose capital is partly government owned	2.1	3.3	4.3
Affiliates of *zaibatsu* and large private banks	23.3	28.4	29.2
Mitsui	6.1	3.8	5.0
Mitsubishi	5.0	6.4	7.2
Sumitomo	3.2	5.9	5.4
Fuji Bank (Yasuda)	2.9	3.6	3.8
Dai-ichi Bank	3.1	3.5	3.2
Sanwa Bank	1.4	2.2	2.6
Giant industrial corporations with vertical and conglomerate structures of subsidiaries and affiliates	5.6	9.5	8.8
Foreign-owned enterprises	1.0	1.4	1.4
Companies outside the affiliate system	5.8	7.3	18.0
Total	100.0	100.0	100.0

Source.—Caves and Uekusa (1976, p. 64).

banks and none whatsoever in family-run holding companies (Johnson 1982, p. 174; Caves and Uekusa 1976). In addition to the former *zaibatsu,* another variant of the intermarket groups emerged in the postwar period. This is what Clark (1979, p. 72) calls the "bank group," which consists of "companies dependent for funds on a major bank" (e.g., Fuji, Dai-ichi, and Sanwa).[3]

The second type of enterprise group consists of vertical linkages between major manufacturers (*kaisha*) and their related subsidiaries (Abegglen and Stalk 1985; Clark 1979, p. 73), linkages that produce a dual structure in the Japanese economy (Yasuba 1976; Nakamura 1981). Ma-

[3] Usually, overlapping networks founded on banks are the networks of firms linked by general trading companies (*sōgō shōsha*) (Young 1979; Kunio 1982). These trading companies market and distribute the products of the firms that are affiliated with them. Some companies handle as many as 20,000 individual items and have offices in over 100 locations outside Japan (Krause and Sueo 1976, p. 389). Each bank-based network has its own trading company that supports its affiliate firms. Otherwise unaffiliated companies, usually small- and medium-sized businesses, also form their own trading-company cartels to market their products overseas as well as in Japan (Ozawa 1979, pp. 30–32).

jor firms in Japan are directly connected to a series of smaller independent firms that perform important roles in the overall system of production.[4] According to Nakamura's analysis (1981, pp. 171–93), with the exception of some assembly industries (e.g., automobiles), "The prevailing pattern is that large firms are in charge of the raw materials sector while small firms handle the transformation of these materials into manufactured goods." This system of subcontracting allows large firms to increase their use of small firms during times of expansion and to decrease their use during times of business decline. So common are these relations between large and small firms that the "subcontractorization" of small firms by the large has been seen as the "greatest problem" confronting the Japanese economy because of the inequality and dual-wage system that it spawns (Nakamura 1981, p. 175).

In sum, the Japanese economy is dominated by large, powerful, and relatively stable enterprise groups. These groups constitute a "society of industry" (Clark 1979, pp. 95–96), "where *zaibatsu* and other affiliations link industrial, commercial, and financial firms in a thick and complex skein of relations matched in no other country" (Caves and Uekusa 1976, p. 59).

Unlike in Japan, with its diversity in business networks, in South Korea, the dominant industrial networks are large, hierarchically arranged sets of firms known as *chaebol*. *Chaebol* are similar to the prewar *zaibatsu* in size and organizational structure. In 1980–81, the government recognized 26 *chaebol,* which together controlled 456 firms (Westphal et al. 1984, p. 510). In 1985, there were 50 *chaebol* that controlled 552 firms (*Hankook Ilbo* 1985). Their rate of growth has been extraordinary. In 1973, the top five *chaebol* controlled 8.8% of the GNP (Koo 1984, p. 1032), but by 1985 the top four *chaebol* controlled 45% of the GNP (*Business Week* 1985, p. 48). In 1984, the top 50 *chaebol* controlled about 80% of the GNP (*Hankook Ilbo* 1985).

While the *chaebol* resemble enterprise groups in Japan, the member firms of the *chaebol* are closely controlled by central holding companies, which are owned by an individual or a family. In turn, the central holding companies of the *chaebol* do not have the independence of action that the enterprise groups possess in Japan. Instead, they are directly managed by the South Korean state through planning agencies and fiscal controls. Whereas the intermarket groups in Japan are based on a central bank and trading company, in South Korea *chaebol* rely on financing

[4] Many of these major firms are independent of the established *keiretsu*. According to Abegglen and Stalk (1985, pp. 189–90), these firms represent the fastest growing sector of the Japanese economy. As these firms grow larger, however, they come to resemble the *keiretsu:* "Some have become so large and successful that through subsidiaries and affiliates they now control groups of their own."

TABLE 3

CONTRIBUTION TO GROSS DOMESTIC PRODUCTION IN THE MANUFACTURING SECTOR BY *Chaebol* GROUPS IN SOUTH KOREA (in percentages)

Number of *Chaebols*	1973	1975	1978	1984–85
4 largest*	...	...	...	45.0
5 largest†	8.8	12.6	18.4	...
10 largest†	13.9	18.9	23.4	...
20 largest†	21.8	28.9	33.2	...
50 largest‡	...	...	...	80.0

* From *Business Week* (1985).
† From Koo (1984, p. 1032).
‡ From *Hankook Ilbo* (1985).

from state banks and government-controlled trading companies. With this type of support, the *chaebol* have developed at a phenomenal rate, as shown in table 3. In addition, in contrast to Japan, outside the *chaebol* networks there are few large, successful independent firms and less subcontracting between large and small firms.[5]

In Taiwan, the family firm (*jiazuqiye*) and the business group (*jituanqiye*) are the dominant organizational forms throughout the economy, especially in the export sector. Unlike in either Japan or South Korea, in Taiwan there are relatively low levels of vertical and horizontal integration and a relative absence of oligarchic concentrations. Family firms predominate, and they are usually small to medium in size (i.e., fewer than 300 employees or total assets of less than $20 million U.S.). According to Zhao (1982), of the 68,898 firms registered in 1976, 97.33% were small to medium in size. These firms employed about 60% of Taiwan's workers and accounted for 46% of the GNP and 65% of Taiwan's exports. (For GNP contributions of the largest firms, see table 4.) Some of these firms form production, assembly, or distribution networks among themselves, often linking together through informal contracts. Other firms, however, perform subcontracting work for larger firms.

Jituanqiye, or large business groups, cross-cut family firms. Most groups are networks of firms controlled by a single family (Zhonghua

[5] Public sector enterprises are important in South Korea, even in export manufacturing. This sector continues to grow in importance in tandem with the *chaebol,* at the same time that the public sectors in Japan and Taiwan are declining both in size and in their involvement in export manufacturing. As in Japan, in South Korea there also are large associations of firms: the Korean Federation of Small Business, the Korean Traders' Association, the Federation of Korean Industries. But these associations do not have the influence of their Japanese counterparts, and "they have been accused of meekly obeying government directives" (Bunge 1982, p. 122).

TABLE 4

CONTRIBUTION TO GROSS NATIONAL PRODUCT BY FIRM SIZE IN TAIWAN (in percentages)

Number of Firms	1980	1981	1982	1983
5 largest	5.52	4.90	5.02	5.45
10 largest	8.70	7.91	7.69	8.23
20 largest	12.66	11.73	10.96	11.85

SOURCE.—*Tianxia zazhi* (World Journal), September 1, 1983, pp. 63–84.

TABLE 5

CONTRIBUTION TO GROSS NATIONAL PRODUCT BY THE LARGEST 100 BUSINESS GROUPS IN TAIWAN

	1973	1974	1977	1979	1981	1983
Percentage of GNP	34.0	29.5	29.1	32.8	30.0	31.7
Percentage of employees	5.1	5.1	5.0	4.9	4.6	4.7

SOURCE.—Zhonghua Zhengxinso (1985, pp. 46–47).

Zhengxinso 1985). These networks, however, do not rival the size of business groups in Japan and South Korea. Instead, most consist of conglomerate holdings of small, medium, and a few modestly large firms. As shown in table 5, a survey of the 100 largest business groups in Taiwan between the years 1973 and 1983 revealed remarkable stability in the overall economy, especially when compared with the rising corporate holdings in Japan and the phenomenal growth of the *chaebol* in South Korea (Zhonghua Zhengxinso 1985).

