

**Book:** Whitford, Josh, 2005: *The New Old Economy: Networks, Institutions, and the Organizational Transformation of American Manufacturing*. Oxford: Oxford University Press.

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Josh Whitford's *The New Old Economy* explores the nature and growth of collaborative relationships between "original equipment manufacturers" (OEMs) of durable goods (e.g., automobiles and transportation equipment, machine tools, appliances) and their component suppliers in the American Upper Midwest. The book makes three invaluable contributions to economic sociology and organization studies: first, it treats "contradictory collaboration" as an increasingly common – and in all likelihood coherent – alternative to either arm's length or embedded buyer-supplier relationships; second, it traces the growth of contradictory collaboration not only to the institutional characteristics of the so-called liberal market economy but to the organizational features of the OEMs themselves; and, finally, it offers policymakers, businesspeople, and trade unionists who hope to catalyze a more productive approach to collaboration practical policy advice.

Whitford departs from the devastating crisis of American durable goods production in the late twentieth century. Over the last quarter of a century the United States economy has lost more than 6 million manufacturing jobs, and Midwestern states like Michigan, Illinois, Indiana, and Wisconsin have been particularly hard hit. While original equipment manufacturers like Ford, Caterpillar, and General Electric have embraced the gospel of "lean and mean" in an effort to forestall the crisis, and have therefore decentralized (or "outsourced") production to an army of component suppliers, they have encountered a host of problems in doing so including skill and reliability deficits on the part of the very suppliers to whom they've turned for help. OEMs are the principal sources of productive knowledge and resources, however, and their suppliers therefore find themselves in a double bind. On the one hand, their ability to attract and retain business from the OEMs depends upon their ability to overcome their skill and reliability deficits. On the other hand, their ability to overcome their skill and reliability deficits depends upon their ability to attract and retain the business of OEMs.

What is to be done? Whitford addressed the question by carrying out more than 100 interviews with OEMs and their component suppliers in Illinois and Wisconsin in 2002 and 2003 and responds by way of a running dialogue with

the two leading approaches to the question: the Varieties of Capitalism approach pioneered by Peter Hall and David Soskice and the Learning by Monitoring approach associated with Charles Sabel and his collaborators. While Hall and Soskice portray decentralized production in industries marked by "incremental innovation" as incompatible with the incentives provided by the liberal market economy, and therefore anticipate the ongoing decline of durable manufacturing in the US, Sabel treats trust and supplier competence as incremental products of collaborative relationships, and therefore anticipates more salutary consequences.

Neither Hall and Soskice nor Sabel is able to account for the complexity of decentralized durable manufacturing in the Upper Midwest, however, and Whitford is therefore forced to condition – if by no means condemn – their conclusions. After all, Hall and Soskice are unable to make sense of the myriad examples of buyer-supplier collaboration revealed by Whitford's many interviews. And Sabel and his colleagues are unable to explain the persistence of hedging, deception, and guile within what are by almost any metric collaborative – and at times longstanding – relationships. In fact, Whitford finds "that the modal case of the OEM-supplier relationship is both contradictory and systematically intermediate between the arm's length and collaborative poles" (p. 31) and thereby introduces a new concept, contradictory collaboration, into the industry studies lexicon.

What are the principal characteristics of contradictory collaboration? On the one hand, OEMs help their suppliers meet their performance standards (e.g., cost, quality, and delivery) by communicating openly about the production process. Suppliers open their doors (and books) to OEM consultants and purchasing agents, and OEMs open their doors to supplier engineers in what Whitford memorably labels a "waltz" of "mutual adjustment." On the other hand, OEMs and in particular their suppliers take precautions (i.e., hedge) in light of the potential for mistrust, miscommunication, and opportunism on the part of their interlocutors. They "muddy the waters" (p. 103) with misleading or even deceptive cost information. They withhold cost savings at time 1 in order to meet new cost targets at time  $t + 1$ . And they at times forego "offers of concrete assistance from their customers for fear of compromising information" (p. 104).

The point is not simply that collaboration is contradictory but that the contradictions are costly. They not only under-

cut the benefits of decentralized production in the short run but threaten to turn the “virtuous circle” described by Sabel into a “vicious circle” in the long run. “Faced with bad waltzing and organizational uncertainty,” argues Whitford, “suppliers have good reason for caution in the sharing of process information and of investing in new product development on the promise of business down the line. Yet this gives OEMs greater reason to treat particular subcomponents as commodities and emboldens marketeer factions within OEMs who believe that the best way to lower costs is to jump from underbidding supplier to underbidding supplier to take advantage of excess capacity in global markets” (p. 119). The likely consequences include lower supplier margins, limited investment in fixed and human capital, deteriorating buyer-supplier relationships, and the ongoing evaporation of high wage manufacturing in the Upper Midwest.

What accounts for the incomplete nature of decentralized durable goods production in the United States? While the contradictions Whitford has identified are at least in part the product of institutions and incentives found in all liberal market economies (e.g., antitrust regulations that inhibit coordination, labor laws that decentralize or disable collective bargaining, a litigious approach to dispute resolution, etc.), and therefore add credibility to Hall and Soskice’s account, they are no less attributable to the organizational design of the OEMs themselves. After all, OEMs are not only plagued by the divisions and dysfunctions found in all multidivisional enterprises, including the at times incompatible goals of their purchasing and manufacturing divisions, but are deliberately designed to forestall – rather than foster – the growth of personal relationships between purchasing agents and suppliers that could admittedly encourage collaboration but could no less easily promote malfeasance. Purchasing agents are rewarded for short run cost savings regardless of their long term impact, and the rewards include promotions that inhibit the growth of enduring relationships that might otherwise facilitate the emergence of less contradictory forms of collaboration.

In short, Whitford treats interorganizational conflict as a function of intraorganizational structure and thereby brings key insights from classical organizational sociology to bear on an important process – contradictory collaboration – left unexamined by the new economic sociology. While Whitford’s theoretical synthesis is long overdue, and is most certainly not to be minimized, his practical contributions are no less important. After all, Whitford concludes the

book by documenting the growth of local and regional partnerships designed to foster coordinated activity in the otherwise liberal American market economy. According to Whitford, the Wisconsin Manufacturers’ Development Consortium (WMDC) constitutes a prototypical example. By drawing seven large OEMs and dozens of component suppliers together with the aid of private funds and state-level industrial extension resources, he argues, the WMDC not only facilitates supplier training but underwrites the sorts of credible commitment to collaboration necessary to foster more enduring forms of learning by monitoring.

The point is not that regional partnerships are a cure-all for what ails American durable manufacturing. On the contrary, they are a small and politically embattled counterweight to the often perverse incentives engendered by the liberal market economy. But they have nonetheless received a triply important fillip from Whitford’s research. First, Whitford has worked directly with the WMDC – and related institutions – to document and maximize their efficacy (p. 190, footnote 103) and his book will only further their efforts. Second, the WMDC serves as a model for regional programs elsewhere in the US (p. 146) and thereby disseminates policy recommendations developed in part through Whitford’s research. And, finally, Whitford’s book draws attention to (and legitimates) the WMDC’s efforts and thereby encourages further and more successful replication down the road.