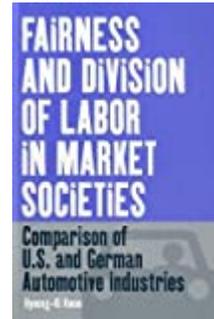




Hyeong-Ki Kwon. *Fairness and Division of Labor in Market Societies.* New York: Berghahn Books, 2004. xii + 243 pp. \$50.00 (cloth), ISBN 978-1-57181-671-9.



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The Regulation of Supplier Relations in Liberal and Coordinated Market Economies

This book is an in-depth, well-documented analysis of relations between suppliers and automobile manufacturers in the United States and Germany. Hyeong-Ki Kwon draws on a variety of texts and a wide array of interviews to argue that relations between firms and suppliers in this industry in both countries have shifted from “pure” market relations toward a more collaborative framework in which firms and their suppliers exchange what used to be considered proprietary information. This contention directly challenges the varieties of capitalism and path-dependency approaches by contending that relations between suppliers and firms in this industry in the United States and Germany were similar before and after the advent of lean production. According to Kwon, these approaches cause scholars to believe not only that relations between firms and their suppliers in Germany were more collaborative before the introduction of lean production but also that these relations in the United States were less collaborative after this form of production was introduced. In short, he believes that because close relations between suppliers and firms emerged in this industry in both of these countries simultaneously, we should

question claims that historical and cultural legacies shape how firms respond to similar challenges. Whether this prescription is to be believed on the basis of Kwon’s evidence is, however, questionable.

The general backdrop for the book is the emergence of lean production in the 1990s in Germany and the United States and the manner in which this form of production has changed relationships between firms and their suppliers. Lean production is designed to reduce production times while improving the rate at which innovations can be made. It usually requires firms to outsource more production and to have their suppliers not only produce parts, but develop them as well. To accomplish this task, firms need to work closely with suppliers in order to facilitate development of products that meet their specific needs. When relations between firms and suppliers were based on “pure” market relations, suppliers merely received designs from firms. They did not have their own capabilities for developing new products.

The shift from market-based relations to a more collaborative framework leads Kwon to contend that rela-

tions between firms and their suppliers are converging toward non-liberal forms of transactions. Although this would appear to be the case in general, the author's descriptions of the transformations of these relations in both countries clearly demonstrates that Germans were more active than their U.S. counterparts in implementing collaborative relations. While suppliers in both countries were subject to unfair business practices, by means of which firms forced some suppliers to reveal confidential information and make recommendations only to use this information to help lower-cost suppliers, only the Germans encountered a means to develop fair collaborative relations. To those who do not subscribe to an orthodox version of either the varieties of capitalism or path-dependency approach to studying this topic, it will not be surprising that the nature of collaborative relations differed in these countries. The type of relations that emerged in Germany would seem to conform to what we would expect from a "coordinated market economy," while the type of relations that emerged in the United States are more in line with a "liberal market economy." Regretfully, Kwon seems more interested in attacking orthodox versions of these theories rather than approaching this topic in a more thorough manner.

Some of Kwon's most interesting insights come in his discussion of the role of associations and the public sphere in shaping the responses of firms and their suppliers to the emergence of collaborative relations. In Germany, supplier and firm associations proved critical in helping companies to form fair rules to govern their collaborative relations. Although a similar number of associations exist in the United States, none of them took on the role of addressing the growing concerns of suppliers with what they considered to be unfair practices. U.S. associations simply do not focus on issues that might be considered political, choosing instead to concentrate on allegedly apolitical matters of technical standards and technology. Associations of suppliers in the United States help members to learn to use electronic commerce and bar codes, but will not enter into discussions of specific grievances. In stark contrast, German associations tend to view such discussions as part of their duty. Furthermore, German associations tend to cooperate to form common fronts, while U.S. associations generally see each other as competitors and are therefore less willing to cooperate.

Kwon traces differences in the roles played by associations in these societies back to differences in the perception of the public sphere in each country. While Germans believe that it is the duty of nongovernmental asso-

ciations to seek to resolve conflicts, people in the United States believe that it is the role of the government to regulate the public sphere. In short, the author contends that the predominance of utilitarian liberalism in the United States prevents conflicts from being solved by actors in civil society. Unfair practices are viewed as either a private affair between contracting parties or an issue to be resolved by the government through the courts. Nevertheless, the courts are rarely used to settle disputes between suppliers and firms either in the United States or Germany.

In the United States, suppliers would seem to have no other choice but to submit to the wishes of their clients as (for instance) all U.S. automobile manufacturers seem to take advantage of collaborative relations with their suppliers. It is common practice for automotive firms to require potential suppliers to design new parts or make suggestions on how to improve existing parts as part of the negotiation process. Auto firms then take the suggestions of high-quality suppliers, passing them off to lower-cost ones, and then demand that the higher-cost supplier meet the cost estimate of the low-cost competitor. It is interesting to note that in such cases property rights are not violated, as firms agree to submit their suggestions as part of the negotiation process. However, Kwon points out that higher-quality suppliers quickly learned to hold back information. At the same time, suppliers to automotive firms also perpetuate this system simply by demanding a similar type of "collaborative" relationship with their own suppliers.

