

ON THE SOCIO-SPATIAL EMBEDDEDNESS OF BUSINESS FIRMS

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Zusammenfassung: Zur sozialräumlichen „Einbettung“ von Unternehmen

Anlaß dieses Beitrages ist der in der wirtschaftsgeographischen Literatur deutlich erkennbare Bedarf, Beziehungen von Unternehmen zu ihrer lokalen und regionalen Umwelt besser verstehen und einordnen zu können, um dadurch fundierte Kenntnisse über die entscheidenden Kräfte regionaler Entwicklungsprozesse zu erhalten. Im Hinblick auf dieses Ziel wird das gegenwärtig populäre Konzept der „embeddedness“ von GRANOVETTER herangezogen. Der Aufsatz versucht zu klären, inwieweit dieses Konzept dazu beitragen kann, ein besseres Verständnis für die Qualität der Beziehungen von Unternehmen zu ihrer Umwelt zu gewinnen. GRANOVETTERS Thesen und deren Anwendung in der geographischen Literatur werden diskutiert; dabei werden die wesentlichen Elemente der „embeddedness“ herausgestellt und überprüft. Wenn auch der „embeddedness“-Ansatz noch recht vage bleibt, ist er doch geeignet, die Aufmerksamkeit auf Aspekte der Beziehungen zwischen Unternehmen und ihrer sozialräumlichen Umwelt zu lenken, die bisher weder ausreichend verstanden noch begrifflich eingeordnet wurden. Solche Aspekte können die Konkurrenzfähigkeit von Unternehmen und die Entwicklung von Regionen entscheidend beeinflussen. Um ein genaueres Verständnis für die beteiligten Faktoren zu erhalten, muß der „embeddedness“-Ansatz jedoch durch stringendere Konzepte und Theorien erweitert werden.

Summary: This article stems from the obvious need in the economic geography literature to understand and conceptualise the relations of firms with their local and regional environments and thus to be better equipped to understand the key agents in processes of regional development. For this purpose, the presently popular Granovetterian notion of “embeddedness” is employed. The article aims to understand to which extent the notion might be helpful in gaining more understanding on the nature of firm-environment relations. GRANOVETTER’s contribution and its application in the geographical literature are discussed, and the key elements of “embeddedness” are identified and examined. It is concluded that even though the notion of embeddedness remains vague, it directs our attention to aspects in the relations of firms and their socio-spatial environments that are neither understood nor conceptualised very well to date. Such aspects may crucially affect the competitiveness of firms and the development of regions. Yet, in order to gain fuller understanding of the issues at play, the notion of embeddedness has to be complemented by more penetrating concepts and theorisations.

1 Introduction

This article deals with the need to understand and conceptualise the relations of firms with their local and regional environments. My own work is grounded in the conviction that we cannot understand regional development without gaining understanding about the key economic actors who affect the development of regions in numerous ways (OINAS 1995b). There is no strong tradition, however, in geography, to study economic phenomena at the level of individual firms.

This lack of attention on the nature and the variety of business firms has also inhibited economic geographers from conceptualising the relation of the organisation and operation of firms to processes of spatial change. Even though this matter is at the core of economic geographers’ research interests, the precise nature of firm-environment relations has caught surprisingly little attention (TAYLOR 1984, 1995; OINAS 1995a; 1995b, 143–144). Quite recently, a new interest seems to have emerged in the geographical study of business enterprises (for different approaches, see, e.g., CONTI, MALECKI a. OINAS 1995; DE SMIDT a. WEVER 1990; DICKEN a. THRIFT 1992; HARRISON 1994; MARKUSEN 1994; SCHOENBERGER 1994). Yet, theoretical and conceptual analyses of the firm-environment

relation in spatial terms remain significantly embryonic.

This paper is not intended to tackle all of the challenges resulting from these claims. Instead, I try to take seriously the claim that economic action should be regarded as thoroughly embedded in on-going social relations (GRANOVETTER 1985; DICKEN a. THRIFT 1992, 283; ZUKIN a. DIMAGGIO 1990). Thus, I scrutinise the popular notion of embeddedness and try to see to which extent it might be helpful in gaining more understanding on the firm-environment relation. Embeddedness is a concept that at least potentially seems to be able to add to the existing ones aspects of the relations of firms to their local and regional environments. In particular, it might be helpful in capturing those aspects of economic life that are not “purely economic”, and that are not considered by traditional theories and conceptualisations.

