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"Social Embeddedness" Viewed from an Institutional Perspective

Revision of a Core Principle of New Economic Sociology with Special Regard to Max Weber

Abstract: Starting by the very fact that Mark Granovetter's notion of "social embeddedness" became very successful by establishing new economic sociology in the 1980s yet it is argued that current economic sociology needs to work on a stronger connection to institutional arguments. It is shown that this can be based on new theoretical developments by linking micro and macro level. This article reconstructs Granovetter's attempt of working within an action-based framework that has strong ties to the work of Max Weber as well as to some parts of new institutionalism. The particularity of Granovetter's approach is seen in his assumption that individuals' interests as well as their economic actions are socially embedded in "networks of social interactions" that influence the economic outcome. With regard to Max Weber and new institutionalism, it is then argued that Mark Granovetter omits to carefully consider both firstly how mutual expectations defined within social relations are affected by more general social expectations (the institutional framework) and secondly what kind of coordination problems are precisely solved by social relations through information or expectation. But this would be important for a more complex and more realistic picture of economy. Therefore, it is recommended to analyze the interplay of different social mechanisms—social capital, trust, legitimacy, hierarchy, social entrepreneurs—that work either through information in a network, group norms or generalized expectations in an wider institutional framework. In conclusion, a methodological suggestion is made by combining historical-empirical work with theoretical arguments.

Keywords: Mark Granovetter, social embeddedness, institution theory, social institutions, social action, methodological individualism

Introduction: The Problem of Coordinating Individual Actions

The spectacular revival of economic sociology at the end of the 20th century is founded in new theoretical developments. Since the 1970s, it became more and more obvious that neither functionalistic arguments following Parsons and Durkheim nor pure micro theories like exchange theories would be able to provide proper insights into social mechanisms.[1] Classic sociology assumes that social integration needs to be based in

[1] At this time, because of the influence of Talcott Parsons and Neo-Marxism, only few sociologists used an action-based approach and analyzed institutions from an individual point of view. It is only since the 1980s that Max Weber was rediscovered for his attempt to start sociological explanations by understanding and explaining individuals' actions (Swedberg 1998; Norkus 2000; Maurer 2010) and to work within "methodological individualism" (for a definition, the core principle, and recent developments see Udehn 2002).

value consensus and thus institutions are to be viewed as functioning by intrinsic motivation and social sanctions. On the other hand, standard economic theory neglects social institutions by arguing that markets spontaneously provide the best outcome. Consequently, until the end of the 20th century, sociology missed out on individuals' decisions, beliefs, attitudes, and actions when it came to institutions. Neither did sociologists discuss how individuals create, maintain, and transform institutions nor how core economic institutions—like the firm, market, entrepreneurship, industries, business regions, or money—emerge and function. Within sociology, the institutional framework of capitalistic economies disappeared nearly completely.

The picture changed in the 1980s when the critique on pure macro theories as well as on pure micro theories led to the development of multi-level explanations that link assumptions on the individual level as well as on the social level. By doing so, individual and social factors explain social phenomena. Since then, various multi-level explanations within the framework of "methodological individualism" focus on the question of coordinating individual and social actions by defining and stabilizing *mutual social expectations* in both the social and the economic sphere. It is worth to state that methodological individualism has a very long tradition dating back to Adam Smith, John Stuart Mill, and David Hume who share the position that social integration as well as economic wealth should be explained in terms of individuals. "The starting point for the individualist paradigm is the simple fact that all social interactions are after all interactions among individuals … but each acts within a range limited by the behavior of others." (Arrow 1994: 3) Max Weber adopted methodological individualism from economics, but suggested a weaker version for sociology that combines socially institutionalized situations and individuals' actions within the "explanans." Max Weber—and later also Karl Popper[2]—proved to be most important for methodological individualism in sociology by adding an institutional perspective. Max Weber completely rejected "collective concepts" because in his understanding only individuals can act meaningful. Therefore, sociologists have to try to understand and explain individuals' actions as the very foundation of social explanations: "Sociology … is a science concerning itself with the interpretive understanding of social action and thereby with a causal explanation of its course and consequences" (Weber 1978: 4). According to Weber, the challenge of sociology is not so much the explanation of individuals' actions, but the analysis of the conditions that help mutual expectations to obtain validity and thereby support social actions and relations. The underlying social mechanisms then positively affect the economic and the social sphere. This enables sociologists to view economy and society in one framework.

New economic sociology is extensively inspired by methodological individualism, especially by its weak versions (Granovetter 1990a, 36; 1985, 482). In this perspective,

[2] Karl Popper added that individuals' aims, beliefs, expectations, and actions can and should only be explained as rational with regard to a socially institutionalized context. "The main alternative to psychologism is institutionalism, or the claim that the actions of individuals cannot be explained without reference to social institutions" (Popper 1966 [1945]: 90). In the 1970s, more and more social scientists tried not only to explain social institutions in terms of individuals, but also tried to put social institutions in the explanans and thereby initiated an important development in "methodological individualism"; the later position is called "institutional individualism" (see Agassi 1975; Udehn 2002).

social relations—similar to institutions—are interpreted as social mechanisms that help co-orientating or coordinating individual actions. In the 1980s, great efforts were made to view social relations neither as value-based nor as functionally founded. Social expectations should no longer be viewed as “objective” to individuals, but as a result of individuals’ beliefs and desires. In critical response to standard economics—that use strong versions of methodological individualism and claim to explain economic phenomena by individuals’ choices under constraints—new economic sociologists link individuals’ belief systems and motives to social factors.[3] At this time, economic sociology benefitted from the fact that it was not only inspired by multi-level action-based models of explanation, but also by an idea that can be traced back to Max Weber; namely the idea that social expectations are not only to be interpreted in terms of constraints (opportunities and restrictions), but also in terms of individuals’ beliefs, motives (ideal and material interests), and capacities. Both arguments strengthen sociological explanations of economic phenomena by providing more realistic theses about how social expectations govern economic actions. Last but not least, the notion of “social institutions” might be the missing link between the “new movement of institutionalism in economic sociology” (Callon 1998; Nee 2005; Nee and Swedberg 2008; Maurer 2012), “trespassing” socio-economics (e. g. Hirschman 1980; 1986), and historians’ analyses of economic institutions (Polanyi 1971; Greif 2008).

