

Economic Action and Social Structure: The Problem of Embeddedness

---- Mark Granovetter



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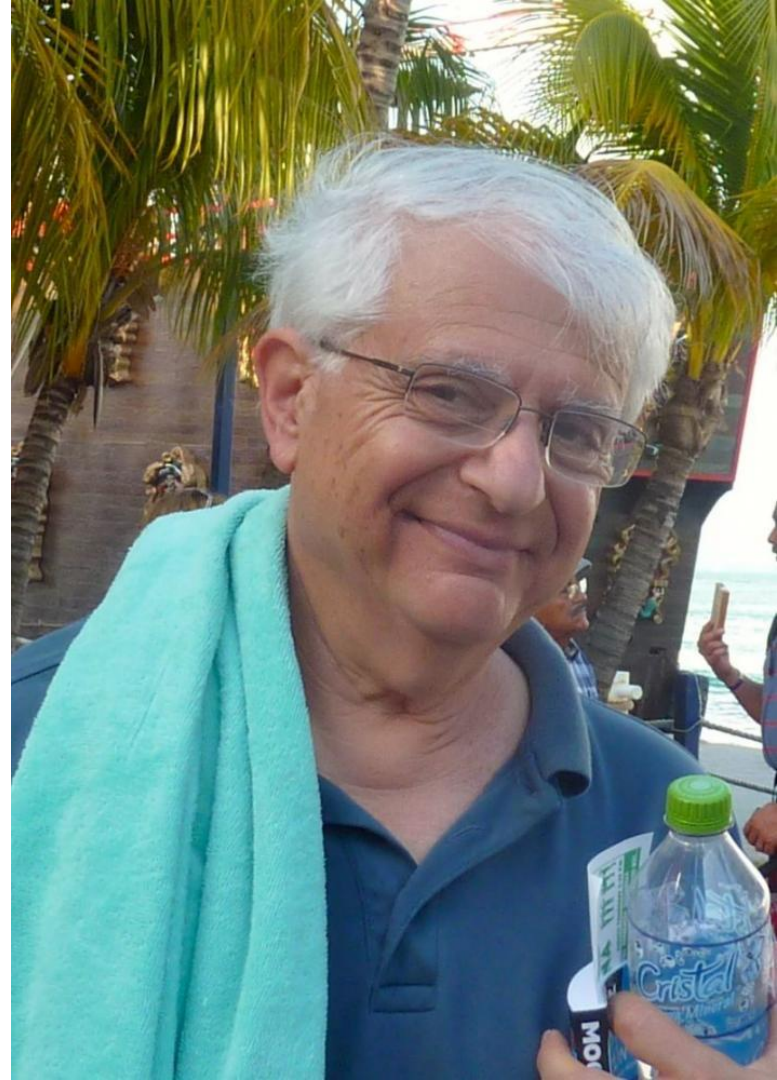
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Mark Granovetter

- Professor in the School of Humanities and Sciences, Stanford University.
- Famous publication (Major Ideas):
 - The Strength of Weak Ties (1973)
 - Economic Action and Social Structure: The Problem of Embeddedness (1985)
 - The Tipping Point: How Little Things Can Make a Big Difference (2000)



Outline

- **Introduction: The Problem of Embeddedness**
- **Over- and Undersocialized Conceptions of Human Action in Sociology and Economics**
- **Embeddedness, Trust, and Malfeasance in Economic Life**
- **The Problem of Markets and Hierarchies**
- **Conculsion & Future Work**

Introduction: The Problem of Embeddedness

- Substantivists & Development theorists
- Formalists & Economists
- Author view

**How behavior and institutions
are affected by social relations?**

Substantivists & Development theorists

- Relationship:
 - **Heavily** embedded in **premarket** societies
 - **Autonomous** in **modern** societies
- Separate economy as an independent field modern society
 - The definition of economic transaction changed
- Position of economic life and social relation **reversed**
- Association:
 - “Substantivist” in anthropology
 - Karl Polanyi [1, 2]
 - “Moral economy” in history and political science [3, 4]
 - Marxist thought

[1] Polanyi, Karl. 1944. The Great Transformation. New York: Holt, Rinehart.

[2] Polanyi, Karl, C. Arensberg, and H. Pearson. 1957. Trade and Market in the Early Empires. New York: Free Press.

[3] Thompson, E. P. 1971. "The Moral Economy of the English Crowd in the Eighteenth Century." Past and Present 50 (February): 76-136.

[4] Scott, James. 1976. The Moral Economy of the Peasant. New Haven, Conn.: Yale University Press.