There exists an established tradition within economic/industrial geography and regional science to study interfirm linkages and their role in regional economic development (see, e.g., BARKLEY a. MCNAMARA 1994; PHELPS 1993; YOUNG, HOOD a. PETERS 1994). There is no reason to deny its importance. Not everything is known about the nature and effects of

economic linkages (see e.g., BARKLEY a. McNAMARA 1994, 726–727) or other economic effects of the operation of firms in their local economies (e.g., DICKEN 1992, 387–420). In the present analysis, putting emphasis on the embeddedness of economic action is not intended to put forward the notion that we already know everything about the “strictly” economic linkages and that no further study is needed. Rather, it is suggested that a wider perspective is needed. What we are looking for here are conceptualisations of the nature of the relation between the firm and its environment in a broad enough sense to help us understand the varied ways in which firms are affected by their local and regional surroundings and vice versa; how processes of regional development and developments within firms are crucially linked together.

Much recent scholarship on local and regional development has been taken up such previously neglected issues that make a difference in economic life. I have called resources that firms derive from their institutional environments (cf. SCOTT a. MEYER 1992, 140) “institutional resources” (OINAS 1995b, 158–159) – a concept that seems to be closely related to what STORPER (1995), following DOSI (1988, 226), calls “untraded interdependencies”. In STORPER’s (1995, 210) words, “because scholarship has concentrated so much on traded interdependencies, input-output relations, we have little systematic knowledge of the geography of untraded interdependencies and its relationship to economic development”. “Embeddedness” is one of the terms that is often used in capturing firms’ relation to environments which provide them with such resources or “interdependencies”. I do not claim that ‘embeddedness’ provides a comprehensive explanation. I scrutinise the notion to see what it is and what it is not able to offer. At the outset, we need to remain conscious of the fact that, however popular, it remains a vague concept – not the least as it is employed in the economic geography literature.

GRANOVETTER (1985) is unfailingly referred to in the context of discussing “embeddedness”. This is why the subsequent considerations first deal with GRANOVETTER’s contribution to the current discussion. Second, the nature of its present usage in the geographical literature is outlined. Third, a discussion on ‘actor’, ‘embeddedness’, and ‘social relations’ aims to shed some light on the “embeddedness relation”. Fourth, the discussion is concluded by suggesting that while the notion of embeddedness remains vague as such, it serves a function in opening up a number of questions concerning the nature of eco-

nomical action and the relations of economic actors with their socio-spatial environments. It needs to be complemented by more penetrating concepts, theorisations and empirical analyses in comprehensive future research on firm-environment relations.

2 *Embeddedness: GRANOVETTER’s contribution*

The notion of embeddedness stems from the economic anthropology of KARL POLANYI (1944 especially). The economic sociologist MARK GRANOVETTER (1985) reintroduced the notion to present day discussions in economic sociology and many other social science disciplines, including economic geography where it is now widely used. POLANYI, the major representative of the “substantivist” school of anthropology, argued that economic behaviour “was heavily embedded in social relations in premarket societies but became much more autonomous with modernization” (GRANOVETTER 1985, 482). GRANOVETTER’s own view is that “the level of embeddedness of economic behavior is lower in nonmarket societies than is claimed [. . .], and it has changed less with ‘modernization’ than they believe” (GRANOVETTER 1985, 482–483). GRANOVETTER’s work is seminal in recent scholarship which attempts to understand economic action as integrated with social relations.

GRANOVETTER (1985) advances his argument against over- and undersocialized conceptions of human action in sociology and economics. Thus, in outlining his understanding of the notion, he (GRANOVETTER 1985, 481) contrasts his approach with the undersocialized view represented by classical and neoclassical economists which “assumes rational self-interested behavior affected minimally by social relations” (GRANOVETTER 1985, 481). His argument of “embeddedness”, in contrast, is “the argument that the behavior and institutions to be analyzed are so constrained by ongoing social relations that to construe them as independent is a grievous misunderstanding” (GRANOVETTER 1985, 481–482). He contrasts his argument of embeddedness furthermore with the oversocialized view in modern sociology which conceives “people as [. . .] obedient to the dictates of consensually developed systems of norms and values, internalized through socialization, so that obedience is not perceived as a burden” (GRANOVETTER 1985, 483). GRANOVETTER observes an “ironic” shared quality in these contrasting views, namely that “both have in common a conception of action and decision carried out by atomized actors. In the undersocialized account, atomization results from narrow

utilitarian pursuit of self-interest; in the oversocialized one, from the fact that behavioral patterns have been internalized and ongoing social relations thus have only peripheral effects on behavior" (GRANOVETTER 1985, 485).

