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Embeddedness as a multilevel problem: A case study in economic sociology

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ABSTRACT

Economic sociology has established the interdependencies between economic and social structures using the notion of embeddedness of the former in the latter. However research usually studies inter-organizational commercial networks and inter-individual informal networks separately. In this article we use a multilevel framework to analyze jointly economic networks between firms and informal networks between their members in order to reframe this embeddedness hypothesis. Based on a network study of a trade fair for television programmes in Eastern Europe we show that while each level has its own specific processes they are partly nested. Beyond this result, we observe that these levels of agency emerge in different contexts and in different temporalities. To conclude, we show that in order to understand performance on a market one needs to look at this dual positioning of individuals and organizations.

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Globalized markets require long distance partnerships between companies, “global pipelines” as [Bathelt and Schuldt \(2008\)](#) call them. But what kind of relationships represent these partnerships? Behind each partnership between companies there are always inter-individual ties ([Gulati, 1995](#)). If a partnership between two organizations necessitates inter-individual collaboration at the beginning of a contracting process between companies, the more a partnership is repeated between two companies, the more it breaks away from the inter-individual relationship to become an inter-organizational tie that does not need specific acquaintances between its members ([Lorenz, 1999](#)). In order to understand how international ties are created between companies one should study the coordination and the complex interdependencies between these two kinds of actors and these two levels of actions: individuals and organizations.

[Granovetter's \(1985\)](#) article on embeddedness is famous for asserting at a high level of generality that economic phenomena take place in social structures and are shaped by social networks. Individuals do not act as atoms in social life, their behaviour is not entirely defined by macro-structures, and their actions depend on a relational context. In the area of economic

sociology, research has exposed the importance of social networks in markets, indicating the relevance of relational structures for the emergence of economic activities (for state of the art syntheses, see for example [Granovetter and Swedberg, 1992](#); [Brass et al., 2004](#)). Many have also questioned the value of such a general notion of embeddedness of economic activities in social structures (for example [Burt, 1992](#); [Swedberg, 1997](#); [Lazega, 1996, 2001](#)) in order to go beyond a mechanistic interaction between these kinds of relationships. Depending on the level of analysis, two approaches can be distinguished. One focuses on interorganizational networks, showing, for example, that companies are embedded in a web of commercial relationships but also of alliances and business partnerships that affect their performance, success or chances of survival ([Powell, 1996](#); [Powell et al., 2005](#); [Uzzi, 1996, 1997](#)). Another approach studies informal relationships such as friendship, advice, information exchange or collaboration between entrepreneurs at the inter-individual level ([Krackhardt, 1994](#); [Ingram and Roberts, 2000](#); [Lazega and Mounier, 2002](#)). Such approaches intend to reveal informal social structures to underline the role of social resources and social capital in economic activities. In most handbooks in economic sociology or social network analysis (for example, [Smelser and Swedberg, 2010](#); [Knocke, 2013](#); [Scott and Carrington, 2011](#)), inter-organizational and inter-individual networks are treated separately as if they were focusing on different topics. This separation is due to the fact that much of existing research in that area focuses only on one level of analysis at a time.

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Both approaches start with the same question: how do markets and economic activities work in practice? But by separating the two levels of analysis, particularly in a context of globalization of markets in which ties are long distance relationships, they miss the global process of emergence of economic activities and tie formation at each level (deal making for example). From our perspective economic activities and markets are influenced by both levels. A deal between two companies, which is an inter-organizational tie, depends on inter-individual relationships and vice versa. Economic relationships such as deals between two organizations and informal relationships between their members are interdependent. To explore this dual dimension, a multilevel social networks framework has been developed by Lazega et al. (2007, 2008). This approach is based on the study of multi-level networks observing two superposed and partially nested, interdependent levels of agency, an inter-organizational system of action and an inter-individual one.

Supposing that these levels are nested does not imply that they evolve symmetrically and in sync. As emphasized by Lazega (2012, 2013, 2014), the coevolution of two levels is complex, dynamic, and can be partly disconnected if not asynchronous—raising the issue of the costs of synchronization (Lazega and Penalva-Icher, 2011). This is a problem of agency, both individual and collective. Different levels may not evolve and change simultaneously. Structural organization of each level and attributes or context explaining tie formation at each level can be different. We argue that this is why a multilevel approach is an interesting point of view in order to reframe the issue of embeddedness. The challenge is to understand how social systems at both levels co-evolve and how actors at both levels coordinate to generate the socio-economic structure of the market. What specific multilevel social processes construct and explain the structure of an economic milieu?

