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**Fight environmental hostility!**  
**How negotiation can govern firm-institutions relationships**

*(Competitive paper)*

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***Introduction***

The importance of social relationships in business processes has been appropriately remarked (Granovetter 1985). The architecture and the formation of social alliances have been corroborated through empirical findings (Gulati 1995). Although the reticular dynamics have been well examined and explained in entrepreneurial settings (Uzzi 1997), few researches focused on the creation of relationship dynamics between firms and institutions.

In last decades, many studies approached the analysis of the environmental effects on entrepreneurial processes and on firm strategies. In particular, there is a stream of research that identified the important role of the institutional environment. Entrepreneurial dynamics are addressed from contextual circumstances and from institutional environment heterogeneity. It has been demonstrated that firms in benign environment have more possibility to survive and to develop competitive behaviors. Differences among institutional environment depends from context's social capital endowment, measured by the government performance. In this vein the government-firm relationship management assumes a relevant importance. Developing adequate tools in order to stimulate munificent government's behaviors becomes critic for the firm survival. These competencies arise in that context considered hostile, where survival is the prior objective of the entrepreneurial processes.

The aim of the paper is to suggest a tool for stimulating government institutions to be munificent. In hostile environments, firms can use negotiation in order to convince government' exponents to act with high performances. This action will be important not only for the firm, but also for the local context development.

The paper is divided into two parts. The first describes the concept of *social capital* and its dimensions. Here we suggest the possibility for the firms to interact with institutions through their exponents. The second part of the paper presents the tool suggested for managing firm-institutions relationships. An overview on negotiation is presented and its relevance as persuasive tool is highlighted. Finally, managerial implications are purposed and directions for future research are traced.

### ***1. The role of social capital in firm strategies***

Many studies argued that environment munificence is an important variable affecting entrepreneurial processes and organizations (Pennings 1980; Naman and Slevin 1993). Different perspectives exist in analyzing environmental contexts affecting business. Although a large number of environmental levels have been theorized (Castrogiovanni 1991), two principal streams of research prevail. Some scholars, in fact, refer to environment meaning essentially industrial competitive dynamics (Porter 1980; Romanelli 1989); others, instead, approach the analysis recognizing the macro environment. They observe the general cultural context and those forces (including economic, social, political) that influence organizational characteristics and outputs (Osborn and Hunt 1974).

In particular, important studies noticed the impacts that institutional environment has on the entrepreneurial processes. Institutional environment creates and provides the context wherein entrepreneurial processes are carried out (Lipset 1988). The sociopolitical settings where entrepreneurial processes take place determine the concept of institutional environment (Baumol 1993). In this perspective, institutions represent the rules of the game for economic competition and affect strategies and entrepreneurial behaviors (North 1990).

In a perspective of environmental conditions as institutional environment, the government's performances represent a good measure of the context's social capital endowment (Putnam 1993).

As Coleman (1990) stated, social capital is a resource embedded in a relationship network, comprehending different social actors, such as individuals, families, firms, associations, central and local government. Intending social capital substantially as a public good, government has to act responsibly in order to create it. Government's

action is fundamental, also, in order to maintain an adequate level of social capital. As Putnam suggested (1993), the widespread perception of previous government actions represents a stock variable, while the government's performance in administering the community represents a flow-variable.

Therefore, we can assume that relationship among government and other social actors contribute to preserve the social capital endowment and to enforce it. In absence of high levels of government's performance, in fact, different inefficient forms of social capital arise: familiar, ethnic and other informal networks prevail. Even if sometimes (i.e. crisis situations) these social capital expressions could be an optimal solution in allocating resources, they never generated local development and supported firms competition.

In this paper we affirm that contexts showing low levels of government performance can be considered hostile both for the new venture birth, and for the entrepreneurial strategies of existing firms. In particular, the impact of the firm's perception on the institutions' performances drives competitive behaviors. In a hostile environment firm behaviors have to be shaped in function of the environmental conditions, in order to manage external pressures and to grant their survival.

Social capital has a multidimensional nature. Even if he detected civiness and socioeconomic development as antecedents to institutional performance, Putnam (1995) observed that a high research priority is the clarification of its dimensions.

Although in a different perspective, Nahapiet and Ghoshal (1998), proposed the identification of three dimensions of social capital. In defining the relationship between social capital and creation of intellectual capital, they described a structural dimension, a relational and a cognitive one.