Mark Granovetter, James Coleman, Harrison White and others rediscovered economy as an important topic within sociology by focusing on the need for mutual and socially defined expectations that influence the economic outcome in a positive way (by either substituting or supporting market exchange). Furthermore, in contrary to classic sociology as well as to standard economics, they claims that they could precisely determine the social mechanisms that enforce expectations within economic life.[4] Granovetter focuses on networks of social interactions that establish trust, commitment, or information and that help to reduce uncertainty. James Coleman, Harrison White, Richard Burt and others argue that individuals by using social rights or strategic positions in a rational way create and use “social capital” (see Portes 1998). In all these cases, social mechanisms work via individual actions and help to increase and improve economic actions, relations, and outcomes. By taking this into account, sociologists at the end of the 20th century managed to show the failures of economic theory as well as—and even more important—outlined the program of *new economic sociology* (see esp. Granovetter 1985; Smelser and Swedberg 1994; Maurer 2012). The core principle of new economic sociology—that covers different approaches (Swedberg 1990; Maurer 2012) despite the obvious dominance of Mark Granovetter—is to apply sociological concepts, methods, models, and perspectives to economic phenomena (cf. Smelser and Swedberg 1994, 9). Mark Granovetter’s success is strongly

[3] For example, the Chicago School and Gary S. Becker are purely individualistic. James Coleman’s social theory and his structural-individualistic program are to be regarded as an approach to take into account preferences and constraints (stratification of social rights, ideologies, and various institutions) as determinants of social behavior.

[4] The first reader edited by Mark Granovetter and Richard Swedberg was titled “The Sociology of Economic Life” (Granovetter and Swedberg 1992), whereas the later reader edited by Neil Smelser and Richard Swedberg is called “Handbook of Economic Sociology” (Smelser and Swedberg 1994).

related to his attempt to suggest networks as a specific sociological concept. Following Granovetter (1985; 1992a; b), the notion of "social embeddedness" is the very core of new economic sociology.[5] This means that economy should be regarded as "networks of social interactions." This idea was accompanied by "network analysis" as a method to empirically identify structures of networks and their effects in the economic field (Granovetter 1990b; 1992a; b; 2005b; for recent research see Scott and Carrington 2011). The widely neglected third element of Granovetter's program is the reading of economic institutions as "social constructions" (see Granovetter 1990a: 49; 1992b).[6]

This article aims to explore Mark Granovetter's adoption of methodological individualism in order to explain the emergence and the functioning of social institutions. I will also ask if the notion of "social embeddedness" is related to the classic work of Max Weber. Regarding this, I will offer four arguments. Firstly, I will summarize the main objections of the early new economic sociologists and present them as part of a paradigm shift in sociology. Then I will summarize the main arguments of Max Weber's work concerning the foundation of economic sociology by regarding institutions. Following this, I will reconstruct the conception of "social embeddedness" by focusing on Granovetter's critical remarks on the use of methodological individualism in economics and the underlying model of man. In other words, I will try to explore how Granovetter deals with the problem of more realistic assumptions on the level of individual action by using a weak version of methodological individualism. Furthermore, I will show that the notion of "social embeddedness" results in a highly restricted perspective on institutions. Lastly, I will discuss the notion of "social embeddedness" with special regard to Max Weber and his concepts of "social action" and "institutions." By doing so, I will argue that Granovetter's concept of institutions can be regarded as a part of Weber's argument. Therefore, it provides new insights into a specific process of institution building, but has to be expanded in order to enable a more complex understanding of economic institutions as "socially constructed."

New Economic Sociology: Social Networks and Institutions?

To relate "social embeddedness" and "institutionalism," it is important to keep in mind the central aim of new economic sociology in the 1980s: namely to explain and analyze core economic phenomena by using *sociological concepts* to thereby *improve economic theories*. To reach this goal, first of all, multi-level causal models and more realistic assumptions on the individual level should be used and developed (Coleman 1994; Granovetter 1985; Smelser and Swedberg 1994). In order to improve sociological arguments, the founders of new economic sociology—as well as theorists like Raymond Boudon, Anthony Giddens, or Pierre Bourdieu (Alexander et

[5] The increasing importance of Mark Granovetter is empirically illustrated by Convert and Heilbron 2007; the notion of embeddedness by Barber 1995 and—more critical—by Krippner et al. 2004.

[6] The history, the most important researchers, and the core assumptions of new economic sociology are well-documented; for the beginnings see esp. Granovetter 1990 and Smelser and Swedberg 1994, and for recent developments see Convert and Heilbron 2007 and Portes 2010: 7.

al. 1987)—made great efforts to analytically separate micro and macro level and to re-link individual and structural assumptions to explain social or economic outcomes (institutions, structure). Therefore, the very first step to develop a new agenda for economic sociology was to use, combine and broaden assumptions on both levels. An action-based approach can be more realistic, firstly, by broadening assumptions concerning individuals' motives and/or capacities; secondly, by using more realistic assumptions to describe the macro level (by relating to social, ideal, and material aspects of the situation); and thirdly, by not only focusing on equilibria as social outcome, but also on processes.

