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The Face of Embeddedness – A Case Study

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Abstract

The aim of this paper is to give concrete empirical accounts of the concept of *embeddedness*. The final paper will give a theoretical review of different types of embeddedness, resulting in an analytical framework that will be used as a guideline for the analysis of the constructing process of a strategic network. In focus for the study is the 'hub firm' that connects 31 small and medium-sized industrial subcontractors in an EU-supported region in Sweden. It promotes inter-organizational co-operation concerning marketing activities, education and joint manufacturing efforts.

The economic actions and their outcomes described in this paper are heavily affected by the embeddedness of the actors' relations. It is obvious that the context of economic exchange is constituted by patterns of ongoing interpersonal relations and that the economic actions here referred to, cannot be fully understood without taking this into consideration. The decision to co-operate is strongly governed by the strength of personal concrete relations. That makes Granovetter's arguments highly relevant here, and 'the idea of embeddedness' is useful to describe and explain why and how networks are manifested. What he refers to as structural embeddedness, is central to the conditions as well as the actions and outcomes in the chronology. The structure of the social relations manifests it self in all levels, from an informal network and a formal strategic network, to international policies and the overall structure of norms and common beliefs that we call institutions. The paper reveals explicit empirical substantiations for Granovetter's structural embeddedness, and furthermore two aspects of embeddedness that are crucial for the genesis and evolution of the strategic network. Firstly, a mimetic aspect manifesting itself through imitation of pre-fabricated

organization devices in the construction process. Secondly, a spatial aspect demonstrated by the importance of common space and encounters for the decisions to co-operate.

The Face of Embeddedness – a Case Study

The idea of embeddedness is a theoretical construct that has interested scholars from several different disciplines the last decades. It refers to “the fact that economic action and outcomes, like all social action and outcomes, are affected by actor’s dyadic relations *and* by the structure of the overall network of relations” (Granovetter, in Nohria & Eccles 1992).¹ It came into focus when Mark Granovetter, sociologist, in 1985 argued against economic anthropologist Karl Polanyi, in a well known article about over- and undersocialized conceptions of economic action (Granovetter, 1985). Since then, the idea of embeddedness of economic actions has been frequently used to illuminate and explain economic behaviour in many different settings (see e.g. Baum & Dutton (eds.1996); Huggins 2000; Grabher (ed. 1993). Some scholars have made efforts to develop the concept of embeddedness, criticizing Granovetter for a too narrow conception of it, and the literature has been widened with additional types of embeddedness, for example cognitive, cultural, and political embeddedness (Zukin & DiMaggio 1990); temporal, network, and institutional embeddedness (Miller 1996; Raub 1996;1998; Rooks et.al. 2000). A thoroughly analysis of Granovetter’s work, will however reveal a rich and vivid explanation of his core concept *structural embeddedness*; that covers the above mentioned aspects (Granovetter 1985; 1988; 1989; 1990).² Granovetter’s work is however, lacking empirical descriptions of how embeddedness affects economic behaviour (Uzzi 1997).

¹ Granovetter refer to these as the relational and the structural aspects of embeddedness, and he puts the latter in focus in his explanations of economic action.

² A full exposition of Granovetter’s description and definition will be included in the final paper.

The aim of this paper is to reveal how this theoretical construct appears in every-day reality of industrial business. The attempt is to give concrete accounts of the way individuals' social relations and their institutional context, affect the strategic decisions to cooperate, and give a description of their mutual efforts to construct a strategic network of industrial companies. Why would we like to now this? Embeddedness is a theoretical concept very often used in an increasing field of studies about inter-organizational cooperation, but it has a theoretical bias. Scholars frequently use the concept of embeddedness without referring to any specific activities or behaviour, i. e. the concept is missing a genuine content. It usually provides a metatheoretical background to diverse discussions, but it is rarely thoroughly empirically described or tested.

What do we get if we give the concept a genuine content? A better understanding of how, why and with what outcomes social relations influence strategic decisions concerning interaction among organizations. We will also get a better understanding of different kind of organizational problems that occur, where they stem from, and why they crop up. By putting the face of embeddedness at centre of our attention we can get a picture of possibilities that might have been hidden earlier. And we can get a chance to foresee negative presumptuous consequences of embeddedness. Company managers can acquire a better possibility to control inter-organizational networks and act more effective. It can furthermore provide theory with important insights in the analysis of inter-organisational networks.

Theory

Uzzi (1997) expresses a need for concrete accounts of the effect of embeddedness, and the need of more research on how social structure facilitates or derails economic action. He identifies empirically grounded components of embedded relationships, and he explicates the devices by which structural embeddedness shapes organizational and economic outcomes.