Formalists & Economists

- No relationship in any period.
 - Anthropologists: formalists
 - Economists: new institutional economics [1, 2, 3]
 - Rational
 - Atomized individuals
- Assume:
 - Human nature: Truck, barter and exchange one thing for another [4, chap.2]
 - Goods trade by labor costs [4, chap.6]

[1] North, D., and R. Thomas. 1973. *The Rise of the Western World*. Cambridge: Cambridge University Press

[2] Williamson, Oliver. 1975. *Markets and Hierarchies*. New York: Free Press

[3] Popkin, Samuel. 1979. *The Rational Peasant*. Berkeley and Los Angeles: University of California Press.

[4] Smith, Adam. (1776) 1979. *The Wealth of Nations*. Edited by Andrew Skinner. Baltimore: Penguin

Author view:

- Level of embeddedness:
 - Compare to substantivists and development theorists:
 - Non-Market societies: **Lower**
 - Modernization Process: **Changed less**
 - Compare to Formalist and economists:
 - **More substantial**

[1] Williamson, Oliver. 1975. Markets and Hierarchies. New York: Free Press.

Over- and Undersocialized

**Conceptions of Human Action
in Sociology and Economics**

- Undersocialized
- Oversocialized
- Criticism of oversocialized
- Integration

Undersocialized

- Disallow by hypothesis any impact of social structure and social relations on production, distribution, or consumption. [1]
 - Utilitarian tradition
- Undersocialized solution of problem of disorder
 - Hobbes:
 - Import an **autocratic authority**
 - Classical liberalism and classical economics:
 - Automatically generate by **competitive markets**
 - Others:
 - **Reputation**

[1] 1982. "Rival Interpretations of Market Society: Civilizing, Destructive or Feeble?" Journal of Economic Literature 20 (4): 1463-84.

Oversocialized

- Definition: People as overwhelmingly sensitive to the opinions of others and hence obedient to the dictates of consensually developed systems of norms and values, internalized through socialization, so that obedience is not perceived as a burden.
- Timeline:
 - Thomas Hobbes - Problem of order
 - **undersocialized**
 - Talcott Parsons [1]
 - Embeddedness in social context, **oversocialized**
 - Dennis Wrong [2]

[1] Parsons, Talcott. 1937. The Structure of Social Action. New York: Macmillan.

[2] Wrong, Dennis. 1961. "The Oversocialized Conception of Man in Modern Sociology." American Sociological Review 26 (2): 183-93.

Criticism of Oversocialized

- Oversocialized conceptions are **mechanical**
 - Know Social class or labor market sector
 - Predict behavior
 - Like the **deists' God** (a force)
 - Control people's mind to make decision
 - Inside individual's head
 - Thus can be **atomized**
- Culture influence is not a once-for-all influence but ongoing process [1, 2]

[1] Fine, Gary, and Sherry Kleinman. 1979. "Rethinking Subculture: An Interactionist Analysis." *American Journal of Sociology* 85 (July): 1-20.

[2] Cole, Robert. 1979. *Work, Mobility and Participation: A Comparative Study of American and Japanese Industry*. Berkeley and Los Angeles: University of California Press

Criticism of Oversocialized

- Historical and structural embeddedness of relations
 - Extremely **stylized**, **average**, and **typical**
 - Behaving exclusively in according with prescribed roles
-
- **Atomization** is **not** eliminated, but transfer to higher level

[1] Fine, Gary, and Sherry Kleinman. 1979. "Rethinking Subculture: An Interactionist Analysis." *American Journal of Sociology* 85 (July): 1-20.

[2] Cole, Robert. 1979. *Work, Mobility and Participation: A Comparative Study of American and Japanese Industry*. Berkeley and Los Angeles: University of California Press

Integration:

- **Common conception: Atomized actors**
 - Undersocialized:
 - Narrow utilitarian pursuit of **self-interest**
 - Oversocialized
 - Behavioral patterns **internalized**
- **Example:**
 - Leviathan by Thomas Hobbes
 - Undersocialized => Oversocialized

Embeddedness in Human Action:

1. Theoretical - Trust and Malfeasance 

2. Empirical - Markets and Hierarchies

Embeddedness, Trust, and Malfeasance in Economic Life

- Issue of Trust and Malfeasance
- Social Arrangement
- Generalized Morality
- Social Relations (Embeddedness View)

- ***“Real economic actors engage not merely in the pursuit of self-interest but also in “opportunism” - self-interest seeking with guile; agents who are skilled at dissembling realize transactional advantage.”***
---- Oliver Williamson [1]
- ***“There is nothing in the intrinsic meaning of “self-interest” that excludes force or fraud.”***
---- Thomas Hobbes [2]

Issue:

Trust and malfeasance in real economic

[1] Williamson, Oliver. 1975. Markets and Hierarchies. New York: Free Press., 1979. "Transaction-Cost Economics: The Governance of Contractual Relations." Journal of Law and Economics 22 (2): 233-61.