On the other hand, the newcomers had to compete with—first of all—neo-classical economics and new institutional economics. Economists have always tried to explain economy by focusing on individuals and their decisions; thus, they are well-trained in action-based explanations, but did not include social factors. However, in the 1970s, new economic institutionalism successfully started to integrate *social topics* and *factors* like hierarchy, culture, and networks. Granovetter once stated that economic theory managed to broaden its scope by narrowing the conceptual apparatus; respectively to reduce complexity by using strong assumptions (e.g. Granovetter 2002; 1990a: 94). In this sense new economic institutionalists started to regard "social relations" as structural property. They did so by describing "social interdependencies" as a failure of market competition and by interpreting them as control problems or inefficiency. New economic institutionalism views social mechanisms—first of all hierarchy and then also trust, norms, and culture—only as a way to reduce transaction costs. Contrary to this, new economic sociology draws a much more complex picture by using more realistic assumptions, especially on the micro level, and by taking into account social relations—and institutions. It is claimed that social factors can increase the efficiency of market coordination and support or substitute it. Thus, social factors are beneficial for the coordination of economic actions (Granovetter 2002; Hirschman 1980; Swedberg 2005a) in specific cases.[7] Very few scientists realized that this presumption requires a closer look on the method of using macro and micro assumptions and linking both levels. The strong analytical approach in economic theory is based on a well-fitted triangle: homo oeconomicus, perfect competition market, and marginal analysis. This means that economic theory normally uses a strong version of methodological individualism for instrumentalistic reasons. The assumption of given motives is the very starting point to translate social or economic structure into individual actions. The assumption of logically sorted preferences helps to explain the maximizing actions, to aggregate them afterwards, and to identify equilibria. Hence, to open up the assumptions on the micro and/or the macro level, one has to find new and more complex ways, firstly, to translate social structure into individual actions, and secondly, to translate individual actions into social or economic outcome (Knight 1995; Coleman 1994; Schelling 1978).

[7] But there have always been overlaps between economic and sociological theory (cf. Baron and Hannan 1994, 1132). And economists like Albert Hirschman (1977; 1986) also deal with open up assumtions on the micro level. Furthermore, Hirschman tries to explain how interests got so important and take a critical view on markets.

Therefore the *'newcomers'* in economic sociology were faced with two main problems: Firstly, they had to improve the long tradition of pure macro theories and normative concepts using the simple model of homo sociologicus.[8] Concretely, they had to develop sociological explanations by using assumptions on the micro level as well as on the macro level. Secondly, economic sociologists had to discuss the extent to which assumptions on the individual and/or the structural level could be formulated more realistically. This especially concerned the question of how to broaden the highly restricted models of homo oeconomicus and homo sociologicus. New economic sociologists, especially when coming from network studies, were prepared to deal with the mentioned problems. Therefore, they started to improve economic theory by concentrating on social factors as being beneficial in economic life by channeling individuals' *interests* and by supporting information (Granovetter 2005b; White 2001; Powell et al. 2005).[9]

The main problem that arose with the described paradigm shift was to clarify what assumptions could be used on both levels and how to link them in order to explain relevant economic facts. To pursue the overall goal of explaining economics more realistically, it was not enough to only substitute the models of *homo oeconomicus* and *homo sociologicus*. It proved necessary to combine them with more realistic and sociologically informed models of economically relevant situations. This can be done either by focusing on direct social relations, or by taking into account institutionalized social expectations. Both ways help to overcome the highly restricted economic model of perfect competition markets by emphasizing *social interdependencies*. In doing so, sociologists can either work by intuition or on the basis of institution theory as well as game theory. Both provide models of typical social interactions (see Granovetter 1990b: 103; Nee and Swedberg 2008: 808; Maurer and Schmid 2010: 90). This means they state, in which way individual actors have to take others into account when acting.

The revival of institution theory is based on the same main principles as economic sociology: on methodological individualism and on multi-level action-based explanations as well as on rejecting assumptions of pure egoism, utility maximization, and perfect rationality. And not least it is based on the argument that social institutions *can be* an important and beneficial framework of economic actions—but not *per se*. Institutions in this sense can be defined as general social expectations that gain empirically evident validity; not only in dense interpersonal relations, but also in situations predominated by impersonal relations—as it is mostly the case in modern society and economy (see Uzzi 1996; Nee and Swedberg 2008: 792; Maurer and Schmid 2010: 149; for different definitions see Portes 2010: 49). Mutual expectations generated within the networks of close-knit groups are regarded as a definition of specific expectations that define a particular relationship. Whereas, new institutionalism focuses on *general social expectations* that are also valid in large groups, formal organizations, or anony-

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[8] Mark Granovetter severely criticizes the old institutionalism for not being cumulative in theorizing; he further criticizes the "economy and society perspective" offered by Talcott Parsons and Neil Smelser for regarding economy as social subsystem (Granovetter 1990: 93).

[9] For critical remarks see Granovetter (1979).

mous settings. These general social expectations need specific social mechanisms that can be effective through networks, but mostly need to establish over time and space.

It is the main task of new institutionalism to ask how such general social expectations emerge and function. Therefore, most new institutionalists distinguish formal and informal institutions. A more complex explanation has to take into account that both need to be explained not only by those social mechanisms provided within in groups but also by more general social mechanisms like organizational patterns, conventions, entrepreneurs or cultural beliefs. Additionally, the extent to which institutions match individual interests and/or beliefs needs to be analyzed as well as the consequences of this (mis-)match for the maintenance and outcome of institutions. Formal institutions, on the contrary —like laws, taxes, or property rights—, can normally be regarded as defined and enforced by state government, by firm owners and shareholders (through property rights), or by collective decision. In this case, the focus is on the compatibility between formal institutions and economic needs or societal claims (see North 1990). The link between the different versions of new institutionalism and new economic sociology is the critique of classic sociology and its assumption that social institutions can be viewed as socially guaranteed either by valued norms or by their functions for the societal system. Hence, we can state that new institutionalism and economic sociology share the aim to provide proper arguments about the emergence or rebuilding of general social expectations. Both approaches converge regarding the explanation of economic institutions or the relationships between economic and societal institutions as well as regarding the description of modern society and economy as a specific institutional arrangement.[10] Four main lines of tradition can be distinguished within new institutionalism (see DiMaggio 1998; Nee and Ingram 2005; Maurer 2012: 86). Two of them are highly compatible with new economic sociology.

In its beginnings in the 1970s, new institutionalism was highly influenced by the work of Paul DiMaggio (who studied under Harrison White at Harvard—and so did Granovetter; see Convert and Heilbron 2007: 33). Paul DiMaggio—in line with his partners and followers—explains institutionalized formations, especially in organizational fields, in relation to collective patterns of legitimation. The core mechanism here is "isomorphism." Processes of adopting legitimate formations put forth unique patterns (in social, economic, or organizational fields) that are not shaped by economic efficiency. They either serve as justification or as relief of restrictions, like subvention or tax reduction.

