Embedded Politics: Industrial Networks and Institutional Change in Postcommunism  by Gerald A. McDermott
Review by: Andrew Spicer
Administrative Science Quarterly, Vol. 49, No. 1 (Mar., 2004), pp. 158-160
Published by: Johnson Graduate School of Management, Cornell University
Stable URL: http://www.jstor.org/stable/4131467
Accessed: 02/11/2011 13:48

Your use of the JSTOR archive indicates your acceptance of the Terms & Conditions of Use, available at http://www.jstor.org/page/info/about/policies/terms.jsp

JSTOR is a not-for-profit service that helps scholars, researchers, and students discover, use, and build upon a wide range of content in a trusted digital archive. We use information technology and tools to increase productivity and facilitate new forms of scholarship. For more information about JSTOR, please contact support@jstor.org.

Johnson Graduate School of Management, Cornell University is collaborating with JSTOR to digitize, preserve and extend access to Administrative Science Quarterly.
Embedded Politics: Industrial Networks and Institutional Change in Postcommunism.
Gerald A. McDermott. Ann Arbor, MI: University of Michigan Press, 2002. 294 pp. $65.00, cloth; $24.95, paper.

Embedded Politics is an important book to read for those interested in network theory and institutional change. The primary theoretical contribution of the book is to bring the state back into the analysis of network dynamics and stability. In his fine-grained analysis of network restructuring in the Czech Republic following the collapse of Communism, McDermott demonstrates the close interconnections between the micro-events that define the proximate causes of network transformation and the macro-events that lead to the restructuring of authority relations at both the national and regional level. He presents an image of network transformation in post-communist countries as an interplay between economic and political change processes, an approach McDermott identifies as a theory of "political embeddedness."

The primary metaphor in Embedded Politics used to describe the role of politics in network restructuring is the "workout," which McDermott relates to the deliberative process of restructuring found in Chapter 11 bankruptcy procedures in the United States. Bankruptcy procedures are negotiated in court, not placed in the open market, because the very uncertainty of the firm's future income stream makes it difficult for market prices alone to determine how the firm will be restructured. Instead, a restructuring plan is based on a negotiated settlement among various creditors in a fluid discussion over the proper manner to reassign the liabilities and assets of a failing company. The state is represented in these deliberations by an officially sanctioned judge, whose role is to facilitate fair and transparent deliberations among all the firm's creditors.

McDermott argues that network restructuring in post-communist economies is similar to the "workout" deliberations of Western bankruptcy procedures except that the role of the state-sponsored judge is missing and/or emergent in these societies. The importance of the state in market restructuring, in this analysis, is not that government is necessarily required to define and enforce property rights and contractual agreements in an impartial and standardized manner. Instead, successful restructuring requires that government provide similar services as a judge in a bankruptcy court: it needs to facilitate and moderate the deliberations of actors attempting to reach local agreements over ownership and control. McDermott's primary argument is that post-communist countries that have developed the state capabilities to facilitate constructive deliberations over industrial restructuring have been more successful than those that have not.

McDermott contrasts his political argument with two alternative frameworks. The first alternative is a "depoliticization" perspective. According to this viewpoint, once private ownership rights are delineated and the state is cut off from economic activity, market incentives will be sufficient to improve corporate governance and restructure companies (see...
Boycko, Shleifer, and Vishny, 1995). In contrast, McDermott argues that the primary question under discussion in post-communist reform is not whether the state can be removed from economic affairs but, instead, whether the role of the state can be restructured to facilitate, rather than inhibit, entrepreneurial activities.

In particular, McDermott takes issue with the policies of mass privatization designed to rapidly “depoliticize” the market environment. In his detailed case analyses of the step-by-step processes involved in network restructuring in the Czech Republic, he shows that mass privatization policies created new problems of coordination and control among the owners of assets that had been tightly connected in the communist era. Without any analogue to the state-sponsored judge found in Western economies, private actors often failed in reaching new types of agreements to restructure potential profitable endeavors. Moreover, many actors took advantage of the lack of public control over privatization to liquidate common assets through asset stripping and other dubious financial schemes. Mass privatization did not end the negotiation and discussion necessary to restructuring firms, networks, and institutions. Instead, McDermott emphasizes that it transformed the institutional environment in which negotiated agreements took place, often in a way that inhibited successful restructuring efforts.

Stark’s (1996; Stark and Bruzt, 1998) work on path-dependency in network reconfiguration is presented as the second alternative perspective to a theory of “political embeddedness.” As Stark does, McDermott identifies the starting point of network restructuring as the inherited relationships of the previous system. In the communist system, network members often held common or overlapping assets, such as common testing labs, production facilities, and subcontracting relations. McDermott argues, however, that Stark’s emphasis on the enduring linkages between pre- and post-communist networks misses the possibility for revolutionary transformation in network relationships.

In particular, McDermott emphasizes the critical role of the state in directing the way in which new networks emerged from the previous system. Initial state policies, such as mass privatization, led to radical transformations of the institutional background to network restructuring. New actors became owners of networked assets at the same time as changes in the political system destroyed the traditional coordination mechanisms between network members. Moreover, subsequent state policies strongly influenced the reconstitution of network ties in the post-privatization environment. McDermott illustrates through his case studies that state actors often played an important role in facilitating discussions among network members over the way in which new methods of conflict resolution, financing, and risk sharing were to be grafted onto the previous history of contracting developed during the communist era. To McDermott, the societal challenge to network restructuring is the creation of a political environment that allows for negotiations and deliberations that support productive restructuring over predatory asset stripping.
Numerous types of readers will find interest in Mc Dermott’s analysis. I have emphasized his contribution to theories of network dynamics, particularly his subtle analysis of the role of the state in change processes, but readers interested in post-communist reform and economic development will similarly be interested in his theoretical and empirical analysis of the interaction between economics and politics in industrial reorganization.

Andrew Spicer
Graduate School of Management
University of California, Riverside
Riverside, CA 92521

REFERENCES

Boycko, M., A. Shleifer, and R. Vishny
1995 Privatizing Russia. Cambridge, MA: MIT Press.

Stark, D.
1996 “Recombinant property in East European capitalism.” American Journal of Sociology, 101: 993-1027.

Stark, D., and L. Bruszt
1998 Post-Socialist Pathways: Transforming Politics and Property in Eastern Europe. Cambridge: Cambridge University Press.

The Southwest Airlines Way: Using the Power of Relationships to Achieve High Performance.
Jody Hoffer Gittell. New York: McGraw-Hill, 2003. 319 pp. $24.95.

Drawing on ten years of field research on the airline industry, Jody Gittell attempts to explain Southwest Airlines’ long history of success in the otherwise unhealthy U.S. airline industry. The goal of the book is to “illuminate for managers what it takes to imitate Southwest’s success” (p. 5). The Southwest Airlines Way is logically structured and easy to read. It starts off by presenting a number of interesting paradoxes about Southwest Airlines. For example, contrary to conventional wisdom, we learn that Southwest Airlines is heavily unionized and that employee pay is on par with the industry average. We also learn that while traditional U.S. carriers have had great variation in profits over time, Southwest Airlines has enjoyed 30 consecutive profitable years. Moreover, contrary to the market-finder focus of most other major airlines, like United, American, and US Airways, in which the object is to move into locations where there is high demand, Southwest has a market-maker emphasis. In other words, Southwest turns low-demand markets into high-demand markets. Finally, we learn that in contrast to the clearly defined specialized roles for employees at conventional airlines, Southwest uses a generalist framework in which employees are trained to perform multiple tasks. These paradoxes are intriguing, and they do suggest that Southwest is in some way different from other airlines. At the same time, I have always found the airline industry to be unique (a long history of regulation, extensive public data, extremely high fixed and lumpy costs, and strong local market power), so I wondered to what extent we could generalize from this industry.

The book is composed of 18 chapters divided into three parts. Gittell argues in the first four chapters (part 1) that Southwest’s success can be attributed to the concept of relational coordination. The author argues that relational coordina-