"A fruitful analysis of human action requires us to avoid the atomization implicit in the theoretical extremes of under- and oversocialized conceptions. [...] Their attempts at purposive action are instead *embedded in concrete, ongoing systems of social relations*" (GRANOVETTER 1985, 487, emphasis added).

GRANOVETTER clarifies his view on embedded economic action by discussing the ways in which trust and malfeasance in economic life are treated in the economic literature. A large part of his article deals with the Williamsonian version of new institutional economics (GRANOVETTER 1985, 493–504). Concerning trust and malfeasance, he (again) concludes that his embeddedness approach stresses "the role of concrete personal relations and structures (or 'networks') of such relations in generating trust and discouraging malfeasance" (GRANOVETTER 1985, 490). His preferred view "makes no sweeping (and thus unlikely) predictions of universal order or disorder but rather assumes that the details of social structure will determine which is found" (GRANOVETTER 1985, 493).

Concerning Williamson's functionalist explanation for the existence of "markets" and "hierarchies" he argues that social relations between firms are more important in bringing order to economic life than economic efficiency or authority within firms as is supposed by the Williamsonian approach (GRANOVETTER 1985, 495, 501). In GRANOVETTER's (1985, 505) words, "the main thrust of the 'new institutional economists' is to deflect the analysis of institutions from sociological, historical, and legal argumentation and show instead that they arise as the efficient solution to economic problems. This mission and the pervasive functionalism it implies discourage the detailed analysis of social structure that I argue here is the key to understanding how existing institutions arrived at their present state" (GRANOVETTER 1985, 505).

In his view, the main difficulty in contemporary economics, mainstream or revisionist, is its neglect of social structure. Even so, he is not entirely negative about the discipline. In contrast to many economists' conception of rationality, however, he sees such goals as sociability, approval, status and power also as "rational" (GRANOVETTER 1985, 506). "Insofar as rational choice arguments are narrowly construed as referring to atomized individuals and economic goals, they are inconsistent with the embeddedness position

presented here. In a broader formulation of rational choice, however, the two views have much in common" (GRANOVETTER 1985, 505).

In brief, the above line of argument is what has aroused so much interest in the notion of embeddedness since the mid-1980s. GRANOVETTER's article was a well noted contribution to research on the social nature of economic life. Yet GRANOVETTER does not say very much about the "contents" of embedding (FRIEDLAND a. ALFORD 1991, 254). Indeed, the article is very vague about the precise meaning of the notion although the repeated reference to it suggests that the notion of embeddedness was thoroughly analysed and defined in the article. In essence, it was a programmatic statement concerning the need to take social relations seriously in analysing economic institutions and understanding economic behaviour (cf. GRANOVETTER 1985, 506–507). It is more an exploratory essay rather than a fully developed argument. This view is confirmed by the later and still ongoing attempts by GRANOVETTER himself, and others, to articulate the very meaning of embedded economic action (see, e.g., ZUKIN a. DiMAGGIO 1990; GRANOVETTER 1992 a, b, forthc.; GRANOVETTER a. SWEDBERG 1992; GRABHER 1993). The notion of embeddedness can also be seen as having been introduced as a tool in a campaign by economic sociologists (along with heterodox economists) against the hegemony of mainstream economics and related approaches with their limited assumptions about isolated "economic action" in an isolated "economy". The full potential and significance of the term is still in the process of being explored.

3 "Embeddedness" in the geographical literature

A brief review on the usages of embeddedness in recent economic geography literature shows that differing interpretations exist. In DICKEN and THRIFT's (1992, 287) view: "Business organizations are [...] 'produced' through a complex historical process of embedding which involves an interaction between the specific cognitive, cultural, social, political and economic characteristics of a firm's 'home territory' [...], those of its geographically dispersed operations and the competitive and technological pressures which impinge upon it."