Another main influence on new institutionalism was the ecology-population approach that also implicates a macro-predominance because of its main argument that the emergence of institutions like organization patterns depends on selection processes during evolution. Because of their "predominance" of macro aspects these theories did not gain much importance for new economic sociology. Instead, new economic sociology is related to those institution theories that explain the maintenance, the functioning, and the transformation of institutions or institutional pat-

[10] From an institutional perspective, the often-discussed gap between society and economy completely disappears, or at least can be discussed as a fitting or non-fitting relationship between two institutional arrangements (for this discussion see esp. Krippner 2001; Krippner et al. 2004).

terns—mainly in economy—as a result of individual actions *within* specific social contexts; namely the rational-choice influenced institutionalism (see Hechter et al. 1990) and the recently defined "new institutionalism in economic sociology" (Callon 1998; Nee 2005; Nee and Swedberg 2008; Maurer 2012). Despite all differences, these approaches share the goal to explain and analyze social institutions by examining (theoretically or empirically defined) social interdependencies that cause individuals to define and enforce social expectations.[11] The main problem of intentional actors in modern economy is to channel and thus to coordinate their interests; or in Granovetter's words, to reduce uncertainty related to the actions of others. New economic sociology and Granovetter's "embeddedness approach" differ in their use of methodological individualism, in the underlying assumptions on the micro level, and especially in their descriptions of the social sphere. In order to bring both approaches together—or at least to ask how new institutionalism can broaden new economic sociology—it is necessary to identify the social constellations that cause individuals to refer to mutual or social expectations established by networks of social relations or by general social institutions.

Whereas new institutionalists in the 1980s had a strong focus on organizations and hierarchical patterns, nowadays they pay growing attention to economic institutions like money, business firms, industries, EU-institutions, or financial markets. This shift of attention is bridging the gap between the two newcomers. Nonetheless, there is criticism within new institutionalism concerning Granovetter's notion of embeddedness, especially his restricted view on institutions as a result of social relations and his emphasis on empirical studies. "The definition Granovetter proposed … was not as far-reaching, but more immediately practicable. It was based on the practice of empirical research and was specifically focused on the social network approach, referring to 'socially located' actors and economic actions that can be explained only with reference to a system of relations of which the actors are a part" (Convert and Heilbron 2007: 48). Victor Nee and Richard Swedberg also criticize that Mark Granovetter is not paying enough attention to the relation of networks and social institutions, but simply counters the argument by asking for a "new institutionalism in economic sociology" that deals particularly with the interaction of close-knit group norms and institutions (Nee and Swedberg 2008: 801). The following paragraph considers the basic methodological position as well as the theoretical core elements in the work of Max Weber in order to highlight connections between economic sociology and institutional arguments.

Max Weber's "Institutional Approach"

In my opinion, new economic sociology can learn a lot by taking a *critical look* at the work of Weber whose rich work is not yet fully discovered. Weber is important for new economic sociology because of two reasons: The most important reason is

[11] What is particular to French "conventionalists" is to consider conventions as way to perform markets by making actions calculable (Callon 1998).

his methodological premise to explain social regularities (in terms of action patterns) from an individual point of view *and* by considering institutions at the same time. As is well known, Weber showed that Protestants following social expectations formulated by Protestantism have reinforced profit maximization, a systematic work attitude, professionalization, and a rational way of behaving and living in general. In other words, by examining cultural ideas that met the individuals' needs—spiritual orientation for modern bourgeoisie in the 17th century—Weber explained the widespread *rational patterns of behavior*.

These patterns of behavior changed the traditional way of living and working because they matched with the emergence of other social institutions, too. More precisely, Weber showed that a systematic way of life, a systematic work behavior ("calling"), and especially the legitimization of profit maximization became distinctive for modern economy and society because—along with other institutions like rational sciences, bureaucracy, nation states, etc.—they generated and stabilized core economic institutions: large privately-owned firms, mass markets, money, and property rights. In short, Weber explained how means-end rationality as well as profit-making were socially defined and hence now frame modern economy and society. These empirically based theses about individuals' motives and action orientations in combination with the description of a particular institutional constellation—consisting of firms, markets, money, and property rights—explain the high extent of expectations and rationalization in modern economy and society. It does not matter where the individuals' motives and action orientation originate. Crucial is, *what kind* of orientation and motives dominate and serve as a guideline for the interpretation of the situation. Weber's ideal typology of means-end rational, value rational, habitual, or affective orientation can help to identify the underlying mechanisms of specific action orientations: interests, values, habits, or emotions. A rational orientation has to be further distinguished between either material or ideal interests or values as causal factor of individual actions. Weber's advice is to start from the most precise but also most analytical description of means-end rationality. In case, that this analytical description cannot provide adequate explanations regarding a given social constellation, one can broaden the description and be more realistic by explaining actions with regard to values or habits.

Thus, it is important to have empirical theses about the nature of the action orientation and the interests or values that are dominant in a certain social situation. The mere fact, that these are socially constituted is not enhancing our knowledge. What really matters is to have a thesis about the types of interests that are dominant and whether actors know how to realize them or not. With reference to Weber, we can understand the very starting point of economic sociology as follows: "'Economic action' is any peaceful exercise of an actor's control over resources, which is in its main impulse oriented toward economic ends" (Weber 1985 [1922]: 63). Hence, within the institutional frame of modern economies, rational actions in economic fields either produce *scarce goods* in order to make *profit* or buy them in order to maximize *consumer utility*.

Based on this, Weber defined a problem-oriented perspective in a separate step. Presupposing that sociology deals with social action, he stated that expectations become essential for *means-end rational actors* when the success of their actions depends on the actions of others. In this case, social institutions become beneficial if they define mutual expectations. Weber argues that institutions of modern capitalism provide the highest level of rationality because privately-owned firms and mass markets make actions highly predictable. Thus, they also make production and distribution more rational than ever before because the owners of private firms need to calculate their investments and their profit chances.

