Book Review: Understanding business systems in developing countries

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Book Review for Journal of Development Studies

By Martin Reynolds (28 February 2003)

Understanding Business Systems in Developing Countries
By Gurli Jakobsen and Jens Erik Torp (Eds.). *New Delhi, Thousand Oaks, London: Sage Publications,* 2001. pges. 260

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The point of departure for this collection of essays is the ‘business systems approach’ - associated particularly with the writings of Richard Whitley - and its contribution to the emergent ‘business in development’ discourse. Whitley’s approach, developed from empirical work since the early 1990s on various East Asian newly industrialized countries (NICs), focuses on the characteristics of firms as socially constituted ownership-based units of financial control within wider boundaries of economic organization (business systems). These types of economic organization are also constituted through peculiar historic and social circumstances associated with different market economies, most often identified at the level of the national state. The central purpose of the approach, as described in Whitley’s own contribution to the book, “is to describe significant differences in the organization of market economies and explain them in terms of variation in the nature of dominant societal institutions…(and)…to understand how and why particular differences in the prevalent modes of economic coordination have become established and continue to be reproduced” (pp.26-27).

The core contributions to this book critically focus on the application of the business systems approach respectively to country case-studies including India, Indonesia, Malaysia, Korea and Ghana; countries selected in deliberate contrast to the NICs used in formulating the approach. A final chapter provides a more general theoretical critique of the business systems approach in the context of other ‘business in development’ perspectives. The book has an editorial introduction and overview followed by Whitley’s opening chapter which expands a little on his approach as well as offering a comparative view of the case studies and response to some of the critical comments presented in the ensuing contributions. This chapter only makes sense *after* the country case study contributions. I also felt that a little more attention to explaining the business systems approach more thoroughly at the outset of the book might have offset the repetitive need for contributors to begin their chapters with an exposition of Whitley’s work.

This book sits comfortably in the niche provided by the so-called impasse between neo-liberal and neo-statist perspectives on economic development in general and business development in particular. Whilst expressing varying degrees of critique, all contributing authors recognize the value of insights provided by Whitley’s framework and the possibilities of developing the approach further. In particular, the approach shifts attention away from stereotyping industrialization as a universal process, giving way instead to possibilities of meaningful cross-country comparisons whilst retrieving and privileging the diversity and uniqueness of socio-cultural contexts. Personally, as one not so well-versed in economics though appreciating its fundamental importance in development studies, I found the underlying premise of the approach - that market economies are essentially socially constructed – both refreshing (why should that be?) and engaging. Another engaging quality is the implicit invitation to appreciate business development in terms of ‘systems’. In my view, a systems perspective can trigger and invite different perspectives and can mediate critically constructive contributions from differing disciplines, as exemplified in this book by the various influences cited between business studies and development studies along with ‘new’ disciplines of economic geography and institutional sociology.

However, I also experienced some frustration with the systems approach being adopted. Firstly, a systems approach is about clarifying and conveying complex issues, often enhanced by the use of systems diagrams. Apart from two variants of an influence diagram presented in the final chapter, there are no systems diagrams in this book. Secondly, the language used in the book is often confusing. The market economy, for example, is described as being divided into two ‘sectors’, an enterprise or business ‘system’ and an institutional ‘subsystem’. The institutional subsystem is divided between two institutional types; one of basic cultural values (background institutions) and another of values representing everyday life (proximate institutions). The business system is said to have three ‘components’: the nature of the firm, the market relations, and the authoritative coordination and control ‘system’. I do not find this wayward use of terms helpful. Any purposeful system has three generic parts: a boundary; subsystems of interrelated components within the boundary; and an environment outside the boundary consisting of factors which can either affect (or influence) the system and/or are affected (or influenced) by the system (but crucially are *not controlled* by the system). In exploring business systems I would be happier with a more consistent terminological use: for example, using boundaries around the ‘business system’ and having the institutional factors occupying the environment. Of course, undertaking this task may throw up awkward questions regarding, for instance, the role of the constituent parts in maintaining or challenging boundaries (e.g., what is the role of the firm?), and the actual positioning of the boundaries (e.g., why limit the system to national state boundaries?) – concerns that actually arise on several occassions in the core chapters (particularly chapters relating to the Korea, Malaysia and Ghana case-studies) . A contemporary systems approach - including ‘soft’ and ‘critical’ systems thinking - is about questioning boundary issues, and provides conceptual tools for addressing such concerns. Thirdly, a contemporary systems approach seeks also not only to re-present reality (the focus of Whitley’s work) but to actively transform reality by questioning boundary judgements. As the two authors of the Ghana case study observe, Whitley fails to take on board the implications of systems as *social constructs*. Finally, a contemporary systems approach addresses not only ‘how’ questions (dominant in Whitley’s approach, e.g., how are business systems coordinated?) but also ‘what’ questions; questions regarding the purpose of the system of interest. Is the business system assumed only to serve the purpose of enhanced prosperity or, as implied by the author of the India case study, might it also serve goals of improving equality and freedom? The very last question presented by the author of the final chapter signals the tension arising from what I consider as Whitley’s impoverished systems approach: “What is the meaning of effective, and can we imagine business systems that survive without being effective? How do we approach this normative issue, which can prove to be very important for development studies?” (p.233).

The contributions in this book provide a wealth of insight to business systems operating in the country case studies covered. They also signal the passion and intellectual vibrancy associated with adopting a business systems approach. In my view, enhanced developments of a contemporary systems approach to business in development might prove even more illuminating and challenging to not only the understanding, but also transformation, of business systems in developing countries.

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