Uzzi suggests that structural embeddedness is a logic of exchange that promotes economies of time, integrative agreements, Pareto improvements in allocative efficiency, and complex adaptation (ibid.). He formulates arguments that attempt to flesh out the concept of embeddedness and its implication for the competitive advantage of network organizations. His work is therefore of great interest for this study.

Uzzi's field study, where the unit of analysis is the interfirm relationships, results in a table, showing "evidence for features and functions of embeddedness" (ibid. p. 42, table 2). The features and functions of embedded ties where: Personal relationships matters; trust is a major aspect; reciprocity and favours are important; thick information sharing; joint problem solving; concentrated exchange with partner matters; promotes shared investments; shortens response time to market; promotes innovation; strong incentives for quality; increases fit with market demands.

The concept of strategic networks

The pattern of strategic relations between organizations is designated by different concepts (strategic networks, strategic alliances, joint ventures, consortia etc.), which has led to a somewhat confusing theoretical development in the research area. 'Strategic alliances' and 'strategic networks' are often used as equal concepts, and they do seem to overlap to a great extent (Child & Faulkner 1998). Strategic networks comprehend more than two actors and mostly smaller companies. Definitions of strategic networks emphasize common goals and complementary resources (Axelsson 1996) and they are usually strategically built and guided by one focal firm (Jarillo 1988; Forsgren & Johanson 1992; Richter 2000), in contrast with *business networks*, which emerge as relations over time through interaction between several actors, and without a uniting organization (see e.g. Forsgren & Johanson 1992; Håkansson & Johanson 1993; 2001). The definition used in this paper focuses on the specific uniting firm

that “sets up the network, and takes a pro-active attitude in taking care of it” (Jarillo 1988:32). This specific, central firm is referred to as “the hub firm” (ibid.).

Strategic networks help firms to reach their strategic goals by providing them with resources such as information, technology, markets and knowledge (Jarillo 1988). The term ‘strategic’ imply that firms can use the network to purposefully gain a stronger competitive position in the market (ibid.).

Method

The study was conducted with a qualitative, social constructionist approach, with the aim of generating broad, rich, and vivid information about the rise and evolution of the strategic network and its embedded aspects. Unstructured interviews were held with the founders and other significant actors who were involved in the constructing processes of the strategic network, in all 16 interviews with 14 interviewees, at a total time of 27 hours. The interviews were tape recorded and transcribed, with the aim of producing text for coding in accordance with the procedures for grounded theory (Glaser & Strass 1967; Glaser 1979). The coding was conducted with a specific focus on embeddedness, and therefore mainly carried through in accordance with the *selective coding* procedure (Glaser 1979).

From interviews, field notes from observations, and from secondary documents (e.g. drafts and plans from informal meetings; protocols from committee- and annual member meetings, correspondence between significant actors; formal decisions and statements from the authorities and a considerable amount of press releases and articles), a biographical account of the network has been constructed. The biographical approach (Kimberley 1987) is useful because it specifically addresses processes of change. In a biographical approach, the focus can be set upon major events that shaped the network's subsequent development and the significant actors that were involved. It is also possible to address the significant resources

and relations when mapping out the biography. A central aspect of developing this network biography is the mapping of *major transitions* (ibid. p. 84) that have taken place over time, trying to find both its causes and its outcomes.

When analyzing the organizational process, special importance is attached to the decisions made relatively early in the life of the organization. The early actors determine, by their contacts and preferences, which relations the organization will establish with other actors. The most interesting factors in a biography will show connections to these early decisions.

The strategic network today

The network of 31 small and medium-sized industry companies is today united by a 'hub' firm, in this case a strategic, economic association (here referred to as the "Industry Group", IG). A working chairman of the committee, a project leader and one assistant constitutes the organization. The 31 member companies of the strategic network are made up of manufacturing businesses in a relatively sparsely populated area of Sweden. They manufacture either components, and in some cases, complete products to customers. They represent e.g. plastic, electronics, and engineering industries along with contractors. The goal of the uniting 'hub' is to support the members with common marketing services and education, but also to enhance cooperation in different areas such as deliver joint manufactured systems of products. Customers prefer fewer suppliers to be able to handle the market more effectively. Geographically, the companies are scattered over an area where some companies are located about 300 kilometers from the "hub" firm and as much as 600 kilometers from some of the other members. Most of the members, though, are concentrated to a town in the middle of the area.