They described structural dimension as the property of social system. It refers to the structure of relationships network and to the typologies of connections. The relational dimension affects the assets created in the social system just like resources allow to share meanings and ideas in order to describe the cognitive dimension.

This approach offered a response to solicitations about defining social capital dimensions. Nahapiet and Ghoshal permitted to analyze different social capital dimensions and to assume relational dimension as social capital measurement.

As Lanza (2002) suggested, and according with the separation between structural and relational dimensions, we state here the distinction of social capital characteristics in two main groups: behavioral and administrative. Lanza proposed to identify as behavioral dimension the degree of freedom exerted by individuals in institutions. On the contrary, he assumes that administrative dimension describes how institutions manage their bureaucratic procedures.

The administrative dimension embraces the procedure accountability, the competence, the procedural justice, the enforcement of property rights. On the other hand, the characteristics comprehended in the individual dimension are: the transparency, the consistency, the reliability, and the goal congruence.

In particular, consistency refers to the continuity in showing the same behavior in the same circumstances; reliability permits to an actor to communicate to the counterpart that he will fulfill his responsibilities; the goal congruence refers to the capacity to share goal among social actors, and the transparency measures the degree to which procedures are accessible to be known.

### ***1.1 The relations between organizations and institutions.***

Our overview about the importance of social context on strategies and entrepreneurial processes, provides the existence of more success opportunities for organizations operating in a munificent context. Previous studies suggested that firms seek munificent environment and attempt to enhance the munificence of the environment where they are competing. Nevertheless, findings about the relationship management between organizations and their present environment are limited. Moreover, few studies purposed theories about techniques and tools adequate for stimulating the environmental munificence.

In this paper, we remark the role of institutions performances as social capital endowment in stimulating business. We assume that firms that compete in a munificent environment have more survival chances and improve their growth strategies. Even if numerous munificence concepts have been examined in the past (Castrogiovanni 1991), we propose that firms consider environment as hostile when they perceive an insufficient stock of social capital. An adequate firms' perception is propaedeutic in order to describe the strategies for reducing environmental hostility.

Managing the firm-institutions relationship is not simple. Different tools have been theorized in order to mediate the relationships in business to business contexts. However, transferring cooperative dynamics in other contexts needs to have similar conditions. Industrial partners utilize interpersonal communication techniques because of the parties that are represented by two (or more) delegates, representing a precise orientation. Institutions often do not have a declared orientation about the relationship with firms. For this reason it is critic, for firms, to identify the government's orientation and to detect the decisional system of the institution. In particular, firms have to verify if the government's exponent is expressing the effective orientation of the institution

and have to detect the decision making process during confrontation. However, we think that even in a firm-institution relationship the interpersonal interaction is relevant. Besides, there is another particular element that makes a difference between the institutions-firms relationships and the B2B ones. In the industrial relationship, both the actors of negotiation can attribute an economic value to the transactional dynamic; this value comes from the sets of the possible gains that each single part can obtain (Rumiati and Pietroni 2001). In a B2B relationship firms have similar determinants of value creation, either monetary or intangible.

Instead, institutions do not use the same dimensions in order to describe their value creation process. The concept of value for the institutional organization assumes different determinants, such as the macroeconomic variables and the political consensus. Thus, bargaining activity between institutions and firms could be difficult in terms of finding a common ground on which confront. The different determinants of value creation lead to miscommunication, and to a widespread difficulty in structuring the negotiation.

Finally, such conditions are complicated by different languages. The latter involves the different communicative approaches that the parties use in transactions. Therefore, institutions have a different language from firms and this gap could jeopardize the success of the bargain.

Drawing on the separation between individual and organizational factors as a source of influence on cooperation in organizations (Brass Butterfield and Skagg 1998), we suppose that firms build their perception through confrontation with the government exponents. This highlights the remarkable role of communication as a tool for managing firm-institutions relationships. Firms have to adopt communicative behaviors in order to

stimulate institutions munificence. In this perspective, negotiation represents an adequate tool for managing institutions-firm relationships.