This implies that the main concern of economic sociology according to Weber is not to discuss the means-end orientation, but to analyze to which extent it is supported by specific social institutions. More precisely, we can now state that Weber favors the use of economic sociology to analyze which socio-economic institutions support profit-making in modern economies by making individual demand predictable. Weber discusses institutions as helpful to individuals because of their ability to increase the predictability of social actions. Big business firms and mass markets are helpful for *economically oriented actions* because these institutions support *rational calculation* and therefore *increase the rationality* of economy. Weber's methodological premise is to identify "elective affinities" [12] that explain the dynamics of specific institutions that brought up modern capitalism through a rapid change of the old institutions.

The Notion of "Social Embeddedness" by Mark Granovetter

Core Principles

Granovetter was one of the first who stated that the main challenge for economic sociology is to explain economic phenomena by taking into account social and individual aspects. [13] The notion of "social embeddedness" must be regarded as an explicitly action-based approach of new economic sociology. I will reconstruct Granovetter's agenda for new economic sociology by distinguishing three concepts and levels: a) economic action (micro level), b) social embeddedness (macro level), and c) socially constituted economic institutions (macro level). The reconstruction of the core principles will lead to a general conclusion that highlights main implications that are important from an institutional point of view.

a. Action-based Foundation

Granovetter founds his work on fundamental criticism concerning the economic and sociological model of man. Firstly, he criticizes the "clean models" used in standard economics. Those models assume homo oeconomicus to act rational, selfish, and

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[12] The term "elective affinity" within the work of Max Weber is used to explain social change or processes of institutionalization by taking into account different social factors that are not causally related, but reinforce each other and thus pave the way for new behavioral patterns ("Begünstigungskonstellationen," "Wahlverwandtschaften"); for example the interplay of interests and ideas in the Protestant Ethic. The English term was taken from Swedberg (2005b: 83).

[13] For applications see Uzzi (1996) or Hollingsworth and Boyer (1997); for applications of the "embeddedness approach" in other disciplines see Hess (2004).

atomized on markets by only taking into account prices as his or her decisions are concerned. It seems to me that Granovetter does not deny the importance of analytical reduction, but rejects the "unrealistic" abstraction in standard economics.[14] Secondly, Granovetter separates his work from previous sociological traditions, especially that of Talcott Parsons, by criticizing the oversocialized model of man. "In the undersocialized account this atomization results from the narrow pursuit of self-interest; in the oversocialized one—which originated as a corrective to the undersocialized one—atomization results nevertheless because behavioral patterns are treated as having been internalized and thus unaffected by ongoing relations." (Granovetter 1992a: 30–1) His main concern is to establish new economic sociology in a way that links purposeful actions and social relations. Therefore he assumes that economic action is the result of intertwined motives: economic and non-economic ones, but generally purposeful. Granovetter refers to the idea of early "individualists" that individual interests (social, material, or ideal) are the main cause of individual actions and thereby constitute social structure in a broader sense. Whereas standard economists work with the assumption of given economically-oriented interests, Mark Granovetter wants to explain interests as socially defined and of economic as well as non-economic nature.[15] To Granovetter, social relations matter in economy because they serve 1) as a social framework defining constraints for individual actions and 2) as a social framework defining interests. Hence, the task of new economic sociology is to define the extent to which non-economic motives (e. g. commitment, reputation, and power) become relevant in concrete constellations as well as to identify the concrete interests that individuals try to pursue within specific social relations. As a result, one can explain economic institutions and outcomes.

Instead of the ideal-type model of selfish, fully rational, utility-maximizing individuals, Granovetter suggests to describe actors in a more realistic way by firstly assuming bounded rationality and secondly assuming socially defined intertwined interests. However, Granovetter omits to take a closer look at Weber's suggestion concerning an action-based approach in sociology. Weber also dealt with the question of abstract and realistic concepts. His advice was to base scientific work on precise definitions and typologies: "The point that Weber is touching upon here is that it is illusory to imagine that we can somehow capture the 'real essence' of social reality … What counts on social reality depends pretty much upon the conceptual apparatus through which we view it in the first place" (Parkin 2002: 28). For that reason, Weber developed the mentioned action typology based on the extent of rationality of actions. This typology allows dealing with the problem of empirical complexity in contrast to analytical abstraction. Furthermore, Weber's concept of rational action covers both ideal and material interests as well as interest orientation and value orientation. We-

[14] This is the crucial point of Greta Krippner who argues against Mark Granovetter. She criticizes his analytical separation of social networks as the one important factor in social life (Krippner 2001).

[15] Mizruchi (1994: 335) considers the similarities between Granovetter's structural critique and the critique of rational-choice theorists concerning the difficulties of normative sociology to link actors and situational factors and especially its difficulties to distinguish between norm-oriented behavior based on internalisation and that based on sanctions.

ber therefore is to be regarded as methodological institutionalist offering empirical evidence about the type of the dominant action orientation and the dominant motives with regard to the situation. Granovetter does not see that Max Weber (1985) and Albert Hirschman (1977)—whom he cites, by the way—offered a highly reliable historical reconstruction as well as empirically-based theses for the dominance of private interests in modern economic life. Accordingly, one can start with an empirical thesis about the adequate or dominant action mode. Furthermore, this can be connected to Weber's assumption that material, social, and ideal interests sometimes coincide and that their "affinity" drives social processes.[16] Because of Granovetter's emphasis on "networks of social relations" neither cultural nor social institutions nor their relations to social networks appear on his scientific agenda.

