

Sources of National Institutional Competitiveness

How do countries construct and manage institutions at the national level in ways that enhance their performance in the world economy? What are the conditions under which national institutions align in ways that are adapting to a rapidly changing global context? How do governments, businesses, and civil society prevent national institutions from atrophy or neglect? What are, in short, the sources of national institutional competitiveness? The *Sources of National Institutional Competitiveness* volume, edited by Susana Borrás and Len Seabrooke, is concerned with these questions and is the consequence of a multi-year international collaborative project titled 'Sources of National Institutional Competitiveness' (SONIC, in short). The project was one of the 'World Class' grants at CBS and included John Campbell, Carsten Greve, Ove Kaj Pedersen, and Peer Hull Kristensen from DBP, as well as Søren Kaj Andersen, Robert Boyer, and Vivien Schmidt.

The SONIC book examines the processes of sensemaking in the interaction between organizations and institutions, and the way in which sense-making *processes* come to define the specific direction of national institutional change with a final effect on institutional competitiveness. Empirically, the volume provides an in-depth analysis of different areas; namely, national think tanks and knowledge regimes, productive enterprises' organization, generational conflicts in households' access to financial resources, research and innovation policies, public sector institutional reforms, and employment policy reforms. The chapters undertake cross-country comparative analyses, examining in detail the sensemaking processes of the institutional changes that have taken place during the past decade. As such, the book provides an original take on how actors make sense of their worlds, as a process, within the context of comparative institutional analysis. The authors in the volume are concerned with how actors make sense, including identity construction, framing policy environments, and the search for plausible ways to enhance national institutional competitiveness. The book provides original research essays that apply a sensemaking framework to cross-country comparative cases in an original and innovative way.

In the volume sensemaking is defined as the reflexive process through which the agents of change give meaning to past experience, and provide a plausible narrative on what should happen to their organizations and their institutional environments. It is also a source of variance across different national systems since sensemaking is informed by the social cues provided by identities and existing institutions, including feedback processes that place limits on institutional change. The contributors' emphasis on sensemaking includes reflection on the need for institutional change to combat problems and to improve institutional competitiveness. Sensemaking is important in providing a narrative to continuity, reasons for institutional change, rallying points to generate consensus, and justifications to those who are affected by institutional transformation. Sensemaking directs our attention to the agents' constitution and co-creation of changes to institutional environments, as well as agents' reflection and interpretation of organizational goals and practices. This view on the sources of institutional competitiveness suggests that sensemaking is relevant to institutional change in the following respects:

1. Sensemaking conforms to specific identities, in which actors are able to locate meaning and attribute ways to move forward that incorporate "local" needs, be

- they national, sub-national or regional.
2. Sensemaking invokes normative propositions, that reasons provided for institutional change align with, or are derived from, values shared by the community of interest to be plausible.
 3. Sensemaking involves strategy and the use of ambiguity as actors mobilize support for their plans, including the construction and co-creation of ideas and concepts, such as competitiveness.

The editors and contributors argue that sensemaking breaks with the institutional equilibrium model often assumed in comparative capitalisms literature—that institutional arrangements are stable until broken by exogenous crises. By contrast, the sensemaking approach permits an understanding of how institutions are configured, including in relation to other national institutions, in periods of normality where ambiguity is still present. As such, a focus on sensemaking assists in providing an endogenous explanation of institutional change—an aim similar to those working from a discursive institutionalist approach (such as Vivien Schmidt’s work).

Types of Sensemaking

	<i>Retrospective</i>	<i>Prospective</i>
<i>Abstraction</i>	Causal analysis	Search systems
<i>Replication</i>	Belonging	Expectations

The book has an ambitious conceptual agenda in marrying sensemaking to institutional change. Key here is the differentiation of types of sensemaking. We differentiate between retrospective and prospective modes of sensemaking, as well as abstraction and replication. We suggest that the four ideal types of sensemaking that result from combining the modes explain much of what is going on with institutional change and provide a different take on conventional constructivist and rationalist insights.