The 31 member companies are connected by a formal registration to the economic association, IG, to which they pay an annual member fee. They receive offers by mail to join specific activities, such as exhibitions, customer visits, educational activities or annual member meetings. They are also connected through the Internet, by a common homepage. Some of the companies are connected by sales or buying relations and a few companies are co-operating to be able to meet customer demands more effectively.

Embeddedness features in a strategic network construction

In table 1, features of embeddedness, coded from the biographical chronology of the genesis and evolution of the strategic network, is compiled. I will here give a short account of each feature. (This table will be concluded in the final paper).

Embeddedness at the macro level

The region, in which the strategic network is located, is a country province in the middle of Sweden. It is included in the formally financed areas from EU. The region has a history of forest and tourist industry, with only a minor segment of manufacturing firms, mainly subcontractors, representing plastic, engineering and electronic industries. Their market is typically located in the south of Sweden, a fact that entails long distance to customers, which means a poorer competitive position. They could improve their possibilities by cooperation, but most of the firms are small (1-100 employees), and have little experience of cooperation with one another.

In some of the other regions in the country, with similar conditions, industrial companies have started to connect to each other with the attempt to become stronger competitors. These strategic networks are usually governed by a uniting “hub-firm” and the network member companies are co-ordinating for example marketing activities, and

education. These cropping up strategic networks, received interest in media, and that contributed to the diffusion of the idea. It appeared as regular patterns, with similar features and it became a 'model', available for imitation.

Public authorities also financially support these attempts, and certain guiding principles for applications for EU funded projects, are explicitly suggesting inter-organizational cooperative activities. One could, in this context, also refer to the general discourse on successful regions of inter-organizational co-operation, which had been widely recognized by scholars and practitioners.³

Embeddedness at the micro level

The industrial companies, that became members of the strategic network in this study, were embedded in the overall network of relations and institutions, described above. It was manifested in several concrete direct or indirect relations, for the individual company owner, or/and manager. The engineering industry has its own industrial organization, thereby connecting the companies indirectly. The majority of the subcontractors had their businesses located in the industrial estate, on the fringe of the central city of the region. Most of them were members of an organization with the specific aim to create a better environment in the area. Some of the subcontractors had direct buying or selling relations with one another; some had relations with a long history. But most of the companies had no direct relation with one another. They knew about each other, but most of them did not know each other. There was, however, a tight informal group that had come to know each other quite well over the years.

³ E.g. Northern Italy and Gnosjö.

Temporal embeddedness

One group of managers for subcontractor firms had come together as a consequence of the gathering efforts of a consultant in the middle of 1970. A new marketing arena was arranged, with the aim to gather subcontractors from the whole country, once a year for a three-day long exhibition, the Elmia-exhibition. The subcontractor firms could exhibit their products or manufacturing techniques, to existing and presumptive customers.

The Swedish government founded, in each region on the 1970s, an organization whose purpose was to encourage, develop and financially support both new and already established companies. It will here be referred to as the “Fund for development”, FD.⁴ They hired a consultant, who visited most subcontractors in the region with efforts to engage them as exhibitors. The FD contributed with part of the fee and also arranged a joint space for the subcontractors. Nine companies accepted this offer.

This exhibition became very important for the relational origin of an informal group of businessmen. The conditions for establishing relations were ideal. They were gathered at the same space in the exhibition hall, so they could easily meet and chat, and that way learn more about each other’s businesses. They stayed at the same hotel, gathering in the lobby or the bar, and had dinner together. Some of them discovered that they could buy or deliver to one another, others found out that they had the same customer and could share useful fine-grained information.

Visiting the Elmia Exhibition became a yearly repeated action for this group and they are still, in 2003, gathering every year. The ties between them have consequently grown stronger by this *habitualization* (Berger & Luckmann 1966, p xx). These recurrent interaction patterns establish a social structure, in which the individuals are related in a way that goes beyond just business matters. The exhibition itself becomes surrounded by constructed and

⁴ Utvecklingsfonden, which later changed name to Almi.

repeated roles and actions, i.e. it becomes typified and the subcontractors enact these typifications in an almost ceremonial manner (see also Meyer & Rowan 1977, Berger & Luckmann 1966). The vital aspect for this study is however that the subcontractor exhibition - "Elmia"- constitutes an enacted arena where relations, crucial for decisions about inter-organizational cooperation, come into existence.