We may interpret this as these authors' wish to point out that firms are constituted by or operate under influences originating from various societal spheres as well as from the competitive situations in the particular environments in which they participate in

different countries and regions (this issue will be taken up again in Section 4.3).

While it is far from clear what embeddedness exactly means, it seems apparent from the above citation that it takes place as part of an historical process and in an interplay of both *active involvements* and *passive presences* in a variety of social relations. In consequence, one of the problems related to the notion of embeddedness is the fact that it seems to refer to all sorts of involvements of firms, their market and network relations as well as their broader societal relations. It seems to be used so as to capture all possible aspects in a firm's environment. This is why it is problematic: it encompasses too many things with the result of being ambiguous.

As a corollary, it has become commonplace, in the geographical literature, to use the term embeddedness as a general catch-word for things that are not thought through very carefully. MARTIN (1994, 43) argues that "constructing a contextual economics and economic geography, in which socio-spatial embeddedness is moved centre-stage [...] remains a key task", because "economic events are necessarily contextual, that is embedded in *spatial* structures of social relations", and thus, "our explanations should seek explicitly to incorporate this fact" (MARTIN 1994, 42; emphasis added). To MARTIN, an economic geographer, embeddedness is inherently spatial. Yet, as in most cases, the very meaning of 'embeddedness' is not discussed – regardless of the centrality that it is given in future economic geography.

According to MARKUSEN (1994, 483), "[a] key feature of the recent debate is whether firms have needs and loyalties which keep them anchored in the region [...]. Central to the affirmative answer to this question is the notion that firms are embedded in local relationships – with competitors and suppliers in particular." This formulation refers specifically to economic linkages only (as in any traditional linkage study).

DICKEN, FORSGREN and MALMBERG (1994, 38) state that "[from] an economic perspective, probably the most important single indicator of local embeddedness relates to supplier relationships." This can be read in different ways. First, it can be read as saying that embeddedness is just the fact that linkages exist. We may dismiss this interpretation because it would not increase our understanding beyond what is traditionally understood by economic linkages. Second, it can be read as saying that there is something called embeddedness involved in supplier relationships. Third, it can be read as saying that supplier relationships can be regarded as an indicator of something

that is called local embeddedness. None of these readings tells us what embeddedness is.

For HARRISON, discussing "the theory of industrial districts" (HARRISON 1992, 476), "[the] key idea that takes the construct beyond the range of previous theorizing in regional studies is obviously that of embedding" (HARRISON 1992, 478). Embedding, in his interpretation, is expressed in concrete situations where trust is nurtured through repeated contacts with third parties – in social clubs, churches, the advisory boards of local co-operatives and regional government agencies. Because of trust, firms are able to interpenetrate one another's formal organizational boundaries and engage in joint action (HARRISON 1992, 478). "[P]erhaps the most important net result of this embedding is the otherwise paradoxical combination of co-operation and competition" (HARRISON 1992, 478). Thus, trust is a key element in embeddedness, and in the causal chain that runs from "*proximity to experience to trust to collaboration [and competition] to enhanced regional economic growth*" (HARRISON 1992, 478). HARRISON echoes GRANOVETTER's (1985, 1992 a) lengthy discussion of trust (and malfeasance) in economic life. What HARRISON identifies as embeddedness is certainly an instance of action that is "embedded in concrete, ongoing systems of social relations" (GRANOVETTER 1985, 487) in a very Granovetterian sense. Basically, he gives an empirical illustration of what GRANOVETTER had in mind, and shows that embeddedness affects economic outcomes (cf. GRANOVETTER 1992 a).

AMIN and THRIFT (1994 b, 259) approvingly refer to a usage of 'local embeddedness' which highlights "the importance of a set of local institutions and attributes in capturing global opportunities with significant positive effects on the local economy, so as to avoid notions of bounded and internally integrated territories". Here, embeddedness is given a specific, loaded meaning. However, it is obvious that there is no definitional link between embeddedness and the competitiveness-inducing capabilities inherent in local institutions and attributes with the notion of embeddedness. This is not to say that certain capabilities would not follow from embeddedness (see the discussion on HARRISON's approach above). Many things can follow from embeddedness: also the very inability to capture global opportunities and the subsequent *negative* effects on the local economy may be grounded in the nature of local social relations.