To Granovetter, it is most important that *actions* are regarded as socially embedded in specific networks of interaction. "The brilliant achievements of neoclassical arguments in illuminating the efficient pursuit of well-defined preferences must be accompanied by an appreciation of the extent to which such pursuit is intertwined with noneconomic goals, and deeply embedded in structures of social interaction that extend backward in time and outward in space." (Granovetter 1990a: 95) Additionally, he mentions that it would be unrealistic to assume individuals able to formulate stable and logically sorted preferences and to act fully rational. Granovetter is mixing arguments that have different connotations and importance and should be separated in order to consider which aspects should be broadened. I suggest the following:

- Firstly, where do interests come from? More precisely, which are the concrete interests that should be assumed as relevant in the economic sphere and how to handle the problem of multi-motives? If we assume rational purposeful action—as Weber suggested—we need to rank different motives and action orientations. This means that we need a theory that identifies the leading orientation and motive in order to explain the individuals' choice of action. Astonishingly, Granovetter takes the definition given by Weber instead. To Weber (1978, chapter 2), economic sociology deals with economically oriented actions, especially with economically oriented actions that are related to others. But Granovetter did not make use of Weber's guideline to sort actions according to their level of rationality and to relate them to specific institutions like property rights, the spirit of capitalism, rational law, or administration. According to Weber, capitalism is about property that is used as an object of trade and to establish profit-making enterprises in a market economy (1978, chapter 2; 1958: 17–27).
- Secondly, to which extent do individuals act rational with regard to their interests? This question refers to the cognitive abilities of individuals, whether they are able to scan social structure completely and correctly as the framework of their purposeful actions or not. The concept of bounded rationality is helpful when markets fail because then economic sociology as well as economic theory can

[16] Mark Granovetter also disregarded the work of Albert Hirschman, although Hirschman was one of the first unconventional economists who advocated more realistic assumptions about goals, preferences, and utility functions as well as assumptions of rationality on the individual and on the social level (Hirschman 1977, 1986).

describe a severe problem of economic transactions: trader, producer, and consumer alike suffer from a lack of information. The extent to which that problem undermines economic transaction is yet to be described and can be formulated more precisely by using additional assumptions, mainly about social factors (esp. social interdependencies). Once again, like Weber and other scientists state, only those actors "survive" within capitalism or market competition that act rational according to the "rules of the game" (Weber 1985: 17).

- Thirdly, how can we focus on social relations from an individual point of view? Mark Granovetter focuses all kind of problems caused by bounded rationality when individuals try to pursue interests; according to Granovetter, this matters especially in economy when markets fail. When markets do not work and individuals use bounded rationality, cognitive information as well as social capital or conventions prove beneficial in economic life by channeling individuals' actions. But this could also be achieved by religious ideas, ethics, power, or domination (for all of this, see Weber 1978). Therefore, it is not enough to state that social relations have effects. It also needs to be discussed how they co-function with the general institutional framework.

b. Social Embeddedness—The Relevance of Networks of Social Relations for Economic Actions

Most important to Granovetter is the assumption that modern economic life is not run by atomized decision-makers. In contrary to both economic theory and classical sociology, Granovetter regards all economic actions as purposive actions in the first instance and as "deeply" embedded in ongoing *social relations* and/or *networks of social relations*.

> By "embeddedness" I mean that economic action, outcomes, and institutions are affected by actors' personal relations, and by the structure of the overall network of relations. I refer to these respectively as the relational and the structural aspects of embeddedness (Granovetter 1990a: 98).

Granovetter states that neither Max Weber nor Emile Durkheim could provide any help; Weber because of his limited interest and his focus on the pre-social conditions of economic actions, and Emile Durkheim because of his functionalist approach.

> Weber occasionally notes, but only in passing, his skepticism of 'pure economics' whose 'explanatory methods … are as tempting as they are misleading' (Weber 1921/1968: 115). But he has little to say in detail about the routine operation of markets. His main interests lie rather in the broad institutional questions that economists had abandoned (Granovetter 1990a: 90).

Granovetter states that economically relevant situations are neither to be characterized as perfect competition nor as fully known. On the contrary, he favors the assumption of uncertainty based on bounded rationality on the individual level as well as on social embeddedness. Because of the absence of markets, neither competition nor prices help to coordinate. In this sense, Granovetter can state a lack of information in modern economic life and that the information given by social relations or networks helps to coordinate economic actions. Economic theory, which focuses on demand and supply as core actions, can reduce the information problem concerning the value of a certain good. In contrast, given that economic transactions have to deal with *uncertainty*, actions cannot be fully calculated and maximization is not possible. Hence, a weaker decision rule like satisfaction or actions based on habits is needed, while rationally constructed institutions are impossible.

Granovetter does not provide a precise argument concerning the causes of uncertainty or the thereby arising possible problems in social and economic life. Thus, it seems that every kind of social embeddedness improves the situation or at least affect it. Yet, social relations not only cause profit-maximizing capitalists to consider social expectations, but they can also cause malfeasance, corruption, or clientelism. "Their attempts at purposive action are instead embedded in concrete, ongoing systems of social relations." (Granovetter 1992a: 32) This is the core of network analyses. According to concrete network studies, Granovetter names four mechanisms that describe how social networks increase economic outcome:

1. by improving the flow and the amount of *information*;
2. by producing *benefits* and *sanctions* as a type of group resources when high visibility allows monitoring actions;
3. by establishing *trust* in the sense of a strong mutual confidence about the "right" way to do things, despite any incentives to act self-interested;
4. by creating *commitment* via direct personal affinity or by a third party.

Network density describes the ability of networks to define and enforce rules in dense social networks and thereby to increase social capital. Due to this, problems of free-riding as well as coordination and orientation can be solved. The famous thesis of the *strength of weak ties* is analyzed as a mechanism that connects more groups and thereby provides a higher information flow. *Structural holes* are then considered as the possibility for some actors to achieve strategic positions, for example traders that connect faraway producers and consumers like in medieval times. And last but not least, Granovetter states that profit orientation is often limited by direct personal as well as group *expectations*. On the other hand, expectations can also come with side-effects, e. g. when newly founded small business firms are overloaded with non-economic wants that cut up economic outcome (Granovetter 2005a; b: 1995).