We develop the details of these patterns of business networks as we discuss the market, culture, and authority explanations for these differences.

THE MARKET EXPLANATION

The market explanation for organizational structure is associated most importantly with Alfred D. Chandler's analysis of the American business firm. *The Visible Hand* (1977) attempts to account for the development and rapid diffusion of the modern corporation. The invention of the corporation, what Chandler calls "multiunit" business enterprise, accelerated the rate of industrialization in the United States and, as American management ideas spread abroad, in the industrializing world generally. Although Chandler (1984) recognizes local differences in the spread of the multiunit firm to Western Europe and Japan, he attributes such differences largely to market characteristics. The United States was the "seed bed" of managerial capitalism, not Europe, because of "the size and nature of its domestic market" (1977, p. 498).

The logic of Chandler's analysis is a straightforward developmental thesis of institutional change based on changing market conditions.[6] Chandler shows that the preindustrial American economy was dominated by small, traditional organizations: partnerships or family-owned businesses with limited outputs. The traditional business typically received its raw materials and tools from a general merchant who in turn purchased at wholesale the business's finished goods and distributed them in nearby markets at retail prices. The general merchant was the kingpin of the colonial economy (1977, p. 18). After the colonial period and until the advent of the railways, traditional businesses became more specialized, with the general merchant giving way to the commission merchant. But even with these changes, the essential organization of the traditional firm stayed the same. They "remained small and personally managed because the volume of business handled by even the largest was not yet great enough to require the services of a large permanent managerial hierarchy" (1977, p. 48).

The development of a nation-spanning railroad network in the United States in the mid-1800s had two important consequences for industrial organization (1977, pp. 79–187). First, the railroads, the first geographically dispersed business, were compelled to develop innovative strategies of management; they developed the first multiunit firm organizations. Second, and more important, the railroad made it possible for small, traditional businesses to buy and sell in much larger markets, and larger markets made it possible for them to increase the volume of production manifold. Newly enlarged businesses now found it more efficient to perform under one corporate roof the multiple services performed by various commission merchants. Each business arranged the purchase of its own raw materials, the financing of its debts, the production of goods, and the location of and distribution to markets. Managerial or administrative coordination of these multiple activities "permitted greater productivity, lower costs, and higher profits than coordination by market mechanisms" (1977, p. 6). Chandler argues for the technical superiority of administrative over market coordination under conditions of mass markets created by the development of transportation networks.

[6] In a personal comment, William G. Roy reminded us that Chandler's explanation is economic only in a narrow sense. Chandler considers mainly the flow of goods within and between firms. He does not include in his explanation the dynamics of money and finance. Inflation and deflation, busts and booms, credit and capital—none of these factors are a part of his explanation for the rise of modern corporations.

Chandler's argument rests largely on technological causes. A related but much more economy-oriented argument has been developed by Oliver E. Williamson (1975, 1981, 1983, 1985). Building on the work of earlier economists (Commons 1934; Coase 1937), Williamson argues that the basic unit of economic analysis is the economic transaction—the exchange of goods or services across technological boundaries (e.g., the transformation of raw materials into finished goods or the purchase of goods for money). Every transaction contains costs, and especially those costs associated with ensuring that each party to a transaction lives up to the terms of the agreement. The more the uncertainty within the marketplace, Williamson argues (1985, pp. 30–32, 47–50, 64–67), the greater the likelihood that some parties will cheat, "will act opportunistically with guile." The more such opportunistic behavior occurs, the less reliable, the less efficient, and the less profitable the marketplace becomes. At this point, businesses reorganize to correct the deficiencies of the marketplace; they expand their organization through vertical or horizontal integration, thereby creating a "governance structure" that internalizes transactions, reducing transaction costs and increasing efficiency (1985, pp. 68–162).

Using transaction-cost theory, Williamson develops a theory of modern business organization. Multiunit firms arise when internally conducted transactions cost less than market-mediated transactions. The more complex and uncertain the economic environment, the more likely it is that businesses will expand their organization. Expansion reduces uncertainty and transaction costs and maximizes efficiency. For Williamson, the forms of organization that survive in specific economic arenas are the ones that deliver products more efficiently.[7]

To Chandler, multiunit firms offer superior coordination; to Williamson, lower transaction costs. Chandler acknowledges the influence of historical factors in explaining organization; Williamson explains the variety of organizations according to transactions: "There are so many kinds of organizations because transactions differ so greatly and efficiency is realized only if governance structures are tailored to the specific needs of each type of transaction" (1981, p. 568). Both, however, are efficiency theorists and see organization structure as the calculated expression of economically rational persons pursuing profit (Perrow 1981; Perrow 1986, pp. 219–57).

Chandler's market explanation of multiunit businesses can be applied to Japan, Korea, and Taiwan in a straightforward fashion but with am-

[7] This idea is a central thesis in the work of other economists as well: "Absent fiat, the form of organization that survives in an activity is the one that delivers the product demanded by customers at the lowest price while covering costs" (Fama and Jensen 1983, p. 327).

biguous results. Williamson's central concepts are more difficult to operationalize, particularly "transaction costs" and "contracts" (Perrow 1986, pp. 241–47). Although both Chandler and Williamson qualify their theories at various points, they restrict their explanations to decisive economic variables.[8] Therefore, differences in organizational structure necessarily would have to be explained in terms of crucial differences among the three countries. We find, however, that all three countries are very similar in regard to the crucial variables Chandler pinpoints. Moreover, even loosely applied, Williamson's theory does not seem to explain adequately the differences among the three.

First, in all three countries internal transportation and communication systems are well developed, modern, and certainly far beyond what they were in late 19th-century America (see, e.g., Ranis 1979, p. 225). External transportation and communication systems are also well developed. Second, the three countries possess substantial and growing internal mass markets, which have already risen above the level of early 20th-century America. But more important, all the countries have vast external markets. Third, Japan, South Korea, and Taiwan use, have available, or have developed, the most advanced technologies in the various industrial sectors. This level of technology, of course, is far advanced over that discussed by Chandler. Fourth, business enterprises in all three countries operate on principles of profit in the marketplace. By any definition, they are capitalist enterprises; they practice cost accounting, depend on free labor, develop through invested capital, and, if unsuccessful, may go bankrupt.[9]

Yet, despite these extensive similarities, as well as the others discussed earlier, among the three countries on all macroeconomic variables, the organizational structures of business enterprises are quite different. Moreover, even when each country is considered individually without regard to the other two, the enterprise structure is only partially explained by the market approach.

On the surface, Japanese business enterprise would seem to satisfy the conditions of Chandler's interpretation the best. The intermarket groups now include firms ranked among the largest in the world. They are vast, complexly organized, multiunit enterprises. They are successful in the world economy, where each of them has a sizable share of the total

[8] Writing with Ouchi, Williamson acknowledges that different societies may have preferences for either a "hard" or a "soft" form of making contracts (Williamson and Ouchi 1981). Chandler (1977, pp. 498–500) implicitly qualifies his theory by noting that in some other societies there were social factors blocking what would otherwise be the natural development of managerial capitalism.

[9] Although state/business cooperation is greater in Japan and South Korea than in the United States, these countries do not protect enterprise from business failure.

market in their respective sectors. Moreover, as is well known, these enterprises attempt to control the marketplace through administrative means (e.g., cartelization) insofar as it is possible (Johnson 1982; Vogel 1979). When Americans speak of emulating Japanese management practices, it is the management techniques of the intermarket groups, such as Mitsubishi and Sumitomo, or the giant *kaisha,* such as Toyota, to which they refer. In fact, Chandler (1977, p. 499) acknowledges that Japanese corporations satisfy his definition of the modern managerial business enterprise.

The South Korean case fits the market explanation less well than the Japanese case seemingly does. But if one includes the state as an aspect of business organization, then the Korean case might be squeezed into a market explanation. East Asian political organization has, of course, been a "multiunit" organization for centuries, but if one ignores this fact, then one could argue that, because of market conditions and the circumstances of a late-developing economy, the rapid industrialization in South Korea favored the formation of a type of state capitalism.[10] Vertical integration in South Korea occurred both at the level of the *chaebol* and at the level of the state, and both forms of integration were structurally and causally linked. Therefore, unlike the firm in the United States and somewhat unlike the firm in Japan, the South Korean multiunit business firm is not independent from state organization. As we will discuss later, important functional operations of the firm are controlled by bureaucratic departments of government. The firm is not an independent creation of market forces, even though state organization and the managerial corps of the *chaebol* attempt administratively to control the marketplace.

If the South Korean case can be made to fit Chandler's thesis, the Taiwan case obviously cannot.[11] Here we find, relative to the other cases, a conspicuous lack of vertical integration and the absence of the oligarchic concentration that occurred in the United States, Japan, and especially South Korea. The unwillingness or inability of Taiwanese entrepreneurs to develop large organizations or concentrated industries appears to have defied even the encouragement of government. Ramon Myers (1984) cites an example: When the government persuaded a successful businessman, Y. C. Wang, to establish a plastics factory, the Chinese impulse was immediately to copy Wang's success. "Three other businessmen without any experience in plastics quickly built similar fac-

[10] There is now a considerable literature on the Gerschenkron (1962) thesis that, among developing societies, strong states are able to promote industrialization better than those having different state formations (see Evans, Rueschemeyer, and Skocpol [1985] for a survey of this literature).

[11] For another, related treatment of Taiwan as a deviant case, see Barrett and Whyte's (1982) insightful use of Taiwan data to criticize dependency theory.

tories, and many more entered the industry later. Between 1957 and 1971 plastic production grew 45% annually. In 1957 only 100 small firms fabricated products from plastic supplied by Wang's company, but in 1970 more than 1,300 small firms bought from plastic suppliers" (1984, p. 516).

The plastics industry is one of the most concentrated in Taiwan's private sector. The tendency in this industry is the rule elsewhere: the "unusual feature of manufacturing and service firms in Taiwan is their limited size: each operation is usually owned by a single proprietor or family" (Myers 1984, p. 515). Moreover, the organization of such firms is usually of single units, functionally defined in relation to a finished product. These small firms join together in what is called the *weixing gongchang,* which is a system of satellite factories that join together to produce a finished product. Such interorganizational networks are based on noncontractual agreements sometimes made between family members who own related firms but more often between unrelated businessmen. On personalistic terms, these businessmen informally negotiate such matters as the quality and quantity of their products. For instance, in Taiwan, the world's leading exporter of bicycles, the bicycle industry is organized in a vast array of separate parts manufacturers and bicycle-assembly firms.[12] Similarly, Myers reports that Taiwan's television industry is composed of 21 major firms and hundreds of satellite firms: "Since this industry [requires] thousands of small parts such as picture tubes, tuners, transformers, loudspeakers, coils, and antennae, countless Chinese firms sprang up to supply these in ever greater quantities" (Myers 1984, p. 517).

Although there are exceptions, the small-to-medium size, single-unit firm is so much the rule in Taiwan that when a family business becomes successful the pattern of investment is not to attempt vertical integration in order to control the marketplace, but rather is to diversify by starting a series of unrelated firms that share neither account books nor management. From a detailed survey of the 96 largest business groups (*jituanqiye*) in Taiwan, we find that 59% of them are owned and controlled by family groups (Zhonghua Zhengxinso 1985). Partnerships among unrelated individuals, which, as Wong Sui-lun (1985) points out, will likely turn into family-based business organizations in the next generation, account for 38%. An example of such a family-controlled business group is the Cai family enterprise, until recently the second largest private holding in Taiwan.[13] The family business included over 100 separate firms, the

[12] Information based on interview material.

[13] The family enterprise was rocked by scandals in the early months of 1985. The scandal forced the family to open their books and to account for their economic success. For one of the better descriptions of the Cai family enterprise, see Chen (1985).

management of which was divided into eight groupings of unrelated businesses run by different family members, each of whom kept a separate account book (Chen 1985, pp. 13–17).

Taiwan does not fit Chandler's evolutionary, technology-based model of modern business organization. But neither does it seem to fit Williamson's model of business organization. Although the variables for transaction-cost theory are more difficult to operationalize than the variables for Chandler's theory, it seems apparent that the growth of large business groups in Taiwan cannot be explained by either transaction-cost reduction or market uncertainty, two key factors contributing to the boundary expansion of firms.

In the first place, a normal pattern by which business groups acquire firms is to start or buy businesses in expanding areas of the economy. Often, these firms remain small to medium in size, are not necessarily integrated into the group's other holdings (even for purposes of accounting), and cooperate extensively with firms outside the holdings of the business group. As such, firm acquisitions represent speculation in new markets rather than attempts to reduce transaction costs between previously contracting firms.

Second, uncertainty is a constant feature in Taiwan's economic environment.[14] Family firms, many no larger than the extended household, usually do not have either the ability or the means to seek out or forecast information on demand in foreign export markets. They produce goods or, more likely, parts for contractors with whom they have continuing relationships and on whom they depend for subsequent orders. The information they receive on product demand is second- and thirdhand and restricted to the present. They have limited abilities to plan organizational futures and to determine whether their products will find a market and elicit continuing orders. In fact, misinformation and poor market forecasting are common, as is evident in the high rate of bankruptcy in Taiwan.

Conditions like these are the very ones that Williamson predicts should produce vertical integration. These conditions should prevail especially during business depressions in the world economy, such as those that occurred in 1974–78 and again in 1980–81. Tables 4 and 5, however, show no discernible trend in this direction. If anything, one might argue that in Taiwan uncertainty leads in the opposite direction, away from

[14] Very little research has been done on the business environment in which small- and medium-sized firms in Taiwan operate. Some hints are found in Myers (1984), Peng (1984), Hu (1984), and DeGlopper (1972). In the popular press, however, the topic is discussed frequently, particularly in the very good business magazines, which are among the most widely read magazines in Taiwan. The following discussion draws particularly on Chen (1983).

strategies of vertical integration and toward a strategy of spreading investment risks.

Chandler's and Williamson's theories do not explain the organizational structure of Taiwan business. But if one looks more closely at the Japanese and South Korean cases, then it becomes equally obvious that they, too, do not fit the market explanations well.[15] Intermarket business groups date from the beginning of Japanese industrialization, in some cases even before. Therefore, growing technology, expanding communication, and the increased volume of manufacturing transactions are not the *causes* of Japanese industrial structure because the structure precedes the economic growth.

In the Tokugawa era, from 1603 to 1867, a rising merchant class developed a place for itself in the feudal shogunate. Merchant houses did not challenge the traditional authority structure but subordinated themselves to whatever powers existed. Indeed, a few houses survived the Meiji Restoration smoothly, and one in particular (Mitsui) became a prototype for the *zaibatsu* (Bisson 1954, p. 7). Other *zaibatsu* arose early in the Meiji era from enterprises that had been previously run for the benefit of the feudal overlords, the *daimyo*. In the Meiji era, the control of such *han* enterprises moved to the private sphere where, in the case of Mitsubishi, former samurai became the owners and managers (Hirschmeier and Yui 1981, pp. 138–42). In all cases of the *zaibatsu* that began early in the Meiji era, the overall structure was an intermarket group. The member firms were legal corporations, were large multiunit enterprises, and could accumulate capital through corporate means. As Nakamura (1983, pp. 63–68) put it, "Japan introduced the [organizational] framework of industrial society first and the content afterward."

Zaibatsu clearly emerged from a traditional form of enterprise. Although they adapted spectacularly well to an international, capitalist economy, they did not develop in response to it. Therefore, Chandler's assertion that the United States is the "seedbed of managerial capitalism" (1977, p. 498), that this form of organization "spread" to Japan (p. 500), is dubious and at the very least must be substantially qualified.

The organizational structure preceded economic development in South Korea as well. The organizational structure of *chaebol,* as well as state capitalism in general, although encouraged and invigorated by world economic conditions, can be traced more persuasively to premodern political practices, to pre–World War II Japanese industrial policy (Myers and Peattie 1984, pp. 347–452), and to the borrowing of organizational de-

[15] See Dore (1983) for an excellent critique of Williamson's theory as it would be applied to Japan.

signs for industrialization from Japan than to those factors specified by either Chandler or Williamson. At the very best, causality is unclear.

The market explanation neither explains the organizational differences among the three countries nor offers an unqualified explanation for any one country. Still, at one level the market explanation is certainly correct. Transportation systems, mass markets, advanced technology, and considerations of profit all influence the organization of modern business, and it is inconceivable that modern business firms would have developed, as they have in fact developed, in the absence of these factors. Nonetheless, to equate these factors with organizational structure, to make them the sole causes of organizational design, is not only theoretically and substantively to misinterpret business organization but also to make a serious methodological blunder. Chandler and Williamson, each in his own way, concentrate their entire causal argument on proximate factors. Their cases are analogous to arguing that the assassination of Archduke Ferdinand caused World War I or that the possession of handguns causes crime. Clearly, important causal links are present in all these relationships, but secondary factors play crucial roles in shaping the patterns of unfolding events. To banish all secondary factors, such as political structures and cultural patterns, is to fall into what David Hackett Fischer (1970, p. 172) calls the "reductive fallacy," reducing "complexity to simplicity, or diversity to uniformity. . . . This sort of error appears in causal explanations which are constructed like a single chain and stretched taut across a vast chasm of complexity." This is what Chandler and Williamson do in their attempts to derive organizational structure solely from economic principles.

THE CULTURE EXPLANATION

Cultural explanations for the diversity of organizational structures and practice are many. Smircich (1983) identifies no fewer than five ways researchers have used the culture framework. Some analysts, for example, see culture as an independent variable, exerting pressure on organizational arrangements (e.g., Harbison and Meyer 1959; Crozier 1964), or as a dependent variable in comparative management studies (Peters and Waterman 1982). Most important recent approaches see culture as socially created "expressive forms, manifestations of human consciousness. Organizations are understood and analyzed not mainly in economic or material terms . . ." (Smircich 1983, p. 347). While market analysis sees organizations striving toward maximum efficiency, cultural theorists probe the nonrational, subjective aspects of organizational life.

Culture studies tend to link organizational patterns with the cultural practices of the larger society. For example, Nakane's classic study, *Japanese Society* (1970), combines cultural and structural analyses to show how the group relations of the Japanese family serve larger social institutions, including Japanese enterprise: ". . . the characteristics of Japanese enterprise as a social group are, first, that the group is itself family-like and, second, that it pervades even the private lives of its employees, for each family joins extensively in the enterprise" (1970, p. 19). Swedish shop-floor democracy can be traced to strong socialist sentiments in the country (Blumberg 1973). Worker self-management in Yugoslavia is linked to an ideology of social ownership (Tannenbaum et al. 1974). Americans' strong central values of individualism and free enterprise lead to segmentalist organizations (Kanter 1983) and fear of central planning by government (Miles 1980).

Most culture studies do not concern themselves with the economic implications of corporate culture, but a few more popular works do, often to critique economic approaches to management. Peters and Waterman's *In Search of Excellence* (1982, pp. 29–54) repudiates the "rational model" of organizations, citing, as more successful, organizations that promote shared values and productivity through people-centered policies.

William Ouchi's recent works (1980, 1984) are important links between culture studies and the economic tradition.[16] Whereas Williamson describes organizational structures ("governance structures") as emerging from market transactions, Ouchi claims that cultural values such as "trust" influence whether individuals will resort to contracts and other devices of control of mediate transactions (see Maitland, Bryson, and Van de Ven 1985).

If the market explanation errs by emphasizing proximate causes, then the culture explanation of organization errs in the opposite direction. By concentrating on secondary causes, primordial constants that undergird everything, the cultural explanation works poorly when one attempts to examine a changing organizational environment or to analyze differences among organizations in the same cultural area. Therefore, to use this explanation to account for differences among organizational structures of enterprise in Japan, South Korea, and Taiwan, one must demonstrate cultural differences that would account for different organizational patterns. Such cultural differences, we argue, are difficult to isolate.

The first step in locating cultural differences is to ask what factors would be included in a cultural explanation and what factors would not (see, e.g., Gamst and Norbeck 1976). Many scholars define culture as the

[16] It is important to note the collaborative work of Williamson and Ouchi (1981), which is an attempt to introduce a cultural variable concerning trust into Williamson's transaction and Chandler's visible-hand theories.

socially learned way of life of a people and the means by which orderliness and patterned relations are maintained in a society. While the concept of order suggests its link to a sociological authority-relations understanding of society, in practice culture theorists tend to be concerned with the symbolic, rather than the material, impulse behind social life—with norms, values, shared meanings, and cognitive structures (see Harris [1979] for an exception). Basic culture ideals, and myths and rituals in relation to those ideals, are explored for their ability to integrate persons and to reinforce and celebrate common understandings.[17] Recent works about corporate culture, for example, refer to "weak" versus "strong" corporate cultures: how engaging and encompassing corporate life is for employees. While culture may be understood as universal to the society and changing only slowly, culture theory tends not to look beyond a culture of immediate interest, and especially not at long-term historical trends. In organizational analysis, culture study is social science writ small: either rich, detailed ethnographies of a single people during a relatively short historical period or, at most, the comparison of a limited number of bounded cases. Without a wider scope, such an approach is of only limited use in explaining differences in business organization among societies. Fortunately, in regard to the cases at hand, there have been numerous attempts to develop more broadly based cultural explanations.

The culture explanation has been used often to understand Japanese corporate practices (see Abegglen 1958; Benedict 1946). Although a number of points of departure have been taken, many share the belief that it is the central Japanese value of *wa,* or harmony, that explains Japanese organizational arrangements. *Wa* denotes a state of integration, a harmonious unity of diverse parts of the social order. The organizational consequences of *wa* are numerous, but most important is the subordination of the individual to the group and the practices to which that leads: the necessity to check with colleagues during contract negotiations; the routine and calculated movement of personnel among functional areas to promote wider understanding at the expense of specialization; the promotion of cohorts, not individuals, up the organization ladder; and the development of lifetime employment, internal labor markets, and seniority systems (*nenkō*) to maintain the integrity of the group. The wearing of uniforms, the performance of group exercises, the singing of corporate anthems, and even intercorporate cooperation have been explained as expressions of *wa*. At the societal level, cooperation is orchestrated by the

[17] From a cultural perspective, organizations can be seen in two ways: first, as culture-producing entities and, second, as expressions of the larger culture of the society. Recent studies of corporate culture reflect the first approach, but the second holds more promise for understanding the development of organizational arrangements in a given society.

state: "The Japanese government does not stand apart from or over the community; it is rather the place where *wa* deals are negotiated" (Sayle 1985, p. 35).

As persuasive as the culture approach seems in explaining the Japanese case, it has suffered substantial attack. An analysis of one practice, *nenkō* (seniority system), suffices to suggest the nature of the critique. *Wa* and its expression in practices such as *nenkō* have been described by culture theorists as part of a cultural continuity extending to preindustrial times. But there are many examples of different practices and of discontinuity. For instance, labor turnover rates were high before 1920 and very high in the late 1930s and early 1940s (Evans 1971; Taira 1970). Why, then, were apparently expensive lifetime employment and seniority preferences offered by enterprise group firms? Economics provides the alternative explanation that it is economically rational to maintain a stable work force and protect training investments. "It appears that some of the industrial features thought to be traditionally Japanese . . . are in fact fairly recent innovations, supported by traditional values to be sure, but consciously designed for good profit-maximizing reasons" (Dore 1962, p. 120). Jacoby further argues that, although economic interests are important in understanding the institution of lifetime employment and its adoption before World War II, they cannot explain why it exists only in some firms and not others, applies only to some worker groups in the same organization, and appeared at a given historic juncture. He suggests an explanation in line with an authority relations approach: "More careful historical research on the circumstances surrounding the introduction of internal labor markets in Japan indicates the importance of the increase in firm size and complexity, the change in skilled labor organization, and the desire to forestall unionization. These factors are causally connected to the emergence of an emphasis on stability and control in input markets, as well as the creation of new pressures to maintain employee effort and loyalty" (1979, p. 196). That *wa* provides a socially accepted justification for *nenkō* and that *nenkō* accords easily with Japanese culture cannot be denied. Culture constants, however, are insufficient to explain changing organizational practices.[18]

Similar culture arguments have been made for Chinese management practices (Chen 1984; Chen and Qiu 1984; Hou 1984; Huang 1984; Silin 1976; Zeng 1984). For the most part, they focus on the Confucian belief system and its expression in enterprise. Confucianism promotes individual self-control and dutiful conduct to one's superiors and particularly to

[18] For a very persuasive argument, in line with the one we present here, assessing the contribution of culture to Japanese corporate practices, see Dore (1973, pp. 375–403); also, see Johnson (1982, p. 307).

one's family. At some level, modern Chinese organizations reflect these patterns. Comparative management studies show that Chinese entrepreneurs maintain more distance from workers than do the Japanese and are likely to promote competitive relations, not cooperation, among subordinates (who may be family members) (Fukuda 1983). But, unlike in Japan, where loyalty to the firm is important, Chinese loyalty is not firm specific and may extend to a network of family enterprises. Because a Chinese businessman can with some assurance trust that people in his family network will respect the Confucian obligation to act with honor toward relatives whenever possible, business is conducted with members of one's kinship network (Chan 1982; Huang 1984; Chen and Qiu 1984; Omohundro 1981; Redding 1980). Moreover, Confucianism has been described as a system that promotes strong bonds at the local level when face-to-face relations are paramount but that, in mediating broader relations, is a weak form of social control.

Despite an appearance of cohering, the Confucian culture argument, if pressed, falls apart. It is used to explain the conduct in large factories (Silin 1976) as well as in small, premodern commercial activities (Yang 1970). The question here is why today's enterprise organization in Taiwan is composed of relatively small to medium-sized, family-run firms. The Confucian culture argument alone will not work well because the culture is a broadly based underlying cognitive factor (Redding 1980) that affects the society in general and for that reason explains nothing in particular.

This criticism of the cultural explanation gains force especially when one considers that both South Korea and Japan have been deeply influenced by Confucianism, as well as by Buddhism and various folk religions, which China also shares. In fact, in regard to underlying cultural values, Japan, South Korea, and Taiwan are not three separate cultures, but rather parts of the same great tradition. All societies in East Asia have many cultural traits in common, which can be traced to the long-term interaction between the societies in the region. Some of the intermixing of cultures can be explained politically. Imperial China always considered Korea a tributary state and exacted submission during many long periods. More recently, Japan conquered and colonized both Korea and Taiwan and set out systematically to impose Japanese language and behavioral patterns on Taiwanese and Korean societies.

Intermixing due to politics is only part of the picture, however. A much more significant interaction occurred at the levels of language, elite culture, and religion. The direction of the cultural borrowing was usually from China to Japan and Korea. Both Korea and Japan borrowed and used Chinese script. Chinese was the written language of the Korean court until *hangul* was introduced in the 16th century. In Japan, the court language was a mixture of Chinese and Japanese, which itself had been adapted to written expression through the use of Chinese script. Scholars in both locations learned classical Chinese and used it in government and in arts. Beyond the Chinese script, poetry, painting styles, motifs on all artifacts, literature of all types, elite styles of dress and expression, architecture, and elements of cuisine—all these and more intermixed, so that no aspect of elite life in Japan or South Korea can be said to be untouched by cultural diffusion from China.

Besides politics and elite cultural intermixing, there was religious diffusion that permeated all levels in all three societies. Two religions are particularly important. Confucianism, which contains an elaborate ideology of familism and an equally elaborate ideology of statecraft, was supported by the elites in all three societies. In imperial China, this was more or less the case from the time of the *Han* period (established in 221 B.C.) to the fall of the empire in A.D. 1911. Confucianism had less continuous influence and came later in the other two societies but was extremely important in Korea and Japan during the most recent dynastic periods. Buddhism entered China from India in the 2d and 3d centuries A.D. and later became very important before it was finally proscribed at the state level. Thereafter, Buddhism was primarily a local religion in China, merging with other folk practices. In Korea and Japan, after diffusing from China, Buddhism became an important religion at both the state and local levels. In all three societies, Buddhism and Confucianism continue to be important, with the symbolism and values of each being key components of modern life.

We are not arguing that these three societies have the same culture. In the same way that England and France do not have the same culture, these three societies do not either. But just as France and England belong to the same cultural complex (Western civilization) so do Japan, Korea, and China (Eastern civilization). The decisive point here is that we are not dealing with three distinct cases, but rather three societies that share many of the same cultural patterns. Therefore, using the cultural explanation, we can argue, as have others (Berger 1984; Tu 1984), that this common culture helps to explain common patterns in all three societies, such as the importance of the family, obedience to authority, high rates of literacy, the desire to achieve, and the willingness to work hard. What the culture explanation, however, is not able to do is to distinguish the many differences that exist among these societies, including the organizational structure of business enterprises. The culture explanation cannot explain changes and differences well because the causal argument is concentrated on secondary factors, especially in primordial constants, and thus the explanation only with difficulty deals with factors that underlie historical changes.

AUTHORITY STRUCTURE AND ORGANIZATIONAL PRACTICE

The third approach to understanding organizations that we employ is a political economy approach primarily derived from the work of Max Weber (1978). One of the best examples of this approach is Reinhard Bendix's *Work and Authority in Industry* (1974), a historical study of the development of managerial ideology and practice in England, Russia, and the United States. Bendix covers some of the same territory as Chandler in *The Visible Hand* (1977) but provides an alternative explanatory framework.[19]

Briefly, in the Weberian view, many factors contribute to organizational structure. The structures of armies, tax collection, business enterprises, and officialdoms are influenced, most importantly, by the task at hand. But even when we consider task requirements, there is much room for variation, and historical and situational factors such as available technology, conditions of membership (Weber 1978, pp. 52–53), and the class and status composition of the group (1978, pp. 926–39) will have an influence.

But all organizations, no matter what their purpose or historical setting (although related to both), have an internal pattern of command and compliance. Organizations only exist insofar as "there is a probability that certain persons will act in such a way as to carry out the order governing the organization" (1978, p. 49). This probability rests in part on normative justifications that underlie given arrangements—who should obey and the distinctive mode of obedience owed to the powers that be. Weber called the underlying justifications "principles of domination."[20] In this context, principles of domination are not abstractions but rather serve as the substantive rationale for action. They provide guides, justifications, and interpretive frameworks for social actors in the daily conduct of organizational activity (Hamilton and Biggart 1984, 1985; Biggart and Hamilton 1984).

The Weberian approach incorporates economic and cultural factors and allows for historical diversity. Principles of domination are clearly related to culture but are not reducible to it. Bendix has shown how economically self-interested strategies of worker control were expressed

[19] First published in 1956, Bendix's work has long been noted as one of the most important attempts to analyze management structure in modern industry. For this reason, it is more than surprising that Chandler seems totally to have ignored the one key work in which a clear alternative hypothesis to his own work could be found. For a recent expression of his thesis, see Bendix (1984, pp. 70–90).

[20] For Weber's chief statements on a sociology of domination, see Weber (1978, pp. 941–1211; 1958, pp. 77–128). For general works commenting on Weber's sociology of domination, see Bendix and Roth (1971) and Schluchter (1981); on Weber's sociology of domination in regard to Asia, see Hamilton (1984).

as management ideologies in industrializing nations. These ideologies were based on an economic rationale, but "ideologies of management can be explained only in part as rationalizations of self-interest; they also result from the legacy of institutions and ideas which is adopted by each generation . . ." (1974, p. 444).

Recent extensions of Weberian views are found in the works of Karl Weick, John Meyer and W. Richard Scott, and Charles Perrow.[21] Weick (1979) discusses how people in organizations enact role-based strategies of organizational control; the enactments contain ritual, and tradition (organizational culture) builds around ritualized enactments. While enactments are certainly related to patterned behavior and the maintenance of predictable orders, they have no necessary connection with efficiency. Indeed, Meyer and Scott (1983) show that whole organizations adopt management practices for reasons of legitimacy; the organization enacts patterns understood and accepted by important constituents, not for reasons of economic rationality.[22] Perrow (1981, 1986) argues that firms are profitable not merely because they are efficient but because they are successful instruments of domination.

The market explanation concentrates on immediate factors and the culture explanation on distant ones. Both explanations are obviously important, but neither deals directly with organizations themselves; although both claim to account for organizations, they make organizations appear rather mysteriously out of a mix of economic variables or a brew of cultural beliefs. The authority explanation deals with organizations themselves and conceptualizes them broadly as patterned interactions among people, that is, as structures of authority. It aims at understanding how these structures came into being, how they are maintained, and to what consequence. As such, it attempts historically adequate explanations and therefore differs from both general cultural theories and specified, predictive economic models.

In applying this approach to account for business organization in East Asia, one must demonstrate decisive differences among the three societies

[21] After this article had been revised for publication, two articles appeared that independently call for the kind of institutional analysis of culture that we attempt to develop with the authority approach. Swidler (1986) calls for a "culture in action." "Cultural end values," she argues (1986, p. 284) do not "shape action in the long run. Indeed a culture has enduring effects on those who hold it, not by shaping the ends they pursue, but by providing the characteristic repertoire from which they build lines of action." Arguing for an institutional approach, Wuthnow (1985) applies a very similar line of reasoning in his critique of the "ideological" model of state structure.

[22] It is, of course, true that, for purposes of legitimizing authority in modern industry, concepts of profit and efficiency are extremely important, as important in political as in economic ways. On this point, see Bendix (1974) and particularly Zucker (1983) and Perrow (1986).

in terms of the structures of authority and further demonstrate that these differences affect organizational practices. Two factors seem particularly important and in need of explanation. First, What are the relationships established between the state and the business sector in the three societies? And second, given that relationship between state and enterprise, What are the structures of authority in each type of business network?

In each of the three societies, the state has pursued similar policies promoting industrialization. Economists describe these policies in terms of a product-cycle industrialization pattern (Cumings 1984) in which import substitution was gradually replaced by aggressive, export-led growth policies (Ranis 1979). What is apparent but left unanalyzed is that such state policies are administered in very different political contexts.

In South Korea, government/business relations follow in the form of what can be called the "strong state" model. In South Korea, the state actively participates in the public and private spheres of the economy and is in fact the leading actor (SaKong 1980). The state achieves its central position through centralized economic planning and through aggressive implementation procedures. The entire government is "geared toward economic policy-making and growth. . . . Economic decision making [is] extremely centralized, and the executive branch dominate[s]" (Bunge 1982, p. 115; Mason et al. 1980, p. 257). Implementation procedures aim at controlling the entire economy. For public enterprises, control is direct and bureaucratic. This sector of the economy, which is relatively small but rapidly expanding, is run as departmental agencies of the state with civil servants as managers. Although not in as direct a fashion as occurs in the public sector, the state controls the private sector "primarily from its control of the banking system and credit rationing" (Westphal et al. 1984, p. 510) and through other financial controls. The state, however, does not hesitate to use noneconomic means to achieve compliance with policy directives. "A firm that does not respond as expected to particular incentives may find that its tax returns are subject to careful examination, or that its application for bank credit is studiously ignored, or that its outstanding bank loans are not renewed. If incentive procedures do not work, government agencies show no hesitation in resorting to command backed by compulsion. In general, it does not take a Korean firm long to learn that it will 'get along' best by 'going along' " (Mason et al. 1980, p. 265).

These procedures apply to all sizes of firms but especially to medium and large firms, which are in fact favored by such planning and implementation procedures (Koo 1984, p. 1032). This is particularly the case for business groups, the *chaebol*. State policies support business concentration, and statistics indeed reveal a rapid change in this direction (Jones and SaKong 1980, p. 268; Koo 1984; *Hankook Ilbo* 1985). In addition, many medium and all large firms are tethered by government-controlled credit, by government regulation of the purchase of raw materials and energy, and by government price-setting policies for selected commodities (Weiner 1985, p. 20).

In Japan, the government has developed quite a different relationship with business. The state policy toward business is one of creating and promoting strong intermediate powers, each having considerable autonomy, with the state acting as coordinator of activity and mediator of conflicting interests (Johnson 1982).[23] In business, the most important of these strong intermediate powers are the intermarket groups of large firms. The *zaibatsu* rose to great power in the pre–World War II era, and, because of their link to Japan's imperial past and because of their monopoly characteristics, American occupation authorities legally dissolved them and attempted to set up a new economic system based on the U.S. model. They promoted a union movement and encouraged small- and medium-sized competitive enterprises (Bisson 1954). After the American occupation ended, however, the Japanese government, through both action and strategic inaction, has allowed a maze of large and powerful intermarket groups to reappear.

These business networks and member firms are independent of direct state control, although they may acquiesce to the state's "administrative guidance." This administrative guidance has no statutory or legal basis. Rather, it "reflects above all a recognized common interest between MITI (Ministry of International Trade and Industry) and the leading firms in certain oligopolistic industries, the latter recognizing that guidance may occasionally impair their profits but in the long run will promote joint net revenues in the industry" (Caves and Uekusa 1976, p. 54). As Johnson (1982, p. 196) points out, this political system has led "to genuine public-private cooperation."

The strong state model in South Korea and the strong intermediate power model in Japan contrast sharply with what might be called the strong society model of state/business relations in Taiwan. The state in Taiwan is by no means weak. It is omnipresent, and, ceremonially at least, it repeatedly exacts obeisance. But, in regard to the export business

[23] The best analysis of state/business relations is found in Johnson (1982, pp. 196–97, 310–11). He notes that, of the various types of state/business relationships occurring in the past 50 years, "that of public-private cooperation is by far the most important. . . . The chief mechanisms of the cooperative relationship are selective access to governmental or government-guaranteed financing, targeted tax breaks, government-supervised investment coordination in order to keep all participants profitable, the equitable allocation by the state of burdens during times of adversity (something the private cartel finds very hard to do), governmental assistance in the commercialization and sale of products, and governmental assistance when an industry as a whole begins to decline."

sector, the Taiwan government promotes what Little (1979, p. 475) identifies as "virtually free trade conditions" and what Myers (1984, p. 522) calls "planning within the context of a free economy." Such policies have allowed familial patterns to shape the course of Taiwan's industrialization; this has in turn led to decentralized patterns of industrialization, a low level of firm concentration, and a predominance of small- and medium-sized firms.

Before we explain the strong society model further, three aspects of active state/business relations should be stressed. First, the state owns and manages a range of public enterprises that provide import-substituting commodities (e.g., petroleum, steel, and power) and services (e.g., railways and road and harbor construction) and that have been very important to Taiwan's economic development (Gold 1986; Amsden 1985). Unlike this sector in South Korea, public enterprises in Taiwan have steadily decreased in importance, and the government shows no signs of reversal (Gold 1986; Myers 1984). Second, the state imposes import controls on selected products and promotes industrial development in export products through special tax incentive programs and the establishment of export processing zones (Gold 1986; Amsden 1985). These incentives for export production, while they have certainly encouraged industrialization, have not favored industrial concentration, as has occurred in South Korea. Third, as in Japan and South Korea, the state in Taiwan exerts strong controls over the financial system, which includes the banking, insurance, and saving systems. Having one of the highest rates of savings in the world, Taiwan has also developed what Wade (1985) calls a "rigid" fiscal policy of high interest rates to control inflation, a preference for short-term loans, and an attitude of nonsupport for markets in equity capital (e.g., the stock market). Unlike Japan's and South Korea's, however, this financial system favored the development of a curb market, "an unregulated, semi-legal credit market in which loan suppliers and demanders can transact freely at uncontrolled interest rates" (Wade 1985, p. 113). Because most small- and medium-sized firms require only moderate to little investment capital and because such firms have difficulty obtaining bank loans, the curb market has played an extremely important role in financing Taiwan's industrial development (Yang 1981).

The difference in the role of the state between Taiwan and the other two societies is revealed in state planning. Like the South Korean state, Taiwan's government develops economic plans, but unlike South Korea there are no implementation procedures. State planning is done in a "loose, noncommand style," is "unsupported by controls," has no credibility in its economic projections, and has "no importance" in determining economic behavior (Little 1979, p. 487). This unimportance of planning, Little (1979, pp. 487–89) further believes, is even true in public sector enterprises. Moreover, of great importance in Taiwan's pattern of industrialization has been the absence, until recently, of spatial planning, including industrial zoning, at the municipal, provincial, and state levels. Considered together, these factors have led Little (1979, p. 488) to argue "that Taiwan planning has not even been intended to be indicative (authoritative). The mechanism usually associated with indicative planning is lacking. There are no standing consultative committees with private industry; any consultations are ad hoc. There are virtually no teeth either."