Although GRANOVETTER's (1985) considerations do not license the idea that embeddedness refers to involvement in *local* social relations, economic geographers (and others) quite often seem to think so – explicitly or

implicitly – (e.g. DICKEN, FORSGREN a. MALMBERG 1995; KRISTENSEN 1994, 305; SAXENIAN 1994; HARRISON 1992, 478; ASHEIM 1995, 22; TÖDTLING 1994; 1995, 187, fn 8). Others regard embedding as something that takes place at the national scale (e.g. ZUKIN a. DiMAGGIO 1990; KRISTENSEN 1995; KENNEY a. FLORIDA 1993, 46–47). It may have been natural, for geographers, to add this notion to the host of concepts that are used in the context of discussing the local – and its relation to the “global”. It may also be related to the importance that is given to local scale (face-to-face) interaction: “The nature of human activity is such that local-scale interactions are the most frequent and the most meaningful. Despite the presence of long-distance interaction, most contacts, especially of an informal nature, are within a short radius of one’s home base” (MALECKI 1995, 118–119).

In the allegedly globalising world of annihilated space and time, and amidst all the related academic and non-academic rhetoric it is somewhat difficult to see why we should think of embeddedness as a local phenomenon only. Yet, the possibility of non-local embeddedness, to my knowledge, has been mentioned in passing only by a couple of researchers (MARKUSEN 1994, 483; 1996, 305; PARK a. MARKUSEN 1995, 82). Let us return to this discussion in section 4.3.

4 *Elaborating on ‘embeddedness’*

It is obvious from the discussion so far that ‘embeddedness’ should not be used as a concept with a clear-cut meaning and with a meaning that was proposed by GRANOVETTER (1985). In the subsequent literature, the issue of embeddedness does not tend to be discussed thoroughly. A lot is implicitly assumed rather than being explicitly discussed and clarified. This ambiguity is well evident in the contemporary usage of the term. Any interpretation seems to be legitimate. Of course, the term can be used in whatever meaning one pleases but it renders the term useless. The Granovetterian attempt at a critical usage is forgotten and the discussion is not advanced because we lack an accurate understanding of what is at stake.

Confronted with these problems, one strategy could be to reject the term altogether. Yet, many people use it and there seems to be something important they wish to communicate with it. It therefore seems worthy to look in some more detail how far the notion takes us in understanding the multitude of forces structuring economic action. In spatial analysis, there is a need to acquire further understanding on what it means for firms to be embedded in different ways in

different social and spatial contexts and about the complex processes through which the evolution of localities and regions are tied together with that of their firms. For that purpose, we have to deal with the question of what is involved in the “embeddedness relation”. Let us try to make piecemeal progress by elaborating on the basic elements involved: actors, embeddedness and social relations.

4.1 *Actors*

GRANOVETTER largely leaves open the question of how actors should be conceived of. Without engaging in a conceptual elaboration on ‘actor’ or ‘action’, let it be just noted that actors may be individuals – chief executive officers, middle managers, workers, financial advisors. But we can apply the notion of embeddedness to collective actors as well – a firm, a unit of a firm, a (relatively coherent) network. The embeddedness of firms has been recently discussed by several authors (GRABHER 1993; DICKEN a. THRIFT 1992; DICKEN, FORSGREN a. MALMBERG 1994; SALLY 1994). It has not been noted, however, that the embeddedness of firms in a region is often a result of a combination of individual and collective embeddedness. In order to really understand strategic decisions made in a firm and their outcomes, we should understand the personal embeddedness of key actors and decision makers (owners, managers and various employees) as well as the embeddedness of a firm, as a collectivity, in its external environments.

4.2 *Embeddedness*

The Oxford English Dictionary (1980) gives the following explanation on the verb “embed”: “To fix firmly in a surrounding mass of some solid material.” This very dictionary entry has an interesting feature in the context of our discussion. Both “fixed firmly” and “solid material” give an impression of a steady situation where the thing that is embedded is identifiable separately from the surrounding material or substance and remains that way just because it is “fixed firmly” and because that material is “solid”. No chemical reactions seem to be taking place, no change seems to occur. In social analysis it is difficult to think of social action being “fixed firmly” or being fixed in “solid” social relations. Thus, this verb which is originally used in discussing the physical reality does not seem to be directly applicable in describing relations in the social reality. This might have contributed to the difficulty in understanding clearly the meaning of “the embeddedness of the economy”.