## ***2. Negotiation: a strategic tool that elevates institutional performances of firms***

Negotiation is a topic that has been studied from different perspectives since it occurs frequently at all levels of interaction and in everyday life situations. Thompson (2001) defines negotiation as an interpersonal decision making process by which two or more people agree how to allocate scarce resources. Rumiati and Pietroni (2001) state that negotiation is a process of interactions between two or more parties that aims to determine what each part must give to the other one - and/or receive from the other one - during the transaction, in order to reach an agreement advantageous for both. Thus negotiation becomes a way to solve interest differences whenever each part possesses, and is willing to concede, something valuable for the other part. Negotiation is the most expensive mechanism of coordination. Nevertheless, when it is successful, it contributes to improve the relationship between the parties and it also reduces the probability of conflict between them. Mastenbroek (1991) highlights the elements that characterize negotiation: (1) independent parties that have (2) divergent interests and (3) power almost equally distributed between them. Negotiation has also been defined as a set of empirical rules and tactics that need to be structured; as a set of alternatives; as a process based on a temporal structure; and as a set of different activities.

Our intention isn't to give a new definition of the concept, but to give an operational perspective of negotiation; in doing so, we assume negotiation as a strategic tool able to alter the *status quo*. Moreover, we intend to distinguish negotiation processes just between firms from the ones between firms and institutions. We identify this second

type of interaction, where the parties involved belong, respectively, to the private and to the public sector, with the expression *institutional negotiation*. Of course the basic principles are the same for all the bargaining processes, but the firm-institution context shows two main differences from the B2B interactions: uncommon language and determinants of the value.

In institutional negotiation processes the parties use different languages in order to communicate and they also refer to different determinants of the value attributed by each part to the sets of possible gains that they can obtain individually. Moreover, the variables that occur are more related to macroeconomic aspects.

Negotiation processes don't have a predetermined output; the latter always depends upon elements like the context, the parties, their characteristics, and their interests. The output of negotiations is directly linked to the use that parties make of this tool. We place negotiation in the institutional context arguing that it enables firms to interact with institutions, obtain their support and reach long-term objectives. The dialogue between firms and institutions is often difficult because of the contrasting interests, although through negotiation the parties could be stimulated to find a common ground and this can foster collaboration, generating also good opportunities for both interlocutors. In particular, the institution could acquire importance as supporter of local economic development, while the firm could have more opportunities in pursuing its long-term goals. Negotiation is carried out through methods and techniques of communication on which we will focus the attention in the following paragraphs, in order to identify a structured path of the negotiation processes.

## ***2.1 An overview on negotiation***

In negotiation, parties sustain their interests but they also considerate the possibility of an agreement and they tend to hide personal problems or to treat them in a very circumspect way (Mastenbroek 1991).

The main elements that constitute negotiation are (Rumiati and Pietroni 2001):

- the *parties*, each one has a distinct configuration concerning the sharing of the scarce resources that are object of the bargain;
- the *configuration of the interests of the parties*, associated with the utilities that each part attributes to all the possible outputs of the negotiation;
- the *sets of the possible gains that each single part can obtain*;
- the *sets of the possible gains that parties can obtain negotiating*, it represents the intersection between the configuration of the interests of the parties.

These elements are present in any negotiation. Perception of interests, value determinants, typologies of language imply different combinations of the above mentioned elements giving rise to different outcomes. Different outcomes are also determined by two possible alternative negotiation typologies: (1) distributive negotiation and (2) integrative negotiation.

On the basis of the first typology, the resource that is contended is both scarce and impossible to expand. In this case the objective of the parties is to split up the resource trying to obtain the largest “slice”. In distributive negotiation what one part gains corresponds exactly to what the other part loses.

Integrative negotiation relies on cooperativeness. Parties that are at a negotiation table try to detect the attributes that compose the object of their interest, the scarce resource, and then evaluate which are the attributes that could interest them. It's frequent that an attribute that interests a part, is considered useless by the other one. This facilitates the

reaching of an agreement between the actors that are bargaining. Subsequently, we will highlight the negotiation dynamics between firms and institutions.

## ***2.2 Methods and techniques of institutional negotiations***

While carrying out their decision-making processes, firms consider both internal and external elements that exert influence on their activity. As we have previously highlighted, the dialogue between firms and institutions has a remarkable importance. In particular, the confrontation is relevant in hostile environments. Dialogue between firms and institutions is frequent but this doesn't necessarily guarantee opportunities for the actors of both sides. In many cases this dialogue excludes constructive exchange between the parties and is interpreted as simple formality in order to recognize the existence of the other part. Dialogue needs to be managed. The two parties must meet in order to put in act a constructive confrontation for detecting the opportunities that can be taken. In a context where firms can grant a widespread development and institutions can support this, negotiation seems to be the way to create synergies. We argue that integrative approaches to this coordination mechanism are more effective than distributive ones, since the scarce resources that are the object of bargaining – such as financial facilities and public support to business initiatives, on the institutions' side, and creation of development, on the firms' side – present different attributes on which is possible to negotiate.