Granovetter's main concern is to show that social relations matter for economic outcome. He provides evidence for this thesis in terms of empirical studies that illustrate how social relations provide information as well as mutual expectations by trust. Thereby, they improve not only economic relations but the overall economic outcome. What Granovetter does not provide is a precise theoretical argument about the kind of situations and to which extent social relations can be helpful—and when they fail because the mentioned mechanisms do not work. Such a failure is possible because of the amount of general social institutions and thereby resulting conflicts of the social mechanisms working within them.

c. The Social Construction of Economic Institutions: Firms, Industries, and Professions

Last but not least, Granovetter provides an explanation of economic institutions—e.g. firms, industries, and professions—in the framework of social networks. It is claimed to be an alternative sociological approach to core economic institutions. This is due to the fact that Granovetter rejects new economic institutionalism because "all manner of … institutions are interpreted as the efficient outcome of rational individuals pursuing their self-interest" (Granovetter 1990a: 94). So all social mechanisms working are specified with regard to economic efficiency and economics are simply claimed to be the universal grammar of all social sciences (Granovetter 1990a: 94). To avoid the failures of classic sociology, new economic sociology should have strong ties to new institutionalism. Yet, Granovetter remains ambiguous. On the one hand, he stresses the importance of "networks of social relations" for social and economic activities. On the other hand, he also admits that new economic sociology needs to take institutions into account:

> … that you can't just analyse social networks, you also have to analyse institutions and culture and politics and all of the micro and macro elements, of which the 'meso-level' of social networks is in the middle (Granovetter cited after Krippner et al. 2004: 114).

Paradoxically, he does not offer a general alternative explanation for the emergence of institutions that would overcome the named deficiencies of new economic institutionalism as well as those of old institutionalism (Granovetter 1990a) and would allow to connect to new institutionalism. In my opinion, this is mainly due to the fact that Granovetter wants to establish new economic sociology as a new approach in the middle of economics and classic sociology. For him, it is satisfying to provide empirical evidence against new economic institutionalism by showing that social networks can influence institutionalization in economy and that the once established patterns do not necessarily need to be efficient.

His general idea is to search for situations that contain several possibilities and could also have developed differently and then reconstruct the institutionalization process as a matter of various lock-in effects. Illustration is provided with reference to the electricity industry from 1880 to 1930 in the USA and the Silicon Valley from the 1970s in California.

> We believe that the way the electricity industry developed was only one of several possible outcomes and not necessarily the most technically or economically efficient. Its particular form arose because a set of powerful actors assessed certain techniques and applied them in a highly visible and profitable way (Granovetter and McGuire 1998: 149; Granovetter 1990: 102).

How such standards work and to which extent they are related to other institutions is not answered by Granovetter. His idea seems to be that economic explanations can be rejected by historical-comparative studies that provide evidence that at some point social relations matter for the choice of one particular way. But his approach misses a precise argument how social relations work together with various lock-in effects and within the general institutional framework.

Granovetter's approach on core economic institutions—mainly industries—highlights social relations and networks as a relevant factor in the process of institutionalization. Whenever equivalent ways offer actors a chance to use their social networks to enforce one way, they will use them. By using the resources of networks one person or a closed-knit group can set certain patterns: industries, organization patterns, business regions, and professions. Centrality—or social power—is one of the mechanism behind.

> A substantial sociology of industry must be a persuasive alternative based on serious research about particular industries and their evolution, routed in a coherent view of how people and organizations form and co-operate in such a way as to produce those goods and services that consumers demand (Granovetter and McGuire 1998: 147).

An Institutional Point of View

Two major implications of the notion of "social embeddedness" have to be stressed from an institutional point of view. First of all, Granovetter seems to start with the assumption that all economic coordination is framed by social relations in general. This means that prices and competition are highly restricted. Consequently, socially generated information as well as socially defined and valued expectations are relevant for economic outcomes. They are beneficial when they support orientation and coordination by providing either information or mutual expectations when prices don't work. In this case, individuals in modern economies are in need of *information*. What remains unexplored in this reading are the mechanisms and processes when individuals are in need of socially guaranteed expectations that for example reduce free-riding, malfeasance, corruption, clientelism, etc. But in this case—unconsidered by Granovetter—hierarchies, organizations, or culture might also help.[17] The most critical implication is that the concept of social institutions can cover social relations and their social mechanisms, but not the concept of embeddedness the more general social mechanisms named in new institutionalism. This means that new economic sociology needs to properly analyze the relationship between social relations and social institutions and their respective mechanisms in order to claim either autonomous effects or "elective affinities."

In his famous study on the Protestant Ethic (Weber 1958) Weber on the one hand explains how means-end rationality and profit maximization on the other hand became the main orientation and interest of modern society. Thus, sociological explanations can use this empirically proven assumption—and not as an overall assumption on human nature like economics do. Furthermore, he illustrates by using empirical work how this was enabled and supported by new institutional forms, esp. by hierarchies and mass markets. Even more important for economic sociology, Weber recommends defining the problem of economic actions as a type of a general problem of defining *mutual expectations*. Therefore, in modern economies, the main problem is to gain stable expectations about what to produce. The private business firms

[17] Portes (1998) states that—similar to the notion of "social embeddedness"—social capital research overestimates positive effects by underestimating negative consequences and therefore misses restrictions. Portes emphasizes that social capital can also increase social control and privileges. Therefore, a "more dispassionate stance" is needed in order to consider the overall complexity: "Communitarian advocacy is a legitimate political stance; it is not good social science" (Portes 1998: 22).

can deal with this question by orienting their profit-orientated actions on information provided through market prices. According to Weber, all methods of rational calculation like bookkeeping, accounting, time measurement, money, etc. support rational expectation-building within exchange relations whereas hierarchy and bureaucracy help best to coordinate collective actions in a rational way (Weber 1991; 1985, chapter 4). It's the interplay of profit-orientation, mass markets and rational behavior framed by hierarchical structures that increase economic wealth in the modern world.