Even though it must be seen as a *metaphor* it is a term somewhat problematic in the social context.

Even though it is not part of the meaning of "embeddedness" we have to keep in mind that through their involvement in social relations, actors themselves participate in constituting those very social relations; their action (at least potentially) affects the way their respective social relations are or the way they turn out to be. In discussing oversocialized conceptions of how society influences individual behavior, GRANOVETTER (1985, 486) points out that "[m]ore sophisticated (and thus less oversocialized) analyses of cultural influences [...] make it clear that culture is not a once-for-all influence but an ongoing process, continuously constructed and reconstructed during interaction. It not only shapes its members but also is shaped by them, in part for their own strategic reasons." This formulation resembles GIDDENS' (1979, 1984) structurationist ideas that were spreading across the social scientific research community at the time of GRANOVETTER's writing - and does not give an impression of action being "fixed firmly" in anything "solid".

Critical reactions to the careless usage of "embeddedness" seem to be emerging. AMIN and THRIFT (1994, 259) note that the "economic is too often seen as a separate sphere which is then, in some sense, institutional, collectivized, embedded in the social". Such a misguided usage of the metaphor, in their view, is "in danger of reproducing the split between the economic and the social that its usage was intended to avoid". Continuing on the same theme THRIFT and OLDS (1996, 314) note that seeing "the economic as simply 'embedded' in the social" was "a favourite metaphor of an earlier phase of economic sociology". "Earlier phase" here is clever rhetoric but neither the "earlier" (actually dating just a few years back) nor a more recent phase seems to have been able to clearly express what was meant by embeddedness. In THRIFT and OLDS' view, work that stresses "the importance of the construction of trust in economic interaction which is realized through networks of personal contact" - also central in GRANOVETTER's (1985, 1992a) discussion - "sees the economic and social as inextricably intertwined, unable to be separated off from one another". Even though this is a very brief passage and the intention of its authors is not to engage in a deep discussion on embeddedness, a brief commentary seems to be helpful here. "The economic" might have been seen as embedded "in the social" by some authors (no references are provided here) but this is not exactly what GRANOVETTER said; he did not refer to spheres of societal life in this manner. He was care-

ful to argue merely about the need to acknowledge embeddedness "in concrete, ongoing systems of social relations" (GRANOVETTER 1985, 487) - to affirm that action should be neither over- nor undersocialised. This is different from saying that "the economic" is embedded in "the social". Furthermore, even though "the economic" and "the social" seem intertwined and inseparable from one another empirically, it does not mean that we could not and should not analytically separate "the economic" from the rest of what is social, even though it might be difficult in some instances. Let us maintain a separation between the complex and confusing real world and conceptually clear analysis (where the latter is supposed to assist in figuring out the former).

There seems to be a need to clarify different dimensions of embeddedness. ZUKIN and DiMAGGIO (1990, 15-22) make a distinction between "cognitive", "cultural", "structural" and "political" embeddedness, but it is difficult to regard these kinds of embeddedness as distinct precisely because they represent different dimensions. Whereas cultural and political embeddedness seem to refer to *aspects* of social relations, structural embeddedness relates to the *level* on which those relations are analysed. The *cognitive* dimension is probably involved in all embeddedness relations. Similarly, the ever-present *spatial* dimension can be added to the list.

It seems evident that becoming embedded (or embedding, embedment) as well as sustaining embeddedness is a process (of longer duration). Thus, the embeddedness of actors varies in strength (HARRISON 1992, 479; cf. SALLY 1994, 169-170). GRANOVETTER (1985, 491) already noted that "networks of social relations penetrate irregularly and in differing degrees in different sectors of economic life", and later identified a "weak" and a "strong embeddedness position" in the literature (GRANOVETTER 1992a, 27-28). In terms of measurability, "weak or strong embeddedness" may not be easy devices (cf. GRANOVETTER 1992a, 51-52, fn 4) but we certainly need (to develop) an understanding of the "strength" or "importance" or "penetration" of embeddedness which may be of different degrees. This is so because of the following two points. First, actors may be embedded in several (spatially and socially distinct) sets of social relations simultaneously. Second, because of multiple embeddings, some sort of hierarchy is likely to exist between them from the point of view of a particular actor. As a consequence, some embeddings are more consequential for their action than others. This might be a result of tradition (related to cultural familiarity), choice (based on,