Building upon this framework we study network formation at each level of a specific market. We show that inter-individual and inter-organizational networks are partly interdependent but also that different processes emerge at each level. Our empirical case is a trade fair for television programmes in Eastern Europe. In this trade-fair sellers and buyers of TV programmes (distributors and TV channels) meet once a year to discuss contracts, make deals, keep informed about new films, series and game shows, and observe market evolution. We study informal exchange of information between trade-fair attendees and formal deal ties between their companies by examining network formation at each level. We find that these networks are heavily interdependent but that each level has its own specific processes. We emphasize that the contexts of tie formation between two organizations and two individuals are different in terms of temporality. We conclude by showing that, in spite of different temporalities, both levels coevolve nevertheless.

1. Reframing embeddedness as a multilevel issue

1.1. From embeddedness to multilevel hypotheses

Asserting that economic action is embedded in relational structure leads to an explanation of this embeddedness works. According to what can be labelled a “contractualist” approach (Powell, 1996, Powell et al., 2005; Uzzi, 1996, 1997) it is possible to reconstruct a deal network between a set of organizations to reveal the economic social structure of an industry or a market. Ethnographies of social interactions between market participants emphasize, for example, the need for trust to sign a contract (Uzzi, 1997). Such an approach only focuses on one kind of relationship. But, embeddedness assumes the existence of at least two kinds of relationships: economic and social. Following the work of Granovetter (1973, 1985) some researchers have developed

multiplex models which include both kinds of relationships (for example Mizruchi and Stearns, 2001). From this perspective, only one kind of actor is examined, either individuals or organizations, in our terminology one level of action. From our perspective, it can be helpful to consider two categories of actors: individuals (with social relationships) and organizations (with economic relationships).

In our proposed reframed embeddedness approach, the organizational level is more than an organizational contextualization of inter-individual action, as in traditional multilevel statistical approaches (Bryk and Raudenbush, 1992; Goldstein, 1995; Snijders and Bosker, 1999) or in social network multilevel analysis of Snijders and Baerveldt, 2003 or de Miguel Luken and Tranmer (2010). It is constituted by actors who act and create a context for their own actions and individual interactions. This conceptual position can help in exploring the emergence and functioning of a market. Indeed, an organization should not be conceived as a unified and homogenous social object, but as a social system built collectively by a heterogeneous set of individuals (Crozier and Friedberg, 1977; Friedberg, 1997). A deal between two companies can be looked at as a set of relationships between individuals. Let us imagine two organizations of significant size in a market, represented respectively by a sales manager and an acquisition manager. These two individuals have the opportunity to meet and agree on the object of a transaction, the main aspects of the contract, and possibly the price. The contract will then be submitted to higher level management of their respective companies for approval. The legal department will define the details of the contract; the technical department will manage the dispatching of the object; the finance department will bill and track the payment; and so on. It will obviously be the same for the buyer's side. In short, once an agreement is reached between a buyer and a seller, organizational machinery is set in motion, and we are no longer able to assign this relationship to the sales and acquisitions managers. The personal relationship between the buyer and the seller does not disappear. These individuals will keep in touch. They initiated the contract and it is often likely that, if it were to be renewed, it would be at the initiative of one of them. However this relationship moves on to a different level and becomes inter-organizational because it involves other actors and their hierarchical organizations. In the meantime, this inter-organizational relationship could become a context for other members of both organizations to create inter-personal relationships – as described by concepts such as extended relational capital and embedded brokerage (Lazega et al., 2013). Therefore, it is necessary to keep and examine this duality between inter-individual and inter-organizational relationships in order to understand these transactions, to look at both levels in the same socio-economic space, without conflating them.

An organizational network cannot be reduced to the basic concatenation of the inter-individual network of its employees, especially when looking at international corporations. Indeed, in such organizations, decision-making processes and information circulation are very long and involve different persons. In addition, it is often difficult to identify who represents the organization for a specific task. One of the contributions of intra-organizational network analysis is precisely to try to reveal the informal structure behind the formal organizational chart (Krackhardt, 1994) and to specify the social processes characterizing this organization as a social milieu (Lazega, 2001). Such processes streamline individual action and show that the inter-organizational milieu represents a specific level of collective action (Lazega, 2009; Lazega and Penalva-Icher, 2011).

By taking into account together or separately different levels of analysis and different kinds of relationships, we can define different levels of complexity of what could be called the “embeddedness hypothesis” that represents each level with its elementary structural unit. Fig. 1 summarizes these different hypotheses. In this

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