Although German suppliers complained of similar behavior on the part of automobile manufacturers in the early 1990s, suppliers there joined to shape collaborative norms and forced manufacturers to comply through social and media pressure. In the end, automotive associations were largely convinced that such norms actually helped them to improve the quality of their products. At the same time the creation of these norms enabled suppliers of automotive firms to work closely with their own suppliers, enabling greater specialization. Some regional governments actually helped to finance this type of cooperation. Such specialization did not occur in the United States because of the lack of federal norms. Relations in the United States would seem to have changed much less than those in Germany.

Given the radical differences in the type of relations that have emerged between automotive firms and their suppliers in Germany and the United States, however, it is difficult for Kwon to sustain his claim that collaborative

relations have emerged in this industry in both countries. Scholars have to be careful not to accept without question the terms that actors in any industry use to describe their actions. Should scholars really consider the type of relations that have developed in the United States to be collaborative? My work suggests shows that the same firm in the United States and Germany has radically different interpretations of what constitutes teamwork. While in Germany, managers see teamwork as workers laboring together to define and solve problems with minimal interference from supervisors, managers in the same firm in the United States define teamwork as workers functioning so well that they do not even have to talk to each other.[1]

Despite Kwon's claim to have refuted theories of path dependency and the varieties of capitalism, moreover, he has actually shown their validity. At the heart of the varieties of capitalism approach is the claim that institutional structures shape different, albeit equally effective, responses to similar challenges.[2] Gary Herrigel, for example, has shown that machine tool producers in Germany and the United States responded to a similar crisis in different ways. Producers in the United States relied on markets and hierarchies to address this challenge, while firms in Germany utilized their complex network of private and public associations to develop common solutions to it.[3] This is what would seem to have occurred in Kwon's case as well, and it is unfortunate that Kwon's work does not cite and respond to Herrigel's.

Kwon, while not denying the influence of institutions on the actions of agents, insists that reflexive agents reinterpret their institutions and cultural heritage. This claim may well be true, but Kwon spends most of his time arguing that agents acted in opposition to their institutions and cultural heritage rather than showing how the manner in which they reacted to a specific challenge was actually shaped by their institutional heritage. A close reading of the actual evidence presented by the author makes clear that they reacted in exactly the type of manner outlined by Herrigel. At the same time, Kwon did not take into consideration emerging views within the institutionalist literature. Kathleen Thelen, for example, published a book the same year as Kwon in which she demonstrates how institutions change within a specific, institutionally given, context.[4] Is Kwon's book not just another example of this phenomenon?

Finally, although the book is filled with important observations based on interviews conducted by Kwon, the reader may be distracted by poorly constructed sentences

and the author's tendency to repeat arguments made in previous chapters at length. Moreover, the title of the book is misleading, giving the reader the impression that the author will discuss the actual factory operations. It would have been helpful had the title made clear that the book focuses on relations between automotive manufacturers and their suppliers. Although the first chapter of the book talks about the general challenges arising from the implementation of lean production, it does not sufficiently explain lean production or the manner in which it requires firms to alter their relations with suppliers. A reader lacking familiarity with this concept may be led to believe that lean production simply requires firms to outsource more of their production. It thus would have been helpful for Kwon to include in the first chapter a brief description of lean production and the challenges it presents.

Despite the limitations outlined above, this book provides an excellent description of how relations between automotive producers and their suppliers have evolved since the 1990s. It presents a wide array of evidence that lends the reader a clear understanding of how this industry was transformed in this period. The only elements missing are a better discussion of relevant literature and more thoughtful links between the literature and the cases discussed.

Notes

[1]. Daniel Friel, "Transferring a Lean Production Concept from Germany to the United States: The Impact of Labor Laws and Training Systems," *Academy of Management Executives* 19 (2005): 50-58.

[2]. See Peter Hall and David Soskice, eds., *Varieties of Capitalism: The Institutional Foundations of Comparative Advantage* (London: Oxford University Press, 2001); and Wolfgang Streeck, "On the Institutional Conditions of Diversified Quality Production," in *Beyond Keynesianism: The Socio-Economics of Production and Unemployment*, ed. Edward Matzner and Wolfgang Streeck (Aldershot: Elgar, 1991).

[3]. See Gary Herrigel, "Industry as a Form of Order: a Comparison of the Historical Development of Machine Tool industries in the United States and Germany," in *Governing Capitalist Economies: Performance and Control of Economic Sectors*, ed. J. Rogers Hollingsworth, Philippe C. Schmitter, and Wolfgang Streeck (New York: Oxford University Press, 1994).

[4]. See Kathleen Thelen, *How Institutions Evolve:*

The Political Economy of Skills in Germany, Britain, the United States and Japan (Cambridge: Cambridge University Press, 2004).

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