e.g., preferences concerning cultural domains or political inclinations), or economic necessity (caused by resource dependencies). Especially in the case of conflicting embeddings, actors tend to make conscious or unconscious choices concerning their significant embeddings. In the case of firms, their relative resource dependencies may dictate such choices. Yet, different embeddings may also be congruent, support each other, as in the case of multilocal firms that are strongly embedded in both extra-local and local relations.

4.3 Social relations

In his 1985 exposition, GRANOVETTER is rather unspecific as to exactly what economic action is embedded in. It is not self-evident which is the *level* on which social relations should be analysed. Based on his reading of GRANOVETTER and SWEDBERG (1992), INGHAM (1996, 266) regards the new economic sociology as "indistinguishable from the 'social relations/embeddedness' approach". He understands their "almost exclusive emphasis on social networks" as including only 'micro' or interpersonal social relations " - that is [. . .] face-to-face interaction", which excludes considerations on large-scale social systems (INGHAM 1996, 267). Early on, however, GRANOVETTER referred to "concrete personal relations and structures (or 'networks') of such relations" (1985, 490), to "systems of social relations" (GRANOVETTER 1985, 487), to "social structure" (GRANOVETTER 1985, 506), and approved to a characterisation of culture as "an ongoing process, continuously constructed and reconstructed during interaction" (GRANOVETTER 1985, 486). Undoubtedly, he did not make clear distinctions between the levels on which he viewed the systems he discussed - but he did not exclude large-scale systemic considerations.

Cognisant of the need to clarify his position, GRANOVETTER (1992 a, 33) refined his view: "'embeddedness' refers to the fact that economic action and outcomes [. . .] are affected by actors' dyadic (pairwise) relations and by the structure of the overall network of relations". He adheres to the "micro-foundations" of broader phenomena: "The economic action of individuals may at times accumulate in ways that result in larger outcomes or what we call 'institutions'" (GRANOVETTER 1992 a, 36). Accordingly, he suggests a distinction between *relational* and *structural embeddedness* (GRANOVETTER 1992 a, 34-35) - which is a clarification on the issue of which level embedded social relations can be analysed on.

Apart from identifying the level, it is also important to distinguish the scale of relevant social relations.

It was mentioned in Section 3 that there does not seem to be any reason to view embeddedness only as a local (or national) phenomenon. Social relations, in business and otherwise, with varying strengths and intensities, extend over longer distances, too. Extra-local involvement in social relations may have different forms than a local one but it may be called embeddedness nevertheless. It does not seem necessary to regard constant face-to-face interaction as a decisive condition for embedding to happen; social relations may be based on proximities other than physical ones. However, face-to-face interaction is not likely to be absent in non-local embeddedness: we only have to think, e.g., of the share of their work time that managers and professionals with expert knowledge spend traveling. Actors' being embedded in social relations on different spatial scales may be called *spatial embeddedness*.

Much remains to be understood concerning the *aspects* of social relations that give rise to the attributes, such as cultural and political embeddedness of firms. Increasing attention is being paid to both the cultural (e.g. MALECKI 1995; SAXENIAN 1994; SCHOENBERGER 1994, 449) and the political (e.g. DICKEN 1990, 241-242; COX 1991, 304) issues in economic geographical research.

Political embeddedness for ZUKIN and DiMAGGIO (1990, 20), refers "to the manner in which economic institutions and decisions are shaped by a struggle for power that involves economic actors and nonmarket institutions, particularly the state and social classes". Besides analyses at the level of the nation state, the discussion in economic geography over the recent years directs our attention also to informal political relations and practices at the local scale: the political action of individual actors as well as various sorts of local coalitions in securing interests in processes of local development, and the resultant local power structures.