Other general critical arguments concern Granovetter's way to introduce more realistic assumptions about individuals. To do so, he emphatically claims that individuals cannot be described as purely self-interested, fully rational, and utility-maximizing machines. Instead, he suggests broadening the model of homo oeconomicus by taking into account mixed motives due to the social embeddedness as well as bounded rationality in the sense of problems of perception. However, this is problematic because every point should be considered separately as they have different effects related to uncertainty. The question where interests come from is only marginal for the explanation of a specific social fact or a specific economic outcome. What would be important is the question how to deal with different motives or action orientations. If we want to make our action theory more realistic in this regard, we need an empirical theory about why and when individuals act in the economic sphere oriented by "social goods" and not by "scarce consumer goods." If Granovetter's assumption of purposive action is correct, he also needs to assume that individuals are able to sort their interests logically and therefore are able to make proper decisions. In that case, it depends mainly on situational factors whether social or economic goods are more important. The more realistic assumption of bounded rationality refers to means-end orientation—or at least purposeful action—and is only helpful when no social institutions like markets, culture, or conventions provide the relevant information.

For a short summary, Granovetter's program for new economic sociology is still important because it improves sociological explanations by linking action and structure. Secondly, Granovetter introduced "networks of social relations" as a relevant situational factor for the explanation of economic phenomena. What he failed to do was to precisely analyze social relations and their inherent social mechanisms and to link them to the general concept of social institutions. Only by doing so, social embeddedness can be defined in terms of cognitive knowledge and mutual expectations. Thirdly, this is related to critical remarks about Granovetter's lack of focus on the difference between problems of orientation, mutual expectation, or conflict regulation.

Granovetter, who works a lot with analytical abstraction, does not use any theoretical concept that would distinguish different problems of uncertainty (e.g. game theoretical models or institution theory). He does not provide a "theoretical guideline" that would allow sociologists to define the notion of uncertainty more precisely. This is also the background for critical remarks that have often been made concerning the lack of power in the concept of "social embeddedness" and the lack of theoretical developments (see Nee 2005; Nee and Ingram 2005; Convert and Heilbron 2007).

Conclusion

It was shown, that in the 1980s two newcomers—new economic sociology and new institutionalism—started *with a promise* to bring social factors back into economic analyses by linking assumptions on the macro level and the micro level without using the highly unrealistic models of *homo oeconomicus* and *homo sociologicus*. To continue this, Granovetter supports an action-based approach that can be interpreted as a particular weak version of methodological individualism. He also emphasizes the simultaneous necessity to consider individuals' interests and actions as embedded in networks of social interactions.

With special regard to Max Weber and his "methodological institutionalism," it was stated that this has strong implications for the analysis of social institutions as a framework of economy. Max Weber introduced a twofold methodological advice to sociology. Firstly, he argues that social phenomena need to be explained by understanding and explaining individuals' actions with regard to social, especially institutionalized constellations. Secondly, he states that individuals certainly have multiple motives; however, these can be scientifically systematized in a typology based on the underlying rationality of actions, revealing four main action types. But according to Weber, sociology can and should not only work with abstract types but also use the strongest version of means-end rationality as a starting point for methodological choices and empirical explanations. This is also related to his idea of "elective affinities" that suggests focusing on the interactions of ideal and material interests and values as well as on the interactions of social relations and social institutions of any kind in order to explain the emergence of complex socio-economic systems.

Subsequently, it was criticized that Mark Granovetter's notion of "embeddedness" does mix up different arguments why and how social relations improve economic actions and outcomes, both normative and cognitive aspects. Especially it was argued that there is no general improvement by assuming individual interests as socially defined because this only needs to add empirically informed theses about what motives work in particular situation. His approach mainly focus that social relations help individuals to establish and to stabilize economic relations by reducing uncertainty in general. His research program deals with any kind of social relations that provide information or define mutual expectations by monitoring and sanctioning. His general argument is that social relations embed economic transactions and therefore help to improve the production, distribution, and consumption of scarce goods and services. However, Granovetter has never developed a theoretical guideline to identify typical problems of co-orienting in economic life. The program's success is mainly due to empirical studies that provide evidence for the advantage of social relations or networks in economic life. What could improve the concept is to identify the specific beneficial mechanisms within social relations. Mark Granovetter points out that 1) *information*, especially in labor markets (Granovetter 1982, 1985), 2) *trust*, especially in new enterprises or organizations (Granovetter 1995; Granovetter and McGuire 1998), and 3) *information* and *group identity*, especially in business regions or entrepreneurship (Castillia et al. 2000; Granovetter 2005a), prove to be beneficial. Yet, he never developed a theoretical argument why these mechanisms work (either referring to specific individual or social aspects or both) nor did he take into account that such mechanisms are highly intertwined with the broad institutional framework of small and large groups. This requires the relation of network effects either to market and hierarchical mechanisms or to their legitimation.

Considering this, two arguments can be outlined to strengthen new economic sociology. Firstly, it is not important where interests come from. What really matters is the application of empirical theses about the dominant interest in a specific situation and the problems individuals are facing when trying to pursue their interests. To do so, we can apply either an empirical description of a particular historical situation—just like Granovetter and Weber did. Or we can logically define typical problems by combining a specific set of assumptions about individuals. Thus, we can identify the causal factor that fuels the problem and use this perspective to focus on relevant social interdependencies like the prisoner's dilemma. Both ways can be combined by using empirically informed theses about individuals' motives, e. g. egoistic utility maximizing (standard economic theory), egoistic search for social reputation (rational-choice sociology), or a certain level of social expectations (Weber). Thereby, we can describe social situations in terms of social relations and institutions and identify those that enable or restrict actions and economic or social relations and thus influence the economic outcome. Conversely, we can interpret constellations, especially social interdependencies or relations, as a need for general social institutions like hierarchy or markets because social mechanisms like trust do not work. This approach differs from the mere notion of embeddedness because it clearly identifies described problems of social action in economic fields referring to specific individual intentions that cause a need for mutual or social expectations. Only then would it be possible to state when and to which extent individuals are able to establish social relations, markets, or hierarchies and why those improve the situation. Therefore, it is necessary to define social mechanisms more precisely. Only then we are able to apply them to situations that appear to be empirically different, but are actually logically similar.

Secondly, we can summarize that Granovetter's perspective on institutions and the relation between institutions and networks of social relations is restricted. On one side, he regards social institutions as simple network effects and thereby neglects any other mechanism that leads to institutionalization (e.g. hierarchy, cultural beliefs, political and social entrepreneurs). Moreover, only one type of institutionalization within networks is explored empirