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Institutional Imprinting, Global Cultural Models, and patterns of Organizational Learning: Evidence from Firms in the Middle-Range Countries

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INSTITUTIONAL IMPRINTING, GLOBAL CULTURAL MODELS, AND PATTERNS OF ORGANIZATIONAL LEARNING: EVIDENCE FROM FIRMS IN THE MIDDLE-RANGE COUNTRIES

Abstract

This paper uses a comparative-historical method to understand what and how firms learn when exposed to multiple institutional environments, a key issue whose theoretical and empirical treatment remains underdeveloped. The empirical evidence comes from firms in three paradigmatic middle-range countries: Spain, Argentina, and South Korea. The argument proceeds in two steps. First, home-country institutional imprinting and global exposure are examined to identify the dominant organizational forms emerging from the processes of industrialization of these countries. Configurations of natural endowments, state behavior, and foreign multinational involvement are proposed as the key imprinting variable shaping the interaction between the domestic and global environments. Second, two patterns of learning—generic and specialized—are identified and traced back to differences in organizational forms and home-country imprinting. The transformation of family firms into diversified groups or focused niche competitors is found to shape learning patterns.

1. Introduction

Are organizations mere projections of their institutional environments? What happens when an organization crosses institutional boundaries? What do they learn from exposure to different contexts? Despite the growing popularity of institutional accounts of organizational emergence and behavior, there is virtually no agreement over these questions. In particular, a key area of debate is the learning that occurs when firms internationalize, i.e. when they become exposed to more than one environment (Kogut 1993; Westney 1993; Scott 1994). Following Stinchcombe's (1965) lead, institutional theory suggests that home-country imprinting is a powerful and enduring force shaping the development of organizations (Hamilton and Biggart 1988; Kogut 1991; Jepperson and Meyer 1991; Scott et al. 1994:2-3; Campbell and Lindberg 1990; Fligstein 1996). The institutional literature, however, remains largely silent about the issue of organizational learning from exposure to environments other than the organization's primary field or country of origin.

In this paper I explore the cross-border learning problem by looking at the international expansion of different organizational forms based in countries which have recently become incorporated into the global economy. The empirical materials come from three paradigmatic cases of relatively backward or late developing, "middle-range" countries, namely, Spain, Argentina, and South Korea. I will provide evidence at the firm level to illustrate how organizational forms developed and learning took place while these middle-range countries joined the capitalist world economy. These institutional settings provide unique opportunities for examining cross-border organizational learning precisely because of the stark contrasts that exist between the home-country institutional context—largely created or sanctioned by the state—and the global environment, which is mostly structured by the activities of multinational companies. This is a key aspect not yet fully taken into account by the emerging synthesis in the sociological theory of markets (Fligstein 1996). The literature on the belated development of the middle-range countries, by contrast, has addressed the interaction between domestic and global environments, and learning by firms has been addressed as a main issue (Amsden and Hikino

1994; Amsden 1989; UNTCMD 1993; Lall ed. 1983; Wells 1983). Scant attention, however, has been devoted to differences in organizational forms and learning according to home-country institutional imprinting and exposure to the global environment.

The main argument in this paper is that different interactions between the home-country and the global environments privilege certain organizational forms over others, while shaping organizational learning at the firm level. Two patterns of learning are distinguished. First, generic learning of "project execution" capabilities (i.e. capacity establishment or expansion in unrelated industries) and of "mass production manufacturing" capabilities. And second, specialized learning of industry-specific technologies, manufacturing skills, and marketing know-how (Amsden and Hikino 1994; Simon 1992, 1996). Following recent work on the institutionalization of organizational forms (Holm 1995; Lazerson 1995; Kieser 1989), I bring to bear historical and current practices, interests, and ideas in each country as the keys to understanding how different organizational forms have become institutionalized, and how they have coped with the specific relationship with the international environment that the same set of practices, interests, and ideas has generated over time. More precisely, I consider practices, interests, and ideas related to each country's natural endowments, state behavior, and foreign multinational involvement.

The Middle-Range Countries as an Institutional Setting

Cross-border organizational learning is quintessential to firms based in the middle-range countries. These countries are late-developers usually situated on the edges of the world's most advanced areas. Examples of middle-range countries include those located on the Western and Southern fringes of Europe (Ireland, Portugal, Spain, Greece, Turkey, the larger Caribbean basin (Mexico, Costa Rica, Colombia, Venezuela), the Latin American Southern cone (Chile, Argentina, Uruguay, Brazil), and East Asia (South Korea, Taiwan, Thailand, Malaysia). Table 1 provides information on the middle-range countries compared to six of the rich countries. In per capita income terms, a historically stable and wide "no-man's land" separates the richest countries in the world from the middle-range ones. At the top of this middle range, Spain enjoys a per

capita income equal to 57 percent of the U.S. level. Between Spain's position and that of the poorest rich country, the United Kingdom with 72 percent, there are only four very special, and small, countries, namely, Finland, New Zealand, Israel, and Singapore (World Bank 1994:221). Perhaps only Sweden, Italy, and, most famously, Japan have managed to join the advanced group of countries from a state of relative backwardness in the late 19th century (Maddison 1989).

The middle-range countries constitute a world separate and afar from that of the rich because their belated process of industrialization, and the very proliferation of firms, have been based on a limited creation of such assets as technology, brand reputation, and worker skills. Only 100 of the Fortune Global 1000 industrial and service companies are based in the middle-range countries (Table 1). Typical middle-range firms have borrowed foreign created assets, and still depend on imports of technology, equipment, and components (Hikino and Amsden 1994; Gereffi 1990a; UNTCMD 1993:8-11). Their innovative capabilities have historically been constrained by weak, vestigial artisan traditions (Amsden and Hikino 1994), which ruled out a small-scale, crafts-based process of industrialization (Piore and Sabel 1984; Sabel and Zeitlin 1985). The state has played a key role in the formulation and implementation of economic policies aimed at rapid industrialization (and learning), frequently combining a protection of the domestic market with incentives for domestic firms to become more internationally competitive (Evans 1995; Amsden and Hikino 1994; Wade 1990; Haggard 1990; Gerschenkron 1962). Thus, foreign created assets have been mixed with the domestic natural assets that the long-standing authoritarian regimes in many of these countries have made available at cheap prices. The presence of relatively well-educated populations during industrialization has facilitated the absorption of foreign technology, manufacturing skills, marketing know-how, and organizational logics (Dore 1990; see also Table 1).

The middle-range countries differ among themselves, however, in three crucial aspects which will help explain patterns of organizational learning. First, cheap labor has been the key natural endowment in some cases (e.g. Mexico, Brazil, Malaysia, Korea, Taiwan), natural resources in others (e.g. Chile, Argentina), and a mixture of both in a third group (e.g. Spain,

Portugal, Ireland). Second, the state has been unequally prepared to take on the challenge of mobilizing resources and accelerating organizational learning (Skocpol 1985; Evans 1979, 1995). In some cases (e.g. Korea, Taiwan) the state has been a capable, well-functioning bureaucracy, free from vested interests such as the landed elite, the military, business groups, organized labor, the professions, foreign investors, and the banks. At the other extreme, one finds states without a professional bureaucracy and subject to enormous corporatist pressures (e.g. Argentina or Brazil). Yet in other cases (e.g. Spain or Portugal), bureaucratized states have managed to introduce limited reforms within the rigidities of an essentially corporatist system. Corporatism has, by and large, tended to reduce conflict within the civil society, but made it harder for firms to adapt to world institutional pressures (Murtha and Lenway 1994; Schmitter 1974; Olson 1965). Third, foreign multinationals have been significant providers of capital and technology to varying proportions. Thus, stocks of foreign direct investment amount to more than 10 percent of GDP in Spain, Ireland, Greece, Malaysia, Chile, Mexico, and Costa Rica, but to less than 5 percent in Turkey, Korea, and Uruguay (see Table 1).

The comparative evidence on organizational learning presented in this paper will focus on Spain, Argentina, and South Korea. The main reason for the selection of these three cases is that endowments, states, and foreign investors have played very different roles in the process of incorporation of each country into the world economy, resulting in different institutional pressures and patterns of organizational learning. In a nutshell, a corporatist country such as Spain chose to liberalize its economy and society gradually hoping to take part in European integration, while consistently attracting foreign investments with few strings attached. Korea, by contrast, has promoted export-led growth through private domestic ownership of firms while foreign interests were allowed to tap into its cheap labor mostly in the forms of joint ventures or arms-length supply contracts with Korean firms. Resource-rich Argentina represents an extreme case of policy inconsistency over time, with domestic and foreign firms reacting defensively to the frequent swings in institutional conditions. These three cases are comparable in terms of population size and industry structure. They stand for three distinct interactions between the

domestic and the global environments, thus setting the boundaries of the empirical space of institutional possibilities within which most other middle-range countries are positioned.