Similarly, in the case of *cultural embeddedness*, ZUKIN and DiMAGGIO (1990, 17) "refer to the role of shared collective understandings in shaping economic strategies and goals" in general and at the national scale. Distinct cultures can also be identified at different spatial scales, and they may affect economic outcomes. SAXENIAN (1994), e.g., is emphatic about the significance of region-specific cultures in accounting for differences in industrial practices and competitiveness in different regions. And even in regions, we may detect differences in general regional cultures, regional industrial cultures, and organisational cultures (OINAS 1995 c) which can all be analysed in their own terms.

A set of social relations may become rigid due to its respective actors' strong (or "deep" or "intensive") embeddedness in it such that it is not easy to change such a social structure. Culture can be regarded as an example of this; it is not easy to change, it tends to persist, it is taken for granted. This idea applies also to a local political "system", especially when relatively stable power relations support it and when they are culturally legitimized. Embeddedness seems a useful notion in pointing at the need to take into account the cultural and political aspects in firm-environment relations. In arriving at those aspects, however, it remains hollow. We obviously have to borrow from political theory and cultural studies to understand political and cultural embeddedness.

In the process of embedding, firms acquire characteristics that make them "fit" into their local – or wider – environments and, as a consequence, they are able to operate smoothly with the environmental actors. Such smoothness of interaction may serve as a resource for them, sometimes in the form of collectively coordinated action (as is typically depicted in the Third Italian cases). However, embeddedness may also equip firms with incapacities ("lock-in" in established ways of doing things which inhibit learning and the (re)creation of capabilities in new competitive situations).

However, neither social relations nor the embeddedness of actors need to remain stable. They may change because of restructuring taking place either within the firm or the environment. One of the challenges of the embeddedness approach seems to be to understand embeddedness and dynamics, a necessity when studying concrete firms in localities or regions.

5 Meagre conclusions, hefty challenges

Far from being a fully developed concept, "embeddedness" remains a vague and undeveloped notion. GRANOVETTER, no doubt, contributed to the discussion of the under- and over-socialized notions of action, and to the critical discussion on OLIVER WILLIAMSON's version of new institutional economics. Yet, his seminal article set out a research programme rather than clarified "the embeddedness relation". The meaning of 'embeddedness' remains to be specified.

On the one hand, embeddedness may be regarded as just another fashionable and oft-cited buzzword, bound to wear out, and become forgotten. On the other hand, and according to the treatment of 'embeddedness' in this article, even if it were just that,

it would have served a purpose in the current discussion by directing attention to unresolved issues important to our discipline. The idea of embeddedness is an attempt to better understand those aspects in firms' external relations that cannot be captured by traditional concepts. They tend to be the "soft" items that escape direct measurement. They are difficult to grasp even in qualitative analysis because they are often "taken for granted" by actors and, thus, tend to feature only indirectly in actors' own accounts. Nevertheless, they may affect the competitiveness of firms and the development of regions. These are issues that are not conceptualised very well to date.

If we wish to continue to use the concept of embeddedness, its meaning will have to be specified more accurately. We need to understand the various ways in which firms as collective actors and various individuals or groups of them are embedded, and the ways in which these different embeddednesses are related to each other and to economic outcomes, both at the level of firms and their spatial environments. We need to understand the degree to which firms' embeddedness in local social relations enhances or hinders processes of change in both firms and in their local environments. Similarly, we need to understand the degree to which extra-local embeddedness of firms encourages economic development in some cases, and inhibits it in others.

Regardless of the need to create penetrating concepts and ponder on theory, theorizing cannot be done in isolation from what goes on in the real world. Empirical studies are needed, to open up the richness of "embeddedness" in comprehensive studies on the firm and its external relations in specific contexts. We need to analyse forms and degrees of embeddedness in different kinds of firms in different regions. Such studies complement linkage studies and other more "strictly economic" analyses of firms as agents of change in processes of regional development. Such analyses should also be carried out over time, in dynamic analysis, to reveal the processes through which economic action and outcomes are affected by "embeddedness".

In conclusion, even though this paper only provided a few steps towards understanding "the embedded firm", it shows that a multitude of aspects are involved in what is presently often casually referred to as "embeddedness (GRANOVETTER 1985)". These aspects have to be considered in future development of the *concept* of embeddedness, even if the *term* itself wears out before its meaning has been thoroughly grasped – which often happens in economic geographers' discourses. This might be a consequence of the

embeddedness of academic inquiry in social relations in which fashion shapes action.

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