The lack of strong government intervention in the domestic economy, unlike that in South Korea, and the absence of active support for large firms, unlike that in Japan, has left the economy in Taiwan, especially the export sector, free to work out its own patterns. Using either Chandler's or Williamson's model, one would expect rapid concentration and the development of managerial capitalism. What has in fact emerged is something quite different, almost the opposite of what either theorist would predict: a low level of business concentration and a decentralized pattern of industrial development. And with this approach, Taiwan's sustained rate of economic growth during the past 30 years is one of the highest in the world.

Why did the state officials in each case choose one form of business relationship over other possible alternatives? For each society, it is clear that their choices were neither random nor inevitable. In each case, there was latitude. For instance, after the American occupation, the Japanese government could have supported and built on the system the Americans established, which was based on competition among small- and medium-sized firms. But instead they opted for creating strong intermediate powers, in terms of both economic and social controls (Johnson 1982, pp. 198–241). South Korea could have chosen the Japanese route, by building on the *zaibatsu* model they had inherited from the Japanese. Or they could have adopted the model found in Taiwan, by supporting the small-to-medium-sized private-sector firms that had developed in Korea before World War II (Juhn 1971) and still operate there to some extent. Instead, they opted for a strong state. Finally, Taiwan could have followed the other courses as well. In the early fifties, in fact, Taiwan clearly was moving toward the strong state model: the state had incorporated the former *zaibatsu* into the state apparatus, had aggressively forced the landowning class to accept sweeping land reform policies, and with a strong military presence was making ready to return to the mainland. On the other hand, the state could have supported a strong business class, as the Chiang Kai-shek regime had done with the Shanghai industrialists in the early thirties on the mainland. But, after some hesitation, the Nationalist government developed and since then has pursued a nonfavoritist policy of "letting the people prosper." In each case, the decisions about the state/business relations were not inevitable, and certainly for the case of Taiwan it takes no imagination to envision a different course, because another outcome occurred across the Taiwan straits, in mainland China.

Therefore, what determined the choice? Many factors were important, but it seems likely that the most important were not economic factors at all. Rather, the key decisions about state/business relations should be seen in a much larger context, as flowing from the attempt on the part of political leaders to legitimize a system of rule. Each regime was at a crucial point in its survival after wars and occupations and needed to establish a rationale for its existence. In fashioning such a rationale, each regime in the end resorted to time-tested, institutionally acceptable ways of fashioning a system of political power. In each case, the first independent regime of the postwar era attempted to legitimize state power by adopting a reformulated model of imperial power of the kind that had existed before industrialization began. Such a model built on the preexisting normative expectations of political subjects and contained an ideology of rulership. Moreover, some of the institutions to support these models were still in place.

In Japan, the decisive factor was the presence of the emperor, who continues to stand as a symbol of political unity (Bendix 1977, p. 489). But the emperor was above politics and so was a weak center. The American-installed legislature also was a weak center, a place of haggling as opposed to unity. Gradually, successive decisions allowed for the creation of a modern version of the decentralized structure of the Tokugawa and Meiji periods: the center (in Tokugawa, the *shogun,* and, in Meiji, the emperor) coordinates strong and, in normative terms, fiercely loyal independent powers. In turn, the independent powers have normative responsibility for the people and groups who are subordinate to them. The symbolism of the past shaped the reality of the present.

The economic consequences of this type of legitimation strategy were to create large, autonomous enterprises. These enterprises needed to legitimize their own conduct and, accordingly, to develop distinctive "personalities." Such efforts to build corporate cultures traded heavily on established systems of loyalty—the family, community, and paternalism—but also added mythologies of their own. In addition, given their size and status, these business enterprises needed to secure oligarchic positions in the marketplace and did so through a variety of economic tactics with which we are now familiar (Vogel 1979; Abegglen and Stalk 1985). But the theoretically important point is that Japanese intermarket groups are not creations of market forces. In the middle fifties when they reappeared, they began large, they began prestigious, and their economic integration followed from those facts, rather than being simply the cause of them. They enacted and, in due course, institutionalized a managerial structure that, from the outside, looks like a corporation but, on the inside, acts like a fiefdom.

In South Korea, the present form of government arose in a time of crisis, during a brutal war in which over 1 million Koreans died and 5.5 million more were dislocated (Cole and Lyman 1971, p. 22). Social disruption on an extraordinary scale, destruction of rural society, and the historical absence of strong intermediary institutions placed great power in the hands of a state structure propped up by U.S. aid and occupying forces. The authoritarian postwar government of Syngman Rhee shaped the basic institutions that the Park government later gained control of and turned in the direction of economic development. The legitimizing strategy for both governments, although articulated quite differently, centered on the imagery of the strong Confucian state: a central ruler, bureaucratic administration, weak intermediate powers, and a direct relationship between ruler and subjects based on the subject's unconditional loyalty to the state. As Henderson writes (1968, p. 5), "The physics of Korean political dynamics appears to resemble a strong vortex tending to sweep all active elements of the society upward toward central power. . . . Vertical pressures cannot be countered because local or independent aggregations do not exist to impede their formation or to check the resulting vortex once formed."

South Korean firms draw their managerial culture from the same source, the state, and from state-promoted management policies; they do not have the local character of the corporate culture of Japanese firms. Instead, they have developed an ideology of administration, an updated counterpart to the traditional Confucian ideology of the scholar-official (Jones and SaKong 1980, p. 291). For this reason, American business ideology has had an important effect in South Korea, far more than in either Japan or Taiwan. In the late 1950s, the South Korean government, with a grant from the U.S. State Department, instituted American management programs in South Korean universities (Zo Ki-zun 1970, pp. 13–14). South Korea now has a generation of managers trained in American business practice, including persons at the top levels of the state. In 1981, South Korea's prime minister and deputy prime minister (who was chief of the Economic Planning Board) were U.S.-trained economists (Bunge 1982, p. 115).

In Taiwan the state/business relationship also results from a basic legitimation strategy undertaken by the state. The Chiang Kai-shek government, after an initial attempt to create a military state in preparation for a return to the mainland, tried to secure the regime's legitimacy on a long-term basis. Composed largely of northern Chinese, Chiang Kai-shek's forces virtually conquered and totally subordinated the linguistically distinct Taiwanese. This created much resentment and some continuing attempts to create a Taiwanese independence movement. When a return to the mainland became unlikely, Chiang began creating a stable, long-term government. He actively promoted an updated Confucian state based on the model of the late imperial system. Unlike the more legalistic model of the Confucian state developed in Korea, Chiang attempted to make the state an exemplary institution and its leader a benevolent ruler: a state that upholds moral principles (*dedao*), that explicitly allows no corruption and unfair wealth, and that "leaves the people at rest." In this role, the state supervises internal moral order and takes care of foreign affairs. This policy militates against the emergence of favorite groups, which had been a weakness of the Nationalist regime in the 1930s and 1940s. This policy also limits participation of the state in what was seen in late imperial times as the private sector (*sishi*), an area that includes not only people's economic livelihood but also all aspects of family and religious life. Taiwan's state policy toward business operates within the limits established by Chiang's legitimation strategy (Peng 1984).

The consequences of this state policy have been to allow society, unfettered by the state, to respond to the economic opportunities that existed in the world economy and for which the state offered incentives. The Chinese of Taiwan, using traditional commercial practices and customary norms, quickly adapted to modern economic conditions. This outcome should not be surprising, because Chinese business practices have for some time operated competitively in the world economy. In 19th-century China, there was a thriving commercial system that functioned well in the absence of a legal framework, even in the deteriorating political conditions of the time (Hao 1970, 1986; Hamilton 1985; Feuerwerker 1984; Myers 1980; Chen and Myers 1976, 1978). The Chinese used the same patterns of business relations to gain industrial and commercial control of the economies in Southeast Asia (Wickberg 1965; Omohundro 1981; Hamilton 1977) and, more recently, to develop highly industrial societies in Hong Kong and Singapore (Nyaw and Chan 1982; Redding 1980; Ward 1972). Therefore, when we consider the similar free-market conditions that exist in these other locations, the Chinese economic success in Taiwan is perhaps not surprising but needs to be examined nonetheless.