Moving clockwise around the matrix above, a retrospective abstraction-based form of sensemaking can be seen in the creation of narratives of causes and causal analysis. *Causal analysis* seeks to identify the key drivers of change and identify patterns of behavior. This retrospective activity is common in different policy organizations, here including think tanks, which are charged with the task of understanding why particular events took place. Causal analysis creates a narrative based on the study of previous patterns of behavior and of the inferences that can be drawn from them. Some of these policy organizations engaging in this abstraction-based retrospective work insulate themselves and their scientific knowledge from political pressure by increasing sharing data and statistics on institutional change. This is the case of think tanks, which seek to insulate the role of abstraction from direct political pressures and from the “spin” that appeals to less reflective expectations and belonging (Campbell and Pedersen in the book).

Moving to the top right-hand corner, prospective abstraction-based sensemaking can be seen as the process of sensemaking based on the use of explicit future-oriented search systems. *Search systems* work by creating an analytical framework that identifies and organizes important information in a future-oriented manner in order to help address organizational and institutional forward-looking uncertainties. One

example of such search systems is when firms constantly update their benchmarks and actively seek to organize data on how to position themselves in future market and technology contexts (Kristensen in the book). Another example of sensemaking processes based in search systems is the “open method of coordination”—a benchmark-based policy coordination mechanism across countries put up by the European Union (EU). This open method is not aimed at negotiating solutions to negative policy externalities in Europe, but to stimulate national reforms by identifying challenges ahead through the use of benchmarks and other search tools (Borrás in the book). In these cases the creation of search systems for forward-looking and analysis-based knowledge is the key way of handling institutional change.

Prospective replication-based sensemaking can be understood as expectations. *Expectations* are judgments about how life and work conditions will change based on projections from current experiences. Narratives of prudence in crisis provide one example, as can be seen in the current debates about austerity. Prospective replication-based sensemaking informs what institutions should be defended or changed according to expected trade-offs (Seabrooke in the book) and estimations of how trends will proceed based on current activity. Prior to the most recent crisis, for example, changes in housing markets in many liberal economies were fuelled by expectations of future profits from increased housing prices. These expectations rapidly changed how homeowners and investors behaved in these markets, including what would now be identified as irrational behavior, out of sync with economic rationales and social norms. The imagined institutional order during this change in liberal markets was to shift away from supporting taxes because of expectations of states’ future benefits being undermined by fellow citizens supporting low taxes and pro-market views on how their pay-packets should be used. Such sensemaking does not reflect systematic study, as with abstraction, but instinct about what to expect and what institutional order to imagine and support (separately done by Andersen and Boyer in the book).

Finally, retrospective replication-based sensemaking can be understood as often grounded in belonging. *Belonging* refers to the creation of narratives to explain what happened in terms of cues and stories from embedded identities and social norms. Sensemaking processes seek to explain and attribute meaning to phenomena from cues given by identity traits. Holding onto a sense of belonging during processes of institutional change may provide greater grounds for path dependence than historic pacts from interest groups. During a period of institutional change sensemaking may focus on belonging to slow and manage reforms (Greve in the book). Identities provide cues for sensemaking and establish boundaries on which institutional orders can be imagined, and sensemaking through the lens of belonging establishes these boundaries. This view differs from path-dependence explanations often found in work on institutional change because the actors involved need not remain constant. Trade unions making sense of their situation in the 1970s and 1990s may invoke historic pacts at some points to justify their stance, but the sensemaking process need not be similar or rely on the same interpretation of the pact. Rather, making sense of belonging provides a narrative while also permitting new discourses on what is appropriate and legitimate to take hold.

The book investigates sensemaking as the reflexive and interpretative process through which the agents of change give meaning to past and future events regarding the

institutions supporting the performance and competitiveness of their economy. Sensemaking is therefore linked to three essential dimensions of this actor-based process of institutional change: (1) the (re-)definition of the agents' identity and needs from their experience regarding their interactions with the institutional context, (2) the (re-)definition of the values that guide the actors' action and the normativity behind the institutional context, and (3) linked to these two, the process of mobilizing specific forms of transformative action. These three correspond to the above-mentioned aspects of sensemaking, in that it conforms to specific identities, invokes normative propositions, and involves strategies. The SONIC book breaks new ground in linking sensemaking and institutional change literatures to enliven well-established discussions on comparative capitalisms.