2. Elements for a Macrosociology of Cross-Border Organizational Learning

Firms are organizations deeply embedded in their institutional context. They may be viewed as holders of stocks of knowledge, assets, capabilities or routines (Nelson and Winter 1982; Levinthal 1992), which are accumulated over time through learning. These capabilities include "forms, rules, procedures, conventions, strategies, and technologies around which organizations are constructed and through which they operate" (Levitt and March 1988:320).

From a cross-national viewpoint, firms are heterogeneous in that their home-country contexts have offered them the opportunity to learn stocks of knowledge consisting of varying proportions of natural and created assets (Kogut 1993; Dunning and Narula eds. 1996). Traditionally, firms based in the middle-range have competed at home and abroad the easy way, i.e. on the basis of one or more of the so-called natural assets: cheap unskilled labor, land, raw materials, or energy. In so doing, these firms have tended to shelter themselves from global institutional pressures. By contrast, the most advanced firms in the world, based as they are in the richest countries, compete mostly on the basis of such created capabilities as technology, brand reputation, and skilled labor, and they tend to operate across borders tapping into resources, assets, and markets located in different institutional contexts. For the most part, I will argue, these more sophisticated firms set the rules of the game in the arena of international competition. It is in the context of an increased exposure to a global environment created by the established multinationals that firms from the middle-range are expected to learn new capabilities.

Home-Country Imprinting, the Global Environment, and Organizational Forms

The comparative sociological literature on the rise and growth of organizations and organizational structures has highlighted different combinations of such explanatory variables as the state, class conflict, geopolitics, culture, and path dependency (Bendix 1974; Cole 1989;

Dobbin 1994; Dore 1990; Guillén 1994; Hamilton and Biggart 1988; Westney 1987; Whitley 1992). For their part, the late-development and dependent-development research traditions tell us that rapidly evolving institutional contexts breed different organizational forms depending on the role played by the state, banks, local entrepreneurs, and foreign investors in the process of industrialization (Amsden 1989; Gerschenkron 1962; Stallings 1990; Wade 1990; Evans 1979, 1995; Gereffi 1990b). In this paper I attempt to combine the insights of both literatures. Each country's practices, interests, and ideas related to natural endowments, state behavior, and foreign multinationals will affect the proliferation of organizational forms not only as a result of the home-country imprinting effect, but also because they will create a particular set of relationships with the global environment. My key assumption is that organizations based in the middle-range settings are affected by different environments to the extent that their countries have become exposed to foreign trade and investment. It is precisely when countries and firms incorporate themselves into the world order that institutionalization processes based on what institutional sociologists call "global cultural models" begin to operate (Scott 1994; Thomas et al. 1987; Kogut 1991).

I argue that the dominant global cultural model of reference in the international environment is the multinational enterprise. Multinationals have become mighty and ubiquitous economic actors. The United Nations Center on Transnational Corporations estimates that 87 percent of the 37,530 multinationals identified in its annual report on foreign direct investment (FDI) is headquartered in the rich countries, which account for about 70 percent of world output and just 14 percent of world population (UNCTD 1994:4).[1] The universe of the multinationals includes a host of firms with foreign investments of their own but fewer than 1,000 employees worldwide as well as the giant firms with over 100,000 employees. Currently, the worldwide revenues of the 37,530 multinationals and their 206,961 affiliates amount to $4.8 trillion, a figure similar to that of total world exports. These firms employ 73 million people worldwide. As much

[1] A multinational is a firm with direct investments in at least one host country in addition to its home country.

as one third of international trade takes place within multinationals, i.e. between two of their subsidiaries located in different countries, and about 80 percent of the total international payments for royalties and fees occurs within multinationals. The largest 500 multinationals account for roughly 25 percent of the world's gross product and over 50 percent of world trade (UNCTD 1994:xxi-xxii). In sum, multinationals control technology, marketing, and trade.

Multinationals, conventional wisdom argues, have become a (cultural) model for other firms to mimic because they are supposed to be in a better position to engage in and recover R&D expenditures, exploit economies of scale, access production factors worldwide at the desired cost and quality level, reduce transaction costs, move from saturated to emerging markets, manage risk, take advantage from tax loopholes, and leverage their power in negotiations with governments, labor unions, local communities, suppliers, and customers. Each of these advantages has been elaborated theoretically and tested empirically ad nauseam, as the massive, twenty-volume United Nations Library on Transnational Corporations testifies (Dunning ed. 1992-1994). Because of their pervasiveness, multinationals bring about what institutional theory calls coercive, normative, and mimetic effects as other firms enter into subordinate, cooperative or competitive relationships with them (DiMaggio and Powell 1983; Westney 1993). States, politicians, entrepreneurs, and labor have had to come to terms with the multinationals, particularly in the less advanced countries.

A useful starting point to generate a general working proposition about the proliferation of organizational forms during the process of incorporation of a country into the global economy is to consider that family owned, controlled, and managed firms are the paradigmatic response to the conditions of extreme uncertainty and risk typically engendered by industrialization. Family firms have access to kinship networks and personal connections, and are more likely than other organizational forms to pursue long-term ends through the reinvestment of earnings (Church 1993; Chaganti and Damanpour 1991). The state usually exacerbates these advantages when attempting to accelerate growth by shaping product and input markets. The proposition is that family firms are expected to diversify into related and unrelated industries to the extent that the

state manipulates informational and financial flows, controls the allocation of labor, protects the internal market for domestic firms, and imposes on foreign companies certain operational restrictions or shared control requirements (Amsden and Hikino 1994; Leff 1978, 1979; Gereffi 1990b; Stallings 1990).

If the state, however, is subject to pressures from organized interest groups—under a corporatist system or otherwise—and hence does not fully control the allocation of financial resources or labor, family firms will be expected not to diversify, but rather to invest retained earnings in their core area of perceived advantage. Countries characterized by corporatist practices, would be expected to breed family-controlled conglomerates only if the state bows to interest-group pressure, and implements protectionist and isolationist policies, particularly if foreign investment policies are restrictive and shift frequently over time. If, on the contrary, the state pursues consistent policies to attract foreign investment, many of the domestic family firms will suffer and some will eventually disappear as a result of competitive pressure, but at least a few would be expected to enter into subordinate or cooperative supplying relationships with the foreign multinationals, or be able to learn from them and survive by focusing on market niches. Family-controlled conglomerates, focused family firms, and foreign multinationals are by no means the only organizational forms to be found in the middle-range countries. State-owned enterprises and foreign multinationals will be prominent in certain cases, and a few firms with dispersed ownership may appear.

In the next section I will describe the emergence of different organizational forms in Spain, Argentina, and Korea as a result of the practices, interests, and ideas that have shaped the relationship between the domestic and global environments. I pay special attention to the role of natural endowments, the state, and foreign multinationals. This comparative-historical exploration will set the stage for the empirical analysis in the fourth section of the different types of organizational learning observed in each of the three countries, with diversified firms engaging in generic learning if the right conditions are in place, while product-focused firms resort to specialized learning.

3. Natural Endowments, State Behavior, and Foreign Multinationals in Spain, Argentina, and Korea

In 1950 a majority of the active populations of Spain, Argentina, and Korea worked on the land, and their economies were at the mercy of the performance of the agricultural sector. The three countries were only partially incorporated into the world economy, and, for a variety of historical and geopolitical reasons, these three societies were under authoritarian rule. Spain is a case combining an early start of industrialization in the 1840s with a late completion of the process in the 1960s after a long, agonizing trek stretching over more than a century, and punctuated by sharp ups and downs (Tortella 1994; Martín Aceña and Comín 1991). After the Spanish Civil War of 1936-39, the authoritarian regime of General Franco (1938-75) became dominated by a group of populist and staunchly nationalist economic policy-makers who implemented a series of foreign exchange controls and protectionist measures, nationalized foreign investments in utilities and public services, and made import-substitution investments in heavy industry. Meanwhile, the Allied powers imposed a trade embargo that remained fully in place until the late 1940s (Tortella 1994:255-306; Guillén 1994:175-203). Capital flight and almost zero inward investment were the natural results of a nationalist backlash against foreign investors, the overvaluation of the currency, the intricate system of multiple exchange rates, and mounting inflation. Slow growth for almost two decades and recurrent balance of payments crises speak to the limitations of this inward-oriented model of growth. A fairly comprehensive corporatist system of interest representation and coordination inherited from the 1920s was consolidated and expanded at this time as the various interest groups created or displaced by the periodic efforts at industrialization found a mutual accommodation.

Argentina evolved into a similar deadlock from a very different start. Even though at the turn of the century she was the tenth-largest trading country in the world, and ranked sixth in terms of per capita income, relative prosperity levels deteriorated very rapidly after 1929. Argentina's economic growth after 1870 had been supported by the twin pillars of a vast supply

of treeless land (the pampas), and a steady inflow of immigrants from Europe. Between 1880 and 1912 the economy grew at an average annual rate of over 6 percent, thanks to a booming export trade in wool, leather, and grains. Improvements in transportation and refrigeration technology helped the country become a leading exporter of perishable foodstuffs to the Northern hemisphere. As in Spain, foreign capital—in this case mostly British—financed an extensive railway network and public utilities. By 1929, Argentina was the world's largest exporter of chilled beef, maize, linseed, and oats, and the third largest of wheat and flour (De la Balze 1995:24-27; Lewis 1992:30-47). The Great Depression put an end to this period of export growth, while a military coup in 1930 interrupted the long democratic tradition initiated with independence. As agricultural export earnings failed to recover to pre-depression levels, a myriad voices called for the state to get involved in the economy (Lewis 1992:86-93).

In 1943 these trends converged on a pivotal event in Argentine history: the coup by army colonels of fascist leanings. Then colonel Juan Domingo Perón was put in charge of the Labor Department. He showered the emerging urban working class with all sorts of benefits. After winning the 1946 presidential election, Perón expanded these corporatist and paternalistic labor reforms in order to secure his power base. In 1947 a Peronist Party consecrated political personalism, and the social doctrine of the Catholic Church was endorsed. These social and political ideas, frequently of Italian or Spanish origin, were enshrined in a comprehensive corporatist system of occupational and interest-group representation, monopolistic and compulsory in nature, with the state acting as arbiter of disputes. Building on the traditional Argentine distrust of foreign investors and the belief that the country was inherently rich, its wealth being usurped by greedy imperialists, Perón succeeded in turning fears and prejudice into irrational hostility with his effective populist-nationalist rhetoric. Foreign interests in railroads, telecommunications, airlines, gas, and the merchant marine were nationalized. The state monopolized foreign trade, natural resources, and public services, while social programs were expanded and wage hikes wildly in excess of productivity gains became the norm. After a few years of expansion, the economy stalled as a consequence of growing fiscal and trade deficits,

and mounting inflation. A momentous decision in 1947 was not to sign the GATT agreement or to participate in any of the Bretton Woods institutions, thus preventing Argentina from taking part in the big world trade boom of the 1950s. Trade and foreign investment plummeted. Labor, small businessmen, tenant farmers, and industrialists placed their hopes on the security that only the state could provide. A 1955 army coup ousted Perón as the Church turned against his anticlerical educational reforms, the military feared the appearance of a worker militia, and the limitations of his policies became apparent. He left a legacy of national-populist policies, and an intricate web of corporatist interests (Lewis 1992:129-244; De la Balze 1995:37-41).

Korea also reached a crossroads at around mid-century. The Japanese occupation in 1910-45 had resulted in rigid economic dependence at first, but rapid industrial growth through foreign investment in the 1930s as the Korean peninsula became a keystone in Japan's imperial dreams in continental Asia. Over 90 percent of all industrial capital and facilities were owned by the various Japanese zaibatsu, and many Koreans were trained by the Japanese in warfare, engineering or administration (Kohli 1994; Woo 1991:19-42). The Republic of Korea was founded in 1948 to the South of the demilitarized zone. The United States had initiated in 1945 a vast economic and military assistance program, expanded during the Korean War of 1950-53, that was to last until the 1960s. Originally, U.S. generosity came with one string attached: the funds had to be used to purchase goods from Japan. The nationalistic response of President Syngman Rhee (1948-60) was to initiate an import-substitution industrialization drive while reinforcing the state's administrative, repressive, and military apparatuses. The success of his policy in achieving industrial growth during the 1950s relied heavily on foreign aid and investment (Stallings 1990; Cheng 1990; Westphal et al. 1979; Woo 1991:43-72). Rhee's regime, however, indulged in corruption and giveaways to the rent-seeking local businessmen (Woo 1991:67-68). Ballooning fiscal deficits forced him to introduce a classic stabilization program in 1957 that failed to stimulate private investment. The ensuing economic recession and unemployment took their toll, and the Rhee regime collapsed in 1960 under the pressure of student protests.

Endowments and States

Faced with a daunting legacy of disastrous import-substitution policies, marginalization from the world economic and political mainstream, and technological and organizational backwardness, these three middle-range countries pursued very different paths after 1960. The consequences for the proliferation of organizational forms and the unfolding of firm learning over the following decades would be momentous. As argued by students of late development (Gerschenkron 1962), the state continued to play a central role. These states, however, had very different characteristics, made very different assumptions about their countries' basic strengths and weaknesses, and operated in quite different domestic policy contexts.

I will use a concept of the state which transcends the classic Weberian definition of a compulsory association monopolizing the means of rule-making, coercion, and violence over a geographically bounded territory. Following the "state as an institution" tradition, I assume, first, that the state is an embodiment of "national values and legal orders that tend to persist in time" (Murtha and Lenway 1994:114), and, second, that patterns of state practices create an ideology or "culture," and tend to generate specific policy agendas (Skocpol 1985), including particular definitions of property rights, governance structures, and rules of exchange among economic actors (Dobbin 1994; Fligstein 1996). As noted by Campbell and Lindberg (1990:635), "property rights actions by the state not only create pressures for change that cause actors to look for new organizational forms, but they also constrain and influence how actors select different forms." In addition to this institutional view, the state's ability to come up with competent policies ("state capacity"), to implement them at the firm level ("state embeddedness"), and to impose its will over the organized resistance of others ("state autonomy") will help characterize the effectiveness of state behavior (Evans 1995; Evans et al. 1985).

The state thus defined reacted quite differently to the challenges of relative backwardness in the three cases under scrutiny. Inheriting a legacy of political tutelage, harsh colonialism, and benevolent occupation at the hands of three different world powers, as well as a brutal civil war, the emerging authoritarian regime in South Korea embarked upon a state-nationalist

developmental project in 1961. The basic assumption was that only economic growth on the basis of large, Korean-owned firms would help the country attain true political independence, in perfect consonance with the classic credo of the European economic nationalists (Gilpin 1987:31-34). It was further observed that the country lacked any significant natural resources other than cheap labor, and that foreign financial assistance, technology, and marketing know-how would be necessary. But the very ideas about national independence made it impossible to create the usual ties with foreign governments and investors. Foreign ownership was unacceptable, particularly Japanese ownership, so local firms would have to be favored and encouraged to enter into joint ventures and arms-length contracting arrangements with foreign firms in order to learn capabilities while using the large pool of disciplined labor to manufacture goods for export. Under such circumstances, local firms quickly realized that the key to organizational growth consisted in learning capabilities transferable across industries.

Argentina's response was remarkably different. The basic assumption made by the state was that this frontier country contained fabulous natural resources such as land and oil deposits, while labor had always been dearly scarce. The combination of an underdeveloped state organization and vast natural wealth opened up an array of possibilities for partisan political advantage on the basis of populist-nationalist policy-making, i.e. short-term political and economic gain at the expense of long-term prosperity (Dornbusch and Edwards 1991; Kaufman and Stallings 1991; Mouzelis 1988). It should be carefully noted that both the Argentine and the Korean states assumed nationalist economic policies, including a rejection of liberal trade theory (Gilpin 1987:31-34, 180-183, 274-290). But while Korea's policies have underscored outward-oriented growth, Argentina's turned inward-looking. As isolationist, corporatist, and capricious policies became the norm, local and foreign firms shortened their time horizons and neglected learning opportunities. Their only concern became to reassert their claims to exploiting natural resources under the continously shifting state priorities and institutional conditions.

Unlike in the Korean and Argentine cases, the Spanish state pursued a fairly consistent liberal-modernizing policy since 1959 with one clear goal in mind—integrating the country into

the European mainstream. Neither was labor cheap enough nor were natural resources stupendous enough in their own right to attract foreign capital and technology to Spain. But the prospect of economic and political stability in the context of European integration could certainly persuade foreigners to take a stake in the country's future. While neither all ideas nor all interests were consistent with the goal of European integration, the state managed to impose over time a logic of liberalization and modernization (Guillén 1989; Pérez 1997). Foreign investors were invited to come with only a few strings attached at the request of some powerful domestic interest groups. As a result, organizational learning by domestic firms became heavily dependent on their ability to develop internal capabilities with little help from the state, and mostly in cooperative, competitive, or mimetic response to the massive arrival of foreign multinationals. These cross-national contrasts appear summarized in Table 2.

Policy Context and State Behavior: Spain and Argentina

Within a forest of differences, one crucial similarity between Spain and Argentina stands out: the pervasive influence of corporatist interests, i.e. organized labor, domestic business groups, private banks, the Church, the professions, the army, and the regions (Table 2). "Entrepreneurs" found it easier to obtain quasi-rents from the state than to export or come up with process or product innovations, while the emerging state-owned enterprises were plagued by overemployment, huge operational costs, misallocation of resources, and conflicting goals (De la Balze 1995; Lewis 1992; Martín Aceña and Comín 1991). The corporatist similarity should be qualified in that Spain, being heavily influenced by the Napoleonic administrative tradition, had long had a relatively meritocratic and self-regulating civil service, which could be used since the 1960s to introduce gradual economic reforms (Beltrán 1977; Guillén 1989; Pérez 1997). In Argentina, by contrast, one finds until today a state of the patrimonial type (Weber 1978:II, 1028-1031) at the mercy of interest groups and populist, and an officialdom lacking competitive examinations for entry, rational specialization, or enclaves of excellence movements—in what has been termed "modern patrimonialism" (Mouzelis 1988). Tellingly, by the late 1980s one in

six employed Argentines was on the state's payroll, government spending reached an incredible 60 percent of GNP, and 40 percent of the budget went into subsidizing the greedy, money-losing state enterprises (Lewis 1992:250, 488).

The incorporation of the Spanish economy and its firms into the global economic order has proceeded very gradually since 1959, when liberal reforms substituted steep tariff barriers for non-tariff barriers to trade, and started to deregulate the economy. Even though the nationalist suspicions about free trade and foreign investment nurtured between the late 19th century and the 1950s never vanished completely, the government, labor, the business community, and the general population have gradually come to accept, even celebrate, free trade and the arrival of foreign firms as a passport to the democratic and prosperous European mainstream. Unlike in Argentina and Korea, an ideological tolerance of foreign investment started to spread in Spain during the 1960s and reached a climax during the late 1980s. The two most stubborn opponents—certain segments of the business community and the labor unions—became persuaded during the transition to democracy in the late 1970s that foreign capital could help supplement the meager level of domestic savings, create jobs, facilitate technology transfers, and develop clusters of supply and support industries. This unusual degree of tolerance in a relatively backward country was made possible by a broad social consensus favoring integration with Europe. The rising unemployment of the 1970s and 1980s, eventually surpassing the 20 percent mark, converted the remaining skeptics, particularly those on the left, to the cause of attracting job-creating foreign investments. Given the evolving ideological background, the government and the relatively well-functioning state bureaucracy could focus on generating support for the adequate set of reforms in a context of a corporatist political economy, a task not without pitfalls, particularly during times of economic turmoil and political transition.

Foreign multinationals did come to Spain and in a big way. The punitive taxation of imports of industrial and consumer goods in a domestic market of considerable size and growth potential attracted foreign investors during the 1960s. Foreign multinationals were, of course, better equipped than domestic firms to react promptly to the country's rising exposure to the

global environment. Foreign firms created new industries and markets, revolutionized existing ones, brought with them new technologies, marketing skills, and organizational logics, and managed to turn their Spanish operations into an export platform, especially after the country joined the European Union in 1986 (Muñoz et al. 1978:34 n. 43; Campa and Guillén 1996).

Domestic firms could not benefit from the situation to the same extent as foreign firms because of a most critical factor setting Spain apart from many other middle-range countries. The government's French-style indicative planning practices of the 1960s required the introduction of "privileged financial circuits" to channel cheap credit to targeted industries, but no performance standards were imposed on the favored firms. In addition, the state assumed all of the financial risk either directly or indirectly through special rediscount lines and the creation of state-owned industrial credit institutions, which were not allowed to compete with the private banks for funds. This arrangement consolidated a cartel of seven large private banks accounting for over two-thirds of total deposits. As political scientist Sofia Pérez (1997) has shown, no matter whether financial regulation or deregulation was the issue, the banking cartel unashamedly used its durable political connections within the authoritarian regime to maximize oligopolistic advantage at the expense of industrial firms and even the state. Unlike in manufacturing, foreign investors were prevented from entering the banking sector. Thus, the big private banks amassed huge profits as lenders to industry in a virtually risk-free environment.

Spanish firms rode the wave of world economic and trade growth until the implicit contradictions of the system became apparent during the late 1960s and early 1970s: cheap credit without full trade liberalization or export targets fueled inflation, and ultimately, an erosion of comparative productivity levels and the decline of both heavy and light manufacturing industries. Higher international interest rates and easier mobility of funds across borders increased net capital outflows sharply. In response, domestic interest rates were allowed to rise steadily until the late 1980s, trapping Spanish firms in a situation characterized by the lowest self-financing ratios among OECD countries, very limited opportunities to raise money in the country's tiny stock market, and, as a result, dependence on bank loans (Pérez 1997).

The consequences of such a financial system for Spanish firms are fairly well-established. Except for a couple of years, between the late 1970s and the early 1990s Spanish non-financial firms suffered from financial costs averaging more than their returns on investment (Maroto Acín 1990). Universal banks dominate the financial system—like in Germany, Switzerland, and Austria (Steinherr and Huveneers 1994)—as well as the intercorporate network (Aguilera 1996). Spanish banks, however, do not play the role of the long-term, informed shareholder so typical of Central Europe. Rather, they behave as the money-lenders and commercial partners of industrial firms (Cuervo-Cazurra 1995; Galve Górriz and Salas Fumás 1992).

Argentina's experience departed from Spain's since the late 1950s. Semi-democratic governments alternated with army-led, authoritarian between the end of Perón's first presidency in 1955 and 1976, when the military intensified a brutal and infamous "dirty war" against insurgent leftist groups. All of the pre-1976 governments tried to put an end to the stalemate among the entrenched interest groups, and to the country's isolation. But balance of payments crises or sheer resistance by those affected blocked all attempted reforms. More so than in other Latin American countries, protectionism, import-substitution policies, tax evasion, capital flight, rampant corruption, and the rigidities of corporatism wrecked the economy gradually but inexorably (Waisman 1987; Lewis 1992; Adelman 1994).

Foreign investors came to Argentina in the 1960s, but almost no new investment arrived during the 1970s. In sharp contrast with Spain, macroeconomic instability and the frequent zigzags in FDI policies, oscillating from practically unrestricted access to tight regulation or even outright discouragement in cycles of 3-5 years, prevented foreign multinationals from doing anything else in Argentina than exploiting natural resources or manufacturing price-inflated goods for a tiny domestic market (Lewis 1992:298-318, 421-422). In this once leading exporting country, the ratio of exports to GDP plunged to less than 15 percent. The final blows to the Argentine economy were assessed by the gross economic mismanagement of the military juntas during the 1976-1983 period after a failed initial effort to open the economy and reduce the size of the government (Lewis 1992:448-475). The first democratically-elected president in 1983-

1989 failed to bring inflation under control, and suffered from as many as twelve general strikes. The country that once was the barn of the world witnessed food riots in May of 1989. Hyperinflation peaked at an annual rate of 20,266 percent in March of 1990.

A comparison of Spain and Argentina clearly shows the determining impact of ideologies. In spite of sharing with Argentina a corporatist structure and a legacy of wrong-headed import-substitution policies, the Spanish state's cosmopolitan commitment to European integration provided a dreamed goal and a recipe for modernization. Foreign firms were welcomed, and they created demonstration effects for domestic firms and some state enterprises to imitate. By contrast, Argentina switched development tracks in the 1940s from export-led to inward-looking growth. The populist-nationalist ideology, the absence of a bureaucratized and independent officialdom, and the lack of a widely-shared goal or dream made it possible for corporatist interests to undermine any serious attempt at reform, as has been recognized by scholars using different conceptual approaches (Waisman 1987; Lewis 1992; Adelman 1994).

Policy Context and State Behavior: Korea

Korea provides a useful contrast with both Spain and Argentina in terms of the policy context as well as the dominant state ideology of development (Table 2). The key to understanding Korea's economic take-off during the 1960s and the "Big Push" of the 1970s lies in the role played by a capable and autonomous state since the army-led coup of 1961. The dominant state ideology emphasized national independence and export-led growth on the basis of large, Korean-owned firms. The emerging authoritarian regime of General Park Chung Hee (1961-79) was able to strike a delicate balance between, on the one hand, policies protecting and subsidizing private businesses and a few state-owned enterprises, and, on the other, establishing tight controls on the performance and competitiveness of the favored firms. The state imposed on businesses a panoply of restrictions, including export targets, price controls, restraints on capacity expansion, limits on market entry, and prohibitions on capital flight. In addition, the government nationalized the commercial banking system, allowing it to allocate credit at will,

and to subsidize export activities and imports of the required machinery and components with negative real interest rates until the late 1970s (Woo 1991:81-84, 148-175; Amsden 1989:146-147; Song 1990; Lee 1992).

The largest industry, textiles, provided the impetus for the export-led economic take-off of the 1960s, while firms started to diversify into steel (following state-owned POSCO's lead), chemicals, fertilizers, and simple assembled goods. The "Big Push" of the 1970s focused on heavy industry. The state's plan envisioned one large, efficient complex for each of six (mature) industries: steel, chemicals, metals, machinery, shipbuilding, and electronics. When the 1973 oil crisis struck and several of the conglomerates came to the brink of bankruptcy, the government boldly devalued the currency and rescheduled their debt at the expense of small savers (the famous "curb market"), while the firms absorbed the sharply higher costs of raw materials and fuel by increasing their reliance on the then abundant foreign sources of lending. The bargain paid off by 1976 as the Korean product quality-cost mix allowed its firms to expand in overseas markets. The the oil shock of 1979-80 created excess capacities worldwide just as the new Korean plants were ready for large-scale production. In response, the government orchestrated a vast program of "industrial reorganization" or consolidation of producers which provided a sound foundation for growth in the 1980s (Woo 1991:85-100; 148-159, 177-179). The results of the export-led take-off and the Big Push were rapid economic growth, averaging about 8 percent annually, and the rise of large private business groups without significant inflows of foreign direct investment or the accumulation of an unmanageable mountain of foreign debt (Lim 1985:97). Finally, Korean firms moved into integrated auto manufacturing and advanced electronics during the 1980s (Schive 1990; Amsden 1989).

There appear to be two key differences between Argentina and Spain, on one hand, and Korea, on the other. First, the corporatist regime of labor relations, and second, the lack of effective mechanisms to discipline the private sector. Unlike in the other two countries, Korean labor was not allowed to organize effectively after World War II or the Korean War of 1950-1953. Right-wing groups with the backing of the police and the American military authorities

destroyed the emerging worker organizations. The zenith of this period of reckless repression was reached during the Chungryangri railroad strike in 1947, which ended in hundreds of deaths and thousands of imprisonments (Koo 1993:134-135). The absence of a sustained labor militancy and opposition—except for a few, brief outbursts—allowed General Park to avoid any state-funded corporatist and social welfare programs like the ones created in Argentina and Spain during the 1940s based on paternalistic mentalities, and hastily organized to pacify a restless working class and turn it into a political ally. No socialist party ever emerged in Korea, and, after two foreign occupations (Japan's and the U.S.'s) the communist movement was an essentially nationalistic one rather than a class-based phenomenon. There was no sizable industrial proletariat in Korea in the 1950s. Moreover, the regime was willing and able to repress any attempts to organize a classwide labor movement (Deyo 1989; Lim 1985:67-71). One could imagine perhaps a crafts-based pattern of labor organization emerging in Korea. The handicrafts, however, had slowly declined during the Yi dynasty's long period of rule (1392-1910), so the basis for a trades union movement, or a crafts-based small-scale industrialization for that matter, was not available (Koo 1993:136; Amsden 1989:18, 192-195, 324-325).

The second difference with Spain and Argentina had to do with the ability of the state to discipline private entrepreneurs in order to check rent-seeking behaviors in a protected domestic market. Unlike in Argentina and Spain, the dominant Korean economic ideology during the 1960s was one of outward-oriented export growth, coupled with an astute provision for a nationalist-inspired protectionism of the domestic market in order to use it as a prize for export achievement (Lim 1985). Business groups had to deliver increasing exports; otherwise, they would not be authorized to expand capacity, enter new industries, reduce their taxable income, obtain subsidized credit, or enjoy protectionism (Woo 1991; Amsden 1989). Poor performance or political deviance was ultimately punished by outright dismemberment, as happened to two of the top 15 conglomerates in the 1970s (Amsden 1989:15; Woo 1991:170-171).

Two circumstances allowed General Park and President Chun Doo Hwan (1979-1988), following the former's assassination, to impose the state's will over business: the creation of a

relatively strong, autonomous, and self-regulating state in the 1960s and 1970s, and the nationalization of the private banking sector (Woo 1991:159-169). A state bureaucracy first emerged during the Japanese occupation (Kohli 1994), and was subsequently reinforced as a consequence of war or the threat of war, in agreement with the general path observed by Mann (1988) and Tilly (1990) for state-building worldwide. Spain had a state bureaucracy staffed by a meritocratic civil service, but policy-making was frequently held hostage by the state-owned enterprise sector, private businesses, labor, or the regional interest groups. And neither Argentina nor Spain subdued the private bankers. This limited the state's autonomy to manipulate credit, and, in turn, discipline private businesses. Free from large landowners, labor, entrepreneurs or bankers as autonomous interest groups, General Park was able to use the state budget deficit to finance industrial investments.

4. Dominant Organizational Forms and Patterns of Learning: The Evidence

Natural endowments, state policies, and foreign multinational involvement in Spain, Argentina and Korea have created different interactions between the domestic and the global environments. Variations in the dominant organizational forms and in the patterns of firm learning have followed from such institutional conditions. In this section I review those differences for the populations of the largest exporters and outward foreign investors in each of the three countries, and present evidence on the patterns of learning for three typical companies to illustrate at the firm level the cross-national differences observed.

As opposed to the largest firms in terms of sales or employees, the largest exporters and outward investors are the firms most directly exposed to the global environment, thus providing better indicators for the purposes of this paper. The information was compiled from my own field interviews and firm surveys, as well as from publicly available sources. The data were coded by industry (Table 3, panel A), and by organizational form and control, a classification distinguishing among family-controlled focused firms, family-controlled conglomerate firms, bank-controlled firms, cooperatives, state-controlled firms, subsidiaries of foreign multinationals,

firms otherwise under private control, and firms with dispersed ownership (Table 3, panel B). The top 100 exporting firms were investigated for each country, accounting for 45 percent of total Spanish exports, 73 percent of total Argentine exports, and 83 percent of total Korean exports. The top 50 outward foreign investing firms represent an estimated 80 percent of the total outward stock of Spanish foreign direct investment, 95 of the Argentine stock, and 71 of the Korean stock (Table 3, panel C). Data on Spanish firms refer to 1993, while data on Argentine and Korean firms refer to 1994.

Stunningly, in Spain 58 of the top 100 exporting firms are subsidiaries of foreign multinationals, 16 are state-controlled, 14 are focused family firms, and the rest are bank-controlled or under dominant control otherwise. At the other extreme, 63 of the top 100 Korean exporters are companies belonging to one of the diversified conglomerates, 28 are family-controlled family firms, and just six and two, respectively, are foreign multinational subsidiaries and state-controlled firms. Argentina lies somewhere in between, for 36 of the top 100 exporters are foreign multinational subsidiaries (mostly traders/transformers of natural resources), 29 are family-controlled focused firms, 15 are companies owned by the conglomerates, and the rest are firms under other types of dominant control.

The top outward foreign investors—i.e. the firms that have learned to become multinationals—are also very different by country. Of the top 50 Spanish multinationals, 68 percent are family-controlled focused firms in such industries as food, beverages, textiles and apparel, pharmaceuticals, transportation equipment and autoparts, machinery, and metals. Twelve percent are large state-owned companies while 10 percent are bank-controlled. Lastly, four worker cooperatives, including the famous Mondragón Group, also qualify among the top 50 multinationals because of their foreign investments in manufacturing or agricultural activities. In Argentina, 70 percent of the top 50 multinationals headquartered in the country are family-controlled focused firms operating in roughly the same industries as the Spanish family-controlled multinationals, and 26 percent are diversified conglomerates, most of them in agriculture, trading or energy. In Korea, by contrast, more than half (56 percent) of the top 50

firms qualifying as multinationals are part of the family-controlled diversified conglomerates, while 34 percent are family-controlled focused firms. The conglomerate firms have invested in foreign operations in oil, metals, machinery, autos, electronics, and construction, while the focused family firms have invested in footwear, textiles, apparel, musical instruments, and electronics.

What accounts for these strikingly different patterns of organizational form and control among the top 100 exporters and top 50 outward foreign investors? What are the consequences for our understanding of organizational learning? I will sort out these questions by pointing the spotlight at the Korean chaebol, the Argentine grupo económico, and the product-focused family firm in Spain and Argentina.

Diversified Conglomerates in Korea, and their Pattern of Learning

Diversified conglomerates proliferated in Korea, and, to a lesser extent, in Argentina. Family-controlled firms diversified into unrelated manufacturing and grew in size only in Korea, where they have become the dominant organizational form in production as well as foreign trade and investment, and are known as the chaebol.[2] The top ten accounted in 1990 for a staggering 23 percent of Korea's manufacturing value added compared to the 19 percent share of the top ten enterprise groups in Japan, the 5 percent share of the top ten companies in Spain, and a similar proportion in Argentina (Lee 1994, exhibits 4 and 8; Fomento de la Producción 1994). Even though the transition to democracy starting in the late 1980s has come together with such momentous changes as import liberalization, removal of export subsidies, financial reform, and

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[2] The Korean term chaebol is the transliteration of the Japanese zaibatsu. Both are written with the same two Chinese characters and mean "wealth clique." Only four of the giant Korean chaebol have their origins in the colonial period. By contrast to their Japanese counterparts, the chaebol do not include a bank, are much more managerially centralized, and rely on subcontracting to a lesser extent (Kang 1996b:11, 86-90; Kim 1994:83; Woo 1991:13, 35, 66; Steers et al. 1989:46-48; Lim 1985:106 n. 7).

labor unrest, the chaebol are not only holding out but also defying the government's authority, buying up privatized companies and banks, and growing even bigger at home and abroad (Woo 1991:176-203; Koo 1993; Koo 1994; Fields 1995).

The overwhelming dominance of the chaebol has its roots in the early importance of political connections when awarding government contracts, subsidized loans, export incentives, or licenses to enter new industries. The state, for obvious control reasons, preferred to deal only with a handful of entrepreneurs, and persuaded the favored ones to enter risky undertakings by expanding their licenses in already established and profitable industries, thus promoting unrelated diversification (Kang 1996b:25-31; Chang and Chang 1994:59-74; Hamilton and Biggart 1988; Lim 1985:90-93; Jones and Sakong 1980; Mason et al. 1980:129; Westphal et al. 1979:365-366). Diversified groups in Korea are congruent not only with the lack of classwide labor unionism, corporatism, and substantial inward foreign investment (Lim 1985:75; Kang 1996b; Westphal et al. 1979:366-369), but also with the importance of kinship structures in a country that has only recently experienced industrialization (Kang 1996b:88-115; Shin and Chin 1989; Steers et al. 1989:37-39; Jones and Sakong 1980:343-364; Whitley 1992; Granovetter 1994).

A characteristic of the chaebol crucial to understanding their way of learning is the top-down pattern of strategic control. Early on in their development, the chaebol created group-level staff offices in charge of strategic planning, technology acquisition, and human resource management in addition to centralized financial allocation (Amsden 1989; Chang and Chang 1994:83-128; Janelli 1993:124-155; Kang 1996a:154; Kim 1994:94-101; Steers et al. 1989:39-41, 109-124). Essentially, from the 1960s to the 1980s the Korean firms favored by the state to invest in new industries and conquer world markets learned how to produce at low cost massive amounts of different types of goods. They neither designed nor marketed the goods; rather, they focused on manufacturing—oftentimes merely assembling—products to specification for Japanese, American, and European firms. This pattern of "original equipment manufacturing" (OEM) was later extended to more technologically advanced industries. A few foreign multinationals were allowed to invest in Korea, but mostly in joint ventures with Korean

companies so that they would learn the new technologies. The foreign partner held a minority stake in about two thirds of all foreign investment projects in Korea between 1960 and 1994 (IEPB 1995; Westphal et al. 1979:368, 377-379; Lim 1985:113-114).

The same logic of leveraging generic project execution and mass production skills was invoked when Korean firms ventured abroad. Firms made small investments in export distribution as early as the mid-1960s. During the 1970s they invested in raw-material procurement, engineering and construction projects, and manufacturing (Bank of Korea 1995; Kumar and Kim 1984). At the same time, the general trading companies associated with the chaebol began to grow quickly, aided in part by a new government subsidy program introduced in 1975. By the early 1990s the top seven trading companies handled up to 47 percent of all Korean exports (Euh and Min 1989; Woo 1991:164-165; Fields 1995:183-208; Kang 1996b:172-182). Since the mid-1980s Korean firms have invested heavily in manufacturing both in lower and upper-income countries. The reasons behind this surge in manufacturing-related foreign investment have to do more with the persistent middle-range character of most Korean businesses than with the exploitation of created assets. Hyundai, Samsung, Daewoo, and LG have swiftly established foreign production operations in order to prolong the viability of the model of low-cost mass production. The 50 or so Korean auto and electronics plants now present in the U.S. and Europe are hardly expressions of technological or marketing advantage, but either attempts to circumvent protectionism or oligopolistic reactions among fierce competitors in the protected Korean market, or both (Bloom 1992; Hong and Grag 1995).

This generic and manufacturing-focused pattern of learning has, by definition, the drawback of technological and marketing dependence on foreigners. Until the early 1990s, more than 80 percent of Korea's exports were accounted for by OEM contracts, and over 50 percent of the total had to do with low-tech products (Bernard and Ravenhill 1995; Bloom 1992; see also Table 1). In spite of the dominant ideology of national independence, the country's reliance on Japanese and American created assets remains substantial. By focusing too heavily on scale production (or assembly) of standard goods, Korean firms neglected parts, components,

machinery, and marketing know-how while the government underinvested in graduate education (Kim 1993). Thus, the Korean balance of payments suffers from the paradox that when exports of finished goods increase so does the overall trade deficit as imports of the required equipment, parts, and components also rise, a phenomenon aggravated by the frequent practice of dumping production onto international markets (Lim 1985:95-96; Soon 1994:164-170).

Given the limited degree of product differentiation, the problems with quality assurance, and the scarcity of proprietary technology and designs, the chaebol have two options. The low road has been taken when targeting lower-income markets in South East Asia, Eastern Europe and Latin America, a trend which is reducing the incentives to innovate. There are clear indications, however, that the high road of learning created assets is presently being pursued by some Korean firms. The leading chaebol are coming up with their own technologies and shifting away from OEM contracts, while the government is investing more in graduate education and providing preferential financing for up to two-thirds of private R&D (Kim 1993:373-379). Korea now spends a respectable 2.2 percent of its GDP on R&D, compared to 0.9 in Spain or 0.3 in Argentina (STEPI 1995:3), and the country has benefited from a returning diaspora of highly-trained Korean engineers and scientists. Since the early 1990s, Korean firms have been obtaining more patents than any other middle-range country except Taiwan, about five times more annually than Spain (up from a level of parity just five years ago).

Some firms are also making fast improvements in the marketing area building on the achievements of the trading companies. In 1993, 30 percent of exports of Korean light manufactures were delivered to customers with a Korean brand, up from 22 percent in 1987. Exports of electronic products and motor vehicles are now Korean-branded to a proportion of 46 and 56 percent, respectively (Park 1994). For example, Daewoo Electronics used to sell only 10 percent of its products under its own brand; currently, up to 40 percent bear the Daewoo name. Sunkyong's diskette and videotape company (SKC) now sells around 80 percent of its products with its own brand, even though they probably lose money with exports.

The pattern of generic organizational learning so typical of the Korean chaebol may be exemplified by the Samsung group, a second-generation family-controlled conglomerate. The origins of Samsung ("Three Stars") date back to 1938 when entrepreneur Lee Byung-Chull founded a trading company after having entered the rice milling business three years earlier. The firm all but disappeared at the end of Japanese rule, and was not revived until 1951. Using the windfall profits accumulated in trading activities during the Korean War, Lee invested in sugar, flour, and cotton yarn manufacturing (the "three whites"), benefiting from the import-substitution wave then reaching its peak. After the "illicit wealth accumulation" showdown between the chaebol and General Park's government in 1961-62, Samsung started to diversify into export-oriented industries (electronics) as well as others initially oriented towards the domestic market (paper, fertilizers). In the 1970s, Samsung followed the government's lead by investing in defense-related industries, petrochemicals, construction, and shipbuilding. These diversifications show the unequivocal influence of state guidance in the Korean chaebol's pattern of diversification and growth (Jones and Sakong 1980:277-282, 349-354). During the 1980s Samsung became a world-class business group by moving into computers, semiconductors, watches, fiber optics, aerospace, and genetic engineering. Nowadays, Samsung is the second largest Korean chaebol, with a value added of $4.8 billion and 180,000 employees. Three of its member companies appear on Fortune's Global 500 list: Samsung (trading, ranked 67th), Samsung Electronics (120th), and Samsung Life (220th). This chaebol was the first in Korea to create a General Planning and Control Office in 1956 charged with coordinating strategy, resource allocation, technology acquisition, and human resource management for the entire group. The Office is currently the largest among the top Korean chaebol (Kim 1994:94; Kang 1996a:154). Since the early 1990s, Samsung has invested heavily in R&D, accounting for about half of all Koran patents obtained in the U.S.

The group's flagship company is Samsung Electronics, the world's largest manufacturer of memory chips, and Korea's largest exporter and second largest foreign direct investor. The diversification into consumer electronics and semiconductors is a textbook case of generic

learning. The Samsung Electronics Company was created in 1969 to make audio and video equipment, household appliances, and electronics products. It was as late as 1981 that Samsung and another of the chaebol, Goldstar, licensed the video cassette recorder (VCR) technology and trademark from the Victor Company of Japan, a Matsushita affiliate. Samsung learned the technology swiftly and became a low-cost VCR manufacturer, exporting as much as 70 percent of production. In the late 1980s Korean-made VCRs accounted for one fifth of the U.S. market (Koo 1994, table 9.8). By 1992, a mere decade after entering the industry, Samsung ranked as the second largest VCR manufacturer in the world, with a worldwide market share of about 10 percent. Samsung entered the microwave oven market with a similar strategy, i.e. with borrowed technology and via OEM contracts (Magaziner and Patinkin 1989). Samsung Electronics thus managed to excel at large-scale assembly, with little or no proprietary technological and marketing expertise. Two thirds of total sales are still accounted for by OEM contracts with such firms as Tandy, Unisys, Hewlett-Packard, Apple, IBM, Dell, and Tektronix. Technological alliances and licensing agreements are in effect with General Instruments, USA Video, NEC, ISD, Toshiba, Fujitsu, AT&T, and Motorola. Samsung Electronics has leveraged its manufacturing knowledge when investing abroad in as many as 32 production subsidiaries, both in developed countries (mostly to avoid protectionism), and at South East Asian and Latin American locations (to escape from rising labor costs in Korea). These plants currently account for 20 percent of the firm's consumer electronics production. In addition, Samsung Electronics has eight foreign R&D facilities, which tap into technological assets unavailable in Korea, and function as listening outposts; and 35 sales and service subsidiaries, which are presently implementing a global Samsung brand awareness campaign aimed at burying OEM practices.

That this firm's success has been based on generic learning is best appreciated in the case of semiconductors. In 1988 Samsung Semiconductors, founded in 1983, was merged with Samsung Electronics, presumably to consolidate control and maximize the opportunities for cross-subsidization between the profitable consumer electronics and unprofitable semiconductor businesses (Bloom 1992:91). It had been the state who encouraged Korean firms to enter the

capital-intensive semiconductor industry in the 1970s with its pilot wafer fabrication facility. In the 1980s, the government coordinated the 4-Megabit DRAM Project. As Peter Evans has observed, "initiating production of computers and other informatics products [such as semiconductors] did not require finding new entrepreneurs to start new companies... It was only a question of convincing them to add informatics products to their repertoires" (Evans 1995:174). Samsung stunned the world when it became the leading manufacturer of 4-Megabit DRAMs in 1994. One should bear in mind that memory (as opposed to logic) chips require excellent manufacturing skills but only modest design and marketing capabilities. As commodity products, they are subject to low unit margins, and sharp ups and downs in their price. Manufacturing know-how on the shop floor is key in order to increase scale rapidly, cut costs, and reduce defect rates (Appleyard, Hatch and Mowery 1995). In other words, entering the memory chip segment of the semiconductor industry was an ideal option for a group with deep pockets, and excellent project execution and mass production capabilities.[3]

Argentine Diversified Business Groups, and Their Unsuccessful Learning

Business groups have emerged in Argentina thanks to their ability to obtain state contracts since the early years of Perón, their access to intragroup financial resources (unlike in Korea, groups typically include financial institutions), and the ease with which they could diversify into new industries with the cash flows generated in profitable and protected domestic markets during and after the period of import-substitution industrialization (Lewis 1992:349-359). The Argentine grupos económicos have always been ideal local partners for the few multinationals

[3] Samsung's success in memory chips was certainly facilitated by the rise in the value of the yen and by the introduction of new, memory-hungry operating systems in personal computers. As demand for memory chips flattened in 1996, profits at Samsung Electronics have tumbled to an estimated $1 billion from more than $4 billion in 1995. These economic and technological factors, of course, affected not only Samsung but all firms in the industry.

who ventured into the country in spite of the frequent zigzags in policies regarding foreign investment. More recently, the military juntas of 1976-83 showered them with more contracts, better conditions for export, and even a surprise nationalization of their accumulated foreign debt in 1982, while the first democratic administration after 1983 restored tariffs, and rising inflation provided for an additional shield (Adelman 1994; Acevedo et al. 1990:147-148). Under the Menem Presidency since 1989, the business groups have suffered from increased competition due to tariff cuts and the creation of the Mercosur customs union. But they have benefited from Latin America's most ambitious privatization program (affecting over 60 state firms and totaling US$ 26 billion in privatized assets), the crackdown on the unions' power (Adelman 1994), and renewed technical, licensing, and marketing ties with foreign multinationals (Kosacoff and Bezchinsky 1994; De la Balze 1995:88-99).

The growth and learning patterns of the Argentine groups are very different from those of their Korean counterparts. The size of the typical Argentine group is much smaller than the Korean, in spite of the fact that they control a greater number of companies. Their export activities are also more limited, and their historical pattern of diversification has been rather haphazard (see Table 4 and Figure 1). Most of their revenues—and profits—have to do with industries linked to natural resources or public utilities and services, even though they have ventured into consumer goods and heavy industry. They even dared enter high-tech industries, meeting very limited successes or even outright failure. Their strategic posture has been one oriented towards a protected domestic market, and only partial attempts have been made at improving their skills and at leveraging them across industries.

It is accurate to argue that the Argentine groups have barely learned the generic project execution and mass production capabilities so characteristic of the diversified Korean manufacturing chaebol. The evidence for this is two-fold. First, several of the Argentine groups are reducing their degrees of manufacturing diversification and reorganizing their operations in response to the recent economic liberalization. Concentrating on their "core areas of competence" is the hallmark of their current strategies, as in the cases of Alpargatas in clothing

and footwear, Arcor in food-processing, and Bemberg in beverages, with the intention of leveraging their incipient technological and marketing skills in domestic and nearby foreign countries by focusing on niche markets. The second indication that generic-capability learning is not as prevalent as in Korea refers to the natural-resource based groups in energy and agriculture (Pérez Companc, Comercial del Plata, Bunge & Born, Astra, Bridas), whose capabilities have remained stagnant over the years, as evidenced by their failure to integrate downward into higher value-adding activities (see Table 4). Unlike their Korean counterparts, the Argentine conglomerates never created the adequate group-level structures and staffs to coordinate strategic planning, technology acquisition, and human resource management (Bisang 1994b:32-33, 50-54; Prensa Económica 1994).

A good illustration of the predicament of the Argentine business group is Pérez Companc, the country's second largest (Bisang 1994b:17). It is currently controlled by the second family generation. Pérez Companc was founded as a shipping company in 1946, the same year Perón won his first presidential election. The company owed its early growth to supply contracts with the state oil and coal monopoly companies (YPF and YCF). In the 1960s, Pérez Companc diversified into oil production as a contractor to the state and, later, to foreign multinationals. The group also included a bank—Banco Río—and several insurance and financial businesses. By 1973, Pérez Companc controlled ten firms (Sguiglia 1991:62-67). A period of much faster diversification started under the military juntas in 1976. By 1983 the group included 53 firms in such an assortment of industries as mining, oil, petrochemicals, fertilizers, electrical appliances, machinery, nuclear engineering, agribusiness, food processing, fishing, cement, metals, construction, tourism, and financial services (Acevedo et al. 1990:9-11). Pérez Companc was bailed out in 1982, together with other business groups, when the military junta nationalized its external debt, perhaps the country's heaviest for a company its size (Acevedo et al. 1990:143).

The pattern of disorderly and opportunistic diversification, however, was not abandoned during the transition to democracy in the mid 1980s. By 1987 Pérez Companc controlled 84 companies, with new entries into electronics, data processing, biotechnology, and retailing

(Acevedo et al. 1990:78-81). The group kept on growing domestically, with a very limited participation in the country's exports and foreign investment, and most of the new ventures eventually failed. Pérez Companc was basically diversifying its activities inside a market which, with the only exception of the late 1970s, had always been very highly protected. No attempts were made to culminate the timid attempts at vertical integration, technological development, or strategic planning; and no group-level organizational mechanisms were ever put in place to help member firms learn from each other's experiences. The hyperinflation of the late 1980s and the economic reforms of the early 1990s signaled that the group's traditional posture had to change. Pérez Companc has since divested from many companies and industries, but at the same time entered new ones in order to take advantage of the privatizations.

Presently, the group has interests in 69 companies (87 if those controlled by Banco Río are added) in oil, petrochemicals, agribusiness, food processing, metals, gas transportation and distribution, electrical utilities, telecommunications, railways, and construction. With the help of McKinsey (notice the normative isomorphism), Pérez Companc is presently trying to focus on key competence areas, create strategic business units, and set up a central planning and control office (Prensa Económica 1994). Its pattern of growth, however, is still highly dependent on the domestic market. Group companies account for no more than 2 percent of total Argentine exports, even though its oil operations are the second largest in the country and it is a chief player in Argentina's traditional export star, agribusiness. The trajectory of this diversified group is typical of firms deeply embedded in such an erratic institutional context as the Argentine, a setting that made it very difficult—or perhaps irrelevant—to learn generic capabilities while facilitating all sorts of opportunistic behaviors.

Focused Family Firms in Spain and Argentina, and their Pattern of Learning

A host of product-focused, family firms account for large shares of exports and outward multinational activity in both Spain and Argentina. This type of firm has been overshadowed in Korea by the chaebol. Focused family firms successful in exports and foreign investment tend to

be either in industries in which these countries have a comparative advantage subject to the competitive rivalry of the foreign multinationals (beverages, food, consumer non-durables, apparel, footwear, leather); or in support industries such as machinery, autoparts, or metal working (Campa and Guillén 1996; Kosacoff ed. 1995). In the case of Spain such support industries have mostly developed as foreign multinationals and large (state-owned or state-regulated) firms sought to source inputs and services domestically. Foreign multinationals in Argentina have contributed much less to local entrepreneurial activities. In both countries, family firms have learned capabilities that tend to be product-specific, as opposed to the more generic project execution and mass production capabilities of the Korean chaebol. These specialized technological, manufacturing, and marketing capabilities are difficult to transfer to different industries, while they may be leveraged worldwide (Simon 1992, 1996).

Neither in Spain nor in Argentina did state policies directly facilitate or accelerate the process of specialized learning by focused family firms. There is a paradox about the impact of public policies on Spanish organizational learning. Since 1959 governments have succeeded in bringing the country into the European institutions and rules of the game, and in investing in infrastructure and general education, policies which have benefited all sorts of firms—private, public, state, and foreign. They have miserably failed, however, at creating the conditions so that domestic firms could find within the country the seeds for becoming world-class competitors. The failures have had to do, first and perhaps foremost, with financial regulation and, second, with asset creation policies in the fields of technology and worker skills. As the private banking cartel was able to impose its own terms on industry, firms that attempted to grow through high debt-equity ratios suffered from high financial costs, while the banks' increasing influence on their boards prevented them from diversifying their product lines (Cuervo-Cazurra 1996). Thus, many firms preferred to focus on their traditional strengths, and grow slowly by reinvesting retained earnings. It is in this respect, of course, that the appearance and growth of worker-owned, self-funded cooperatives in Spain—Mondragón among them—is to be best understood. The foreign multinationals, accounting for 58 of the country's top 100 exporters, did not depend

on domestic financial resources and were able to accumulate the necessary created assets in their home countries prior to coming to Spain.

Technological and worker-training policies illustrate the limitations of state policies even further. As a late-comer to the fully industrialized world, Spain is suffering from a yawning gap between payments and receipts for patents, royalties and fees, currently running at 0.4 percent of GDP (INE 1994:30). Domestic R&D expenditures have been growing rapidly, but the total still amounts to a tiny 0.9 percent of GDP, considerably lower than Korea's 2.2 percent, and the government's share of total spending has been sliding over the years. Some Spanish firms have nonetheless managed to develop three small areas of comparative technological strength (Archibugi and Pianta 1992:69, 76-77), namely, fabricated metals, industrial machinery, and transportation equipment, primarily auto parts and railway equipment. Neither funding from the government nor from abroad have contributed significantly to developing these technological capabilities (INE 1994:64). Not surprisingly, most patents filed by Spanish organizations in the U.S. are the result of the efforts of product-focused, frequently family-controlled, firms in such fields as machinery, electro-mechanical goods, metals, and, to a lesser extent, pharmaceuticals (U.S. Patent and Trademark Office 1992:A2, A4).

A similar picture emerges from an analysis of worker training efforts. Leaving aside the well-documented disarray of the technical and vocational training system—which sets Spain apart from Central and Northern European corporatist societies like Sweden or Germany—firms have traditionally spent scant resources on the upgrading of worker skills. In 1993, Spanish firms with 200 or more workers spent just $592 per employee on training-related activities. This amounts to merely 0.86 percent of total wage and salary expenditures. Slightly over half of all workers underwent some kind of training in 1993, an average of 42 hours per worker or 2.5 percent of total on-the-job hours.[4] Overall, the worst performers are firms in the state-owned

[4] This compares with a reported 5 percent of annual working hours for the largest Korean firms (Kang 1996b:114).

sector, and those that do not export. Workers in these underperforming firms receive training for 25 percent fewer hours, and the expenditure per worker is about half. The firms most firmly committed to worker training are the foreign subsidiaries. When compared to domestically-controlled firms, they devote twice as many hours and three times as much money per worker to training activities. Midsized, often family-owned, firms employing 300-499 workers spend about 50 percent more than either smaller or larger firms (Mineco 1994:269, 290-294).

Argentine government policies have also been deficient in the critical areas of financial regulation, human resources, and R&D. First, most firms complain about cumbersome credit procedures and high financial costs. In Argentina, even by Latin American standards, there are simply too many inefficient banks making money by charging outrageously high fees. Regulations and government-controlled banks are still all too pervasive (McKinsey & Co. 1994, exhibits 9, 41-43). Second, non-wage labor costs are extremely high in Argentina, and productivity is low. The reforms necessary to bring them down so that informality and unemployment recede are not yet fully in place. Unlike in Spain, the democratization of the labor movement and the decentralization of collective bargaining are also pending (De la Balze 1995:104-115). Worker training is even less of a priority than in Spain, for both the government and the unions. As in Spain, the firms most committed to worker training tend to be participated by foreign capital (Fuchs 1994; Bunel 1992:162-166; Wiñar 1988).

Finally, Argentina is highly dependent on foreign technology for which it must pay 0.2 percent of GDP annually (UNCTD 1994:103). Total public and private spending on R&D is about 0.3 percent of GDP, a proportion even lower than in Brazil, Chile or Mexico (Chudnovsky and López 1995:23). The government's contribution equals 0.2 percent of GDP, down from 0.3 in the 1980s. State R&D policies have been insufficient and contradictory, and have not sought the participation of firms or facilitated their efforts (Bisang 1994a; Katz and Bercovich 1993). Argentine firms not only file and obtain few patents in the U.S. (less than 50 annually), but also the trend is a decreasing one (U.S. Patent and Trademark Office 1992:A2, A4). Besides the narrow capabilities developed during the 1960s and early 1970s (machinery, transportation,

metal working), patents have to do with pharmaceutical compounds and simple medical technology. Argentine family firms have succeeded in the health-related areas as well as in agricultural machinery and metal working (Bisang, Fuchs and Kosacoff 1995).

The Argentine and Spanish focused family firms have succeeded at learning without the help of national or regional worker training or research support institutions, unlike their more famous Mittelstand counterparts in Germany (Simon 1992, 1996). One observes small-firm networks based on trust similar to those found in the Italian industrial districts (Lazerson 1995), in the case of metal-working and machinery firms in the Basque Country in Northern Spain or in the Mendoza Province of Argentina (Toulan and Guillén 1996). The average family firm in Argentina and Spain has achieved export and foreign investment success by learning specialized technological, manufacturing, and marketing capabilities. Like in Germany and Italy, some of these firms have become world market leaders. The best instances in Spain are Freixenet (sparkling wines), Grupo Antolín-Irausa (auto ceiling panels and other autoparts), and Viscofán (collagen and plastic casings for vegetable and meat products). In Argentina, Siderca (seamless steel tubes) and IMPSA (heavy cranes), both part of product-focused business groups, provide the best examples of world leaders in their respective market niches.

The Spanish family-controlled firm Freixenet SA, currently the world's largest sparkling wine manufacturer and marketer, illustrates the specialized pattern of learning so typical of focused family-controlled firms which grew in the context of a backward country experiencing a gradual incorporation into the global economy since 1960. Freixenet's most impressive feature is that it is not, technically speaking, a "champagne" producer but a "cava" producer. Cava is the official denomination for sparkling wines from the Penedès county, located West of Barcelona, where production first began in 1892. Thus, Spanish firms in the sparkling wine business have always had to surmount the comparative disadvantage of not being producers based in the prestigious French champagne-producing counties, where a dominican friar by the name of Dom Pierre Perignon (1638-1715) discovered the méthode champenoise. Up to the 1970s, the lower quality reputation and weaker brand recognition of the Spanish producers could only be

compensated by lower labor costs than in France. Until then, Spanish cava output was mostly sold in the domestic market. By the late 1980s, however, over two-thirds of Spanish production was accounted for by exports to the United States, Germany, the U.K., the C.I.S., Sweden, Switzerland, and Canada. Almost 70 percent of those exports are Freixenet's, even though the firm has traditionally been only the second largest Spanish producer. Codorníu, its bigger neighboring rival, has been much slower in becoming an exporter, an investor in distribution channels abroad, and a production multinational. To its credit, Freixenet's success has had much to do with investments in created assets in imitation of foreign multinationals in the food and beverages sectors, and little with low labor costs. The wage advantage applied to all producers in the Penedès county; but only Freixenet has triumphed as a multinational firm.

Freixenet is a third-generation family firm, its origins dating back to 1889. In 1935 it opened a short-lived sales subsidiary in the United States. Beginning in the 1950s it pioneered exports to the U.S. and Europe, but by the late 1970s export levels were still relatively small. The great step forward came with the creation in 1980 of Freixenet USA and in 1984 of Freixenet Alemania GmbH, the cava's two largest export markets. Freixenet's entry strategy for the U.S. market was absolutely masterful. First, they studied the different market segments and decided to target the one for champagne bottles priced between 4 and 9 dollars. Below that segment one could find the Californian low-quality competitors. Above it were the Italian and Californian high-quality producers, while the French high-quality champagnes dominated the uppermost end of the market. Then Freixenet introduced a new brand specifically for that intermediate segment, the Cordón Negro or black bottle, a cava made in Spain, and they supported the launch with a massive advertising campaign. Freixenet became the U.S. market leader in volume within a short period of time, selling more bottles than all of the French producers combined.[5]

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[5] Moët Chandon is the largest French exporter to the U.S. market, and the third largest overall with 8.5 million bottles, compared to Freixenet's 12.6 million and Martini Rossi's 11.2 million.