The industrial patterns in Taiwan reflect the same invigoration of Chinese commercial practices found in late imperial China and in Southeast Asia. As analysts have noted (e.g., Wong 1985; Chan 1982; Omohundro 1981), in all these locations Chinese businesses develop on the basis of small family-run firms and personalistic networks linking firms backward to sources of supply and forward to consumers. Two sets of factors account for the prevalence of these small family firms. The first set concerns the nature of the Chinese family system.[24] The Japanese family system is based on a household unit and on primogeniture; younger sons must start households of their own. In contrast, the Chinese system is based on patrilineage and equal inheritance among all sons. The eldest son has seniority but no particular privileges in regard to property or authority over property. Because all males remain in the line of descent, the patrilineage quickly expands within just a few generations. Adoption of a son into any household is considered improper, and the only approved way is to adopt the son of a kinsman (cf. Watson 1975*a*). Equally privileged sons connected to networks of relatives create a situation of bifurcated loyalties, with wealth itself becoming a measure of one's standing in the community of relatives. Accordingly, conflict between sons is ubiquitous, intralineage rivalries are common, and lineage segmentation is the rule (Baker 1979, pp. 26–70). Hence, the argument goes, besides the lineage and the state, there is no central integrating unit in Chinese society, and the lineage itself breeds as much conflict as unity. Therefore, it is difficult in Chinese society to build a large cohesive group.

This leads to a closely related set of explanations of how Chinese businesses are run.[25] The Chinese firm duplicates family structure; the head of the household is the head of the firm, family members are the core employees, and sons are the ones who will inherit the firm.[26] If the firm prospers, the family will reinvest its profits in branch establishments or more likely in unrelated but commercially promising business ventures (see, e.g., Chen 1985). Different family members run the different enterprises, and at the death of the head of household the family assets are divided (*fenjia*) by allocating separate enterprises to the surviving sons, each of whom attempts to expand his own firm as did the father. In this way, the assets of a Chinese family are always considered divisible, control of the assets is always considered family business, and decisions (in normative terms) should be made in light of long-term family interests.

[24] The material on Chinese kinship is extensive. The best general treatments are Baker (1979), Freedman (1966), Hsu (1971), Watson (1982), and Cohen (1970).

[25] For treatments of the Chinese kinship system in relation to Taiwan's business development, see Lin (1984), Chen and Qiu (1984), Chen (1984), Hu (1984), and Huang (1984). For the role of an extended lineage in modern commercial ventures, see Cohen (1970), Watson (1975*b*), and Wong (1985).

[26] The literature on large business enterprises in Japan often cites the family as having an important influence on how the firms are run. In comparison with the Chinese case, however, the Japanese family provides much more a metaphor for organization than an actual model. In Taiwan, the family structure and enterprise organization cannot be readily distinguished in many cases, so much so that the effect of the family on business in Taiwan is not metaphorical but actual and of great significance. Moreover, although the data are limited, the role of the family in modern business in Taiwan seems very similar to the role of the family in traditional agriculture (Baker 1979).

This pattern leads to what might be described as a "nesting box" system of Chinese management (see, e.g., Omohundro 1981; Huang 1984; Redding 1980). In the small, innermost box are those core family members who own or will inherit the business; in the next box are more distant relatives and friends who owe their positions to their connection with the owners and who are in a position to influence and be influenced by them; in the next outer boxes are ranks of unrelated people who work in the firm for money. Depending on the size of the firm, the outer boxes may contain ranks of professional managers, technicians, supervisors, and other craftspeople. The outermost box would include unskilled wage laborers. This pattern of business organization is most stable when the business is fairly small. Loyalty among unrelated employees is often low, which makes personalistic connections an essential part of management strategy (Huang 1984). The preference is always to begin one's own small business if one has sufficient capital to do so; as the Chinese saying goes, "It is better to be a rooster's beak than a cow's tail!"

Because everyone works in small- to medium-sized firms, Chinese have historically developed techniques to aid forward and backward linkages. These techniques include putting-out systems, satellite factory systems, and a variety of distribution networks often based on personalistic ties (see, e.g., Willmott 1972; Hamilton 1985). In fact, so complex and all-encompassing are these various techniques, and seemingly so efficient (Ho 1980), that they contribute to keeping businesses fairly small and investment patterns directed toward conglomerate accumulations rather than vertical integration (cf. Chan 1982).

In summary, as illustrated in table 6, in each of the three societies, a different combination of present and past circumstances led to the selection of a strategy of political legitimation. This strategy, in turn, had direct consequences for the relations between state and business sectors and for the formation of economic institutions.

Finally, we should note that the three types of business networks that developed in these three countries are usually not in direct competition with one another, except in a few product areas (e.g., electronics). Each possesses different economic capabilities, and each seems to fill a different niche in the world economy. Much more research needs to be done on this topic, but it appears that the following division is occurring: Taiwan's system of small family firms, which can flexibly shift from producing one commodity to another, has become a dominant producer of an extensive range of medium- to high-quality consumer goods (e.g., clothes, small household items) of the kind that fill the modern home and office but that require very little research and development. Large Japanese corporations specialize in a product area and, through research, development, and marketing strategies, attempt to create new commodities and con-

TABLE 6

FIRM STRUCTURE AND FIRM/STATE RELATIONSHIPS

	State/Business Relations	Principal Corporate Actors	Intrafirm Managerial Strategies	Extrafirm Market Strategies
Japan	Cooperative partnership	Intermarket groups	Company ideologies; consensus building; peer group controls	High R & D; manufacture and marketing of new products
South Korea	Political capitalism	*Chaebol*	State Confucianism; impersonal management; strong, centralized control	High capital ventures in established markets
Taiwan	Separation of spheres	Family firms	"Family-style" management; control through personal ties	Low capital; low R & D; manufacture of consumer expendables

sumers for those commodities (Abegglen and Stalk 1985). Exploiting their competitive advantage in technology and mass production, Japanese businesses operate on the frontiers of product development. With the entire economy orchestrated by the state, South Korean businesses are attempting to become important producers of commodities that require extensive capital investment but for which markets already exist (e.g., steel, major construction materials, automobiles). Such ventures require large amounts of capital and coordination but relatively little research and development. Each of these three strategies of industrialization may well be, in the economist's terminology, "least-cost" strategies in their respective niches of the world economy. But that fact does not make these strategies any less the outcomes of noneconomic factors. Moreover, a strategy of efficiency can only be calculated in terms of an existing array of economic and social institutions.

CONCLUSION

The theoretical question underlying this paper is, What level of analysis best explains organizational structure? We argue that, on the one hand, profit and efficiency arguments are too specific and too narrow to account for different organizational forms. Economic models predict organizational structure only at the most superficial level (e.g., successful businesses seek profit). On the other hand, cultural arguments seize on such general, omnipresent value patterns as to make it difficult to account for historical and societal variations occurring within the same cultural area. Culture pervades everything and therefore explains nothing. The authority explanation provides the most successful explanation because it aims at a middle level, at explanations having historical and structural adequacy. We argue that enterprise structure represents situational adaptations of preexisting organizational forms to specific political and economic conditions. Organizational structure is not inevitable; it results from neither cultural predispositions nor specific economic tasks and technology. Instead, organizational structure is situationally determined, and, therefore, the most appropriate form of analysis is one that taps the historical dimension.

Given this conclusion, then, this analysis suggests that the key factors in explaining economic organization may not be economic, at least in economists' usual meaning of that term. Economic and cultural factors are clearly critical in understanding the *growth* of markets and economic enterprise, but the *form* or structure of enterprise is better understood by patterns of authority relations in the society. This suggests further that the economic theory of the firm may in fact be a theory based on, and only well suited to, the American firm as it has developed historically in American society. Chandler's analysis of firm formation in the United States concentrates on how firm development permitted the lowering of costs under changing market conditions. It is important to note, however, that firm development also allowed the concentration of economic interests and market control by private parties. The American state (in both the 19th and 20th centuries) exists to allow the market to function in the service of private interests; it intervenes only to prevent market breakdowns or overconcentration. This state role was not an inevitability dictated by the market, however, and emerged from a historically developed vision about the "correct" state/industry relation. The American vision has always been that of a weak state and powerful private institutions (Hamilton and Sutton 1982). Industrialists of the 19th century, unfettered by transportation and communications impediments, realized that vision with the aid of a laissez-faire government. But the American firm, like the firms in Japan, South Korea, and Taiwan, had no inevitable developmental sequence to traverse.

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