[2] Hobbes T. Leviathan (1651)[J]. Glasgow 1974, 1970.

Solution 1 - Social Arrangement

-  **Related Work:**

Linked to **undersocialized** human action, found mainly in the new institutional economics [1,2,3]

- **Explanation:**

Social institutions and arrangements are viewed as the efficient solution to certain economic problems

- **Example:**

Elaborate Contracts [4], including *deferred compensation plans* and *mandatory retirement*, etc (⇒ social arrangement avoid malfeasance)

-  **Critique:**

Rational individual would be motivated to **develop clever ways to evade** them



[1] Lazear, Edward. 1979. "Why Is There Mandatory Retirement?" *Journal of Political Economy* 87 (6): 1261-84.

[2] Rosen, Sherwin. 1982. "Authority, Control and the Distribution of Earnings." *Bell Journal of Economics* 13 (2): 311-23.

[3] Williamson, Oliver, and William Ouchi. 1981. "The Markets and Hierarchies and Visible Hand Perspectives." Pp. 347-70 in *Perspectives on Organizational Design and Behavior*, edited by Andrew Van de Ven and William Joyce. New York: Wiley.

[4] Okun, Arthur. 1981. *Prices and Quantities*. Washington, D.C.: Brookings.

Solution 2 - Generalized Morality

-  **Related Work:**
Linked to **oversocialized** human action
- **Explanation:**
Society have developed implicit agreements to certain kinds of regard for others, agreements which are essential to the survival of the society or at least contribute greatly to the efficiency of its working [1,2]
- **Example:**
In the gas station, pay \$10 for a \$5 bill and wait for change
(⇒ generalized morality build trust)
-  **Critique:**
Moral action in economic life is **hardly automatic or universal**

[1] Arrow, Kenneth. 1974. The Limits of Organization. New York: Norton.

[2] Akerlof, George. 1983. "Loyalty Filters." American Economic Review 73 (1): 54-63.

Solution 3 - Social Relations^[1]

- **Related Work:**




Linked to **embeddedness** argument - Mark Granovetter

- **Main Idea:**

Concreting **personal relations and structures (or "networks")** of such relations in generating trust and discouraging malfeasance

- **Example:**

When seeking information for dealing:

1. Someone is known to be reliable 
 2. A trust informant said that person is reliable 
 3. Based on past dealing, that person is reliable 
- ⇒ social relation build trust

Solution 3 - Social Relations [1]

---- Concreting personal relations and structures (or "networks") of such relations in generating trust and discouraging malfeasance

- **! Critique:**

1. Networks of social relations **penetrate irregularly** and in differing degrees in different sectors of economic life, thus allowing for: distrust, and disorder
2. Social relations are **not sufficient** to guarantee trust and may provide malfeasance
 - The trust engendered by personal relations enhanced opportunity for malfeasance
 - Force and fraud are most efficiently pursued by teams
 - The extent of disorder resulting from force and fraud depends very much on how the network of social relations is structured.

- **Solution:**

The embeddedness approach threads its way between the oversocialized approach of generalized morality and the undersocialized one of social arrangements by following and analyzing concrete patterns of social relations

Embeddedness in Human Action:

1. Theoretical - Trust and Malfeasance ✓

2. Empirical - Markets and Hierarchies ←

The Problem of Markets and Hierarchies

- Enterprise Boundary Question
- Answer by Oliver Williamson
- Critiques
- Embeddedness View

? The Enterprise Boundary Question:

- *“Under what circumstances economic functions are performed within the boundaries of hierarchical firms rather than by market processes that cross these boundaries”*
---- Oliver Williamson [1,2]

[1] Williamson, Oliver. 1975. Markets and Hierarchies. New York: Free Press., 1979. "Transaction-Cost Economics: The Governance of Contractual Relations." Journal of Law and Economics 22 (2): 233-61.

[2] Williamson, Oliver, and William Ouchi. 1981. "The Markets and Hierarchies and Visible Hand Perspectives." Pp. 347-70 in Perspectives on Organizational Design and Behavior, edited by Andrew Van de Ven and William Joyce. New York: Wiley.

Answer by Oliver Williamson

- **Activities within hierarchically organized firms:**
Uncertain in outcome, recur frequently, and require substantial transaction-specific investments
- **Activities take place between firms:**
Straightforward, nonrepetitive, and require no transaction-specific investment
- **Reason:**
 1. **“Bounded Rationality”**: complex contingencies only exist within firm
 2. **“Opportunism”** is mitigated and constrained by authority relations

Critiques of Hierarchical Structure

-  **Critique 1: Treat social structure influence as exceptions**

“Repeated personal contacts across organizational boundaries support some minimum level of courtesy and consideration between the parties.” ---- Oliver Williamson [1]

-  **Literature Evidence:**

- 1. Trade association among business elite:**

“Top executives of the two firms may know each other. They may sit together on government or trade committees. They may even belong to the same country club.” ---- Stewart Macaulay [2]

- 2. Networks of personal relations among all levels of employee:**

“Users are likely to prefer sources, the relatively low risk involved in dealing with known vendors, and the likelihood that the buyer has established personal relationships that he values with representatives of the supplying firm.” ---- Webster Frederick, and Yoram Wind [3]

- 3. Cultural norms ---- Lohr Steve [4]**

- 4. Subcontracting ---- Eccles Robert [5]**

[1] Williamson, Oliver. 1975. Markets and Hierarchies. New York: Free Press., 1979. "Transaction-Cost Economics: The Governance of Contractual Relations." Journal of Law and Economics 22 (2): 233-61.

[2] Macaulay, Stewart. 1963. "Non-Contractual Relations in Business: A Preliminary Study." American Sociological Review 28 (1): 55-67.

[3] Webster, Frederick, and Yoram Wind. 1972. Organizational Buying Behavior. Englewood Cliffs, N.J.: Prentice-Hall.

[4] Lohr, Steve. 1982. "When Money Doesn't Matter in Japan." New York Times (December 30).

[5] Eccles, Robert. 1981. "The Quasifirm in the Construction Industry." Journal of Economic Behavior and Organization 2 (December): 335-57.

Critiques of Hierarchical Structure

-  **Critique 2: Overestimate the efficacy of hierarchical power**

“An external auditor is typically constrained to review written records. . . . An internal auditor, by contrast, has greater freedom of action.” ---- Oliver Williamson [1]

-  **Literature Evidence:**



- 1. High level cooperation within the firm:**

“As the practice developed, cooperation among the [department] chiefs to use each other's storage areas and available pits became well organized and smoothly functioning.” ---- Dalton Melville [2]

[1] Williamson, Oliver. 1975. Markets and Hierarchies. New York: Free Press., 1979. "Transaction-Cost Economics: The Governance of Contractual Relations." Journal of Law and Economics 22 (2): 233-61.

[2] Dalton, Melville. 1959. Men Who Manage. New York: Wiley.

Embeddedness View ^[1]

- **Embeddedness view for the markets-hierarchies question:**
The structure is depends on the nature of **personal relations and networks** between and within firms
- **Answer for the Enterprise Boundary Question: *Network***
 -  **may need vertical integration:**
firms **lack a network of personal relations** that connects them or where such a network contains conflict, disorder, opportunism, or malfeasance.
 -  **may not need vertical integration:**
a stable network of relations mediates complex transactions and generates standards of behavior between firms

Conclusion & Future Work

- The New Economic Sociology
- Future Work
- Relation to Computer Science

The New Economic Sociology

- **Strength:** The born of the new economic sociology
Two main statement:
 - Economic behavior is embedded in social network relationship
 - Economic behavior is closely related to non-economic motivation
- **Weakness:** 2 problems need further discussion
 - The maneuverability of Embeddedness
 - Related work: Inequality and Labor Processes [1]
 - The paradox of Embeddedness

[1] Granovetter Mark and Charles Tilly. 1988. "Inequality and Labor Processes". Pp. 175-221 in Neil Semler, editor, Handbook of Sociology. Sage Publications

Future Work of The New Economic Sociology

- The concept of Embeddedness has spilled over in many fields:
 - Gender Stratification [1]
 - Immigration [2]
 - Crime and Deviance [3] - *related to decision making (game theory)*
 - Stratification and Inequality [4]
 - Population [5] - *related to power laws of population*

[1] Brinton M. 1988. The social-institutional bases of gender stratification: Japan as an illustrative case. *Am. J. Sociol.* 94(2):300–34

[2] Rajman R, Tienda M. 2003. Ethnic foundations of economic transactions: Mexican and Korean immigrant entrepreneurs in Chicago. *Ethn. Racial Stud.* 26(5):783–801

[3] McCarthy B, Hagan J. 1998. Uncertainty, cooperation, and crime: understanding the decision to co-offend. *Soc. Forces* 77(1):155–76

[4] Royster D. 2003. *Race and the Invisible Hand*. Berkeley: Univ. Calif. Press

[5] Baum J, Oliver C. 1992. Institutional embeddedness and the dynamics of organizational populations. *Am. Sociol. Rev.* 57(4):540–59

Discussion & Question

- **How** this paper mean to computer science?
- **How** this paper relate to the ubiquitous presence of computing in daily life?
- **How** APP connect user to market?