In the middle of 1990s, 20 years had passed, and the lot of subcontractors, that every year visited the Elmia exhibition, had become quite closely united. Visiting the exhibition was taken for granted, and it was perceived as good for business and good for social relations. The FD was still organizing the joint visit, arranging the exhibition stands and a common café for customers and visitors. Every year they hired the same space in the exhibition hall, and stayed at the same hotel. The event had become an institution, with stable roles, location and activities. When the FD suddenly announced that they would cut off the support (because it now was perceived as an institution that could continue to be arranged by the subcontractor lot itself), it led to frustration among the Elmia lot. FD's decision would entail both financial and administrative fall offs. This matter was frequently discussed, and one of the subcontractors stepped forward and took on an active role in trying to find another way of arranging and financing the exhibition visits. At the same time, a consultant at the FD, had become interested in the new phenomena labelled 'strategic networks'. The FD in another region of Sweden had contributed to the creation of a strategic network for industrial companies, and it seemed to be a fruitful way of supporting companies in sparsely populated areas. This consultant, and the frustrated subcontractor, knew each other, since the FD had been involved in the Elmia exhibition for so many years. They met and started the early discussions, that later led to the construction of a subcontractor pool, a strategic network with the aim of supporting subcontractors in the region with marketing activities, education and financing. Two individuals, with a corresponding idea, and a pre-existing social relation,

made a joint decision to co-operate in efforts to accomplish co-operative relations among industrial subcontractors in that region.

They started a benchmarking process to find a suitable model for a strategic network. To imitate an already existing model is an effective way of enacting a new organization (see e.g. Meyer & Rowan 1977; Sevón 1998; Sandberg 2000). Already made labels and functions are adapted to construct organizational structures that will work and provide the new organization with a solid character, and legitimacy from financiers, public authorities, governmental representatives and so on. Some of the building blocks for a new organization cannot be dropped, since they have to be adopted because of coercive pressures, e.g. certain legal forms and regulations. Since the idea of inter-organizational co-operation was political supported at this time, as mentioned earlier, they could get grants from both EU funds, and from the regional FD. The strategic network was constructed as a legal entity in the form of an economic association, with a committee where the chairman was the frustrated subcontractor, who acted as a “network-locomotive” two years earlier (ref. here). The majority of the committee members, were recruited from the Elmia exhibition lot, i.e. the chosen members of the committee had pre-existing social relations with each other! The first member meeting was held 1998 and the first members were the subcontractor firms that yearly met as exhibitors at Elmia.

Concluding discussion

The actions and their outcomes described in this paper are heavily affected by the embeddedness of the actors’ relations. It is obvious that the context of economic exchange is constituted by patterns of ongoing interpersonal relations and that the economic actions here referred to, cannot be fully understood without taking this into consideration. The decision to co-operate is strongly governed by the strength of personal concrete relations. That makes

Granovetter's arguments highly relevant here, and 'the idea of embeddedness' is useful to describe and explain why and how networks are manifested. What he refers to as structural embeddedness, is central to the conditions as well as the actions and outcomes in the chronology. The structure of the social relations manifests it self in all levels, from the exhibition visitors informal network and the formal strategic network, to international policies and the overall structure of norms and common beliefs that we call institutions.

If we use the concept *political* embeddedness (Zukin & DiMaggio 1990:20-23),⁵ we find indicators for how strategic decisions are channelled through policies of both the nation and of EU, and formed by governmental regulations of how to formally construct an organization as a legal entity. Also *cultural* embeddedness (ibid. 17-18) is here substantiated, by the socially constructed understanding of the best way to design a strategic network. The actors applied a fabricated 'model' of a strategic network thereby gaining several kinds of resources, as e.g. time and legitimacy. This 'mimetic' aspect of embeddedness is crucial for the outcomes of the economic actions in a much larger sense than is generally accounted for by scholars. Imitation has its own logic, enhancing speed and rationality to every constructive process.

The relational structure also has a spatial aspect that needs to be considered here. The fact that the subcontractors were gathered in a joint space in the exhibition hall where essential to the evolving relational ties. They were also established in the same industry estate, which enhanced the possibilities of cultivating the relations. This *spatial* embeddedness has not been regarded, neither by Granovetter or Zukin & DiMaggio, but since it is obviously an important condition for the genesis of strong inter-personal relations, and

⁵ All the different types of embeddedness here referred to, are covered by Mark Granovetter's concept "structural embeddedness", but they are used here as devices to illuminate different aspects of embeddedness.

because it facilitates inter-organizational co-operation, it should be further analyzed in future studies on strategic networks.

Last, a few words on *temporal* embeddedness ((Miller 1996; Raub 1996;1998; Rooks et.al. 2000).⁶ The narration gives evidence to Granovetter's argument that the history of each dyadic relation is important for economic action and economic outcomes and institutions. (To be further discussed in final paper).

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⁶ The concept is derived from Granovetter's discussion on 'temporal reductionism' (Granovetter 1993).

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