Negotiation relies on the ability to manage interpersonal relations. Relational ability becomes crucial at the bargaining table in order to achieve objectives, thus we will focus on the main techniques for a successful institutional bargain distinguishing two moments: (1) the analysis of the interlocutor and the detection of his real objective; (2)

the creation of a long-lasting relation and its maintenance. We will discuss these matters from the firm's perspective.

In negotiations that involve firms and institutions the parties could be made up of representatives of the two sides that in some cases might have decisional power, while in other cases are strictly tied to some other figure that doesn't sit at the bargaining table. The first step in starting a negotiation is to understand the kind of interlocutor that is being faced. It's always prudent to search for information on the context in which the counterpart operates. Context is important because what people do when negotiating is determined by the interplay between certain characteristics of the person (such as their needs, expectations, ability to control their impulses, knowledge, attitudes and skills) and the characteristics of the situation (the norms, roles, history of relations, task and rewards structures, culture, climate). Observation and active listening are the key to detect the information that are needed both concerning the personal characteristics of the counterpart, and the characteristics of the institution that the latter is representing. In institutional negotiations the "nature" of the interlocutor becomes crucial. In fact, there is a substantial difference between the approach that must be used for negotiating with professional-technical interlocutors and the one that is suitable for political interlocutors. As we have already highlighted, there is a difference in the language that these parties use. This difference requires the firm to possess the ability to switch from one language to another, in function of the kind of interlocutor. Negotiating at a Regional level is different from negotiating at a Government level, that is also different from negotiating at a Federal level. This increases the difficulty in reaching an agreement because it's not proper for the firm to rely on a bargaining approach that was successful in a previous experience, but it is necessary at every new negotiation to adapt

the approach to the type of interlocutor, to the language, and also to the kind of actor that detains the decision power.

Personal characteristics of the interlocutor constitute a remarkable information since their knowledge enables the negotiator to anticipate the reaction of the counterpart and facilitates the building of trust. The latter is fundamental in building a relationship and, subsequently, in obtaining concessions while bargaining.

Understanding if the interlocutor has decisional power is important. Institutions could be represented both by people that have this kind of power or just by representatives with no decisional responsibility. In the first case, the interaction is smoother since any decision about concessions could be taken in regards to the evolution of the situation, on the basis of what is said at the bargaining table, and impression management has a remarkable role. Instead, if the counterpart must report to a supervisor, the bargain could be rougher and difficult to adapt to the situation. In fact, every possible request and concession has to be communicated to the *shadow negotiator* in order to continue the bargain. However, even if the firm isn't negotiating directly with an institution representative that doesn't have the decision-making power, image, reputation, and public image play a large role.

A person's public image is not a genuine reflection of the person (mirrored in certain public contexts) but rather a social product related only indirectly to what is supposed to represent, and capable of being manipulated in all sorts of ways. The word reputation, instead, emphasizes ownership peculiarity; the term public image emphasizes the collective representation. In negotiation both reputation and public image are fundamental because they exert a strong influence on the negotiation climate, on the parties involved, and on the outputs. Both, personal reputation and public or corporate

image can be managed. Large organizations usually rely on public relations activities, which include a variety of promotional schemes, such as advertising, sponsorship, and lobbying (Invernizzi 2002).

The firm's image can be transmitted to the negotiator or to the shadow negotiator of the institution through its representative. If the firm negotiator is able to illustrate his interests in a way that can convince the institution representative, the latter will vehicle a neat message to the supervisor.

Basically, firms must capture the interest of institutions by picturing the prestigious position that the latter could acquire if they contribute to the economical growth through facilities and/or through initiative that favor firms' activity. The objective of the firm is to improve its activities and to take advantage of opportunities in order to guarantee long-term survival, and, since institutions could massively influence environmental conditions, the establishment reliable confrontation exchanges with institutions will foster the possibilities of obtaining support from them.

Long lasting relationships are generated by effective negotiations. The basic elements of a resilient relation concern both the compatibility of the objectives that parties want to achieve, and the preparation, empathy, problem-solving, persuasive, and relational abilities of the people that negotiate. Moreover, it could happen that even if the parties objectives are compatible, a lack of the above mentioned abilities surely jeopardizes the outcome of the ongoing negotiation and of the potential future ones. Keeping an eye on these characteristics assures the successful outcomes of the bargaining and creates the basis for future synergies. Institutions must *touch* the advantages of supporting firms and firms must be able to communicate the advantages they can generate. It's a matter

of using the right language to communicate, where language mainly refers to a set of behaviors and attitudes that foster the achievement of desired outcomes.

The building of this persuasive language consists in:

- demonstrating understanding for the counterparts' interests;
- exposing the firm's position in way that highlights the advantages that institutions could obtain from supporting the firm, in terms of reputation, environmental growth, etc.

Following, we will describe a successful experience of institutional negotiation where a firm that operates in a hostile environment like Calabria has reached remarkable results and has promoted economic development in its industry and contributed to the economic growth of the area in which it operates.

### ***2.3 OSAS: a successful case of institutional negotiation***

OSAS was funded in 1962 and is settled in the Piana of Sibari in Calabria, in one of the most important agricultural districts of Europe. Its production amounts to more than 750 tons of fruit and citrus fruit, and the income that OSAS registers is equivalent to more than 30 million Euros. OSAS had to open a direct "communication channel" with institutions, at the beginning of its activity, in order to announce its presence on the territory, and, after its consolidation on the market, to explore and grab the opportunities that could have generated positive results, both at a national and at an international level.

For OSAS negotiation is a function that is carried out directly by the management. In regards to the types of institutional interlocutors, OSAS' CEO, Dr. Antonio Schiavelli, states that it is fundamental, not only to shape the negotiation approach and language in

function of the level of the institutional interlocutor – that could be Regional, Government, or Federal institution – but also to decode the environmental and contextual signals that reveal the nature of the interlocutor. Thus, it becomes easier to understand if some decisions are political or technical, and, subsequently, to understand what kind of approach to use, and which persons to “convince”. Moreover, the firm should vehicle its position showing how reaching an agreement could produce a positive impact for a wide range of parties, not only for itself.

Dr. Schiavelli argues that often there are misunderstandings in regards to what the counterparts really aim at, and to which extent they understand the requests that OSAS raises. This is generated by the different languages of the parties and by the difficulty to understand the basic variables of the exchange context, and also by the different perceptions – influenced by a political or an economical view - of the benefits that derive from the possible set of shared agreement alternatives. OSAS aimed at reaching shared agreement and consensus of intermediate figures in order to increase its negotiation power while bargaining with institutions, and also to block the potential restraints that the latter could have raised against any request coming from the firm.

In particular OSAS - being aware of the importance of image and visibility - worked on improving these elements through media and conventions. This fostered positive confrontation and provided the diffusion of the idea that OSAS acts as a representative of a wider reality that involves a big slice of the agricultural industry of Calabria. Dr. Schiavelli sustains that all this was possible both for the *empathy* demonstrated by OSAS for the common interests, and for the reputation of being considered as a firm that had already reached successful bargaining results which benefits were extended to all the firms that supported its actions.

### ***3. Implications and directions for future research***

Social capital endowment is a critical resource, both for stimulating new business and for granting survival and success to existing activities. The suggestion of negotiation as strategic tool for managing firm-institutions relationship in hostile environments, opens a discussion about strategies that firms have to put in act for fostering institutional munificence. In particular, in contexts with insufficient stocks of social capital, firms need to persuade governments to renew the flow throughout high levels of performances. Many companies accept the social capital endowment as a fixed resource and do not promote actions in order to resist to the environmental pressures.

Negotiation represents an alternative through which firms can highlight what is needed in order to pursue growth. This supports the creation of long lasting relationships between firms and institutions and also permits to establish a constructive dialogue that is based on active interaction where both parties end to contribute to the development of the area in which they operate.

Research has to define techniques that permit to identify the government's orientation and to evaluate behaviors of the government representatives. The value of negotiation depends, in fact, from an adequate and punctual perception of the dimensions describing the counterpart.

Likewise, future researches will be able to suggest communicative strategies for acting in munificent environments. In fact, government performances have to grant the social capital endowment. If institutions do not enrich and enforce social capital endowment, in the long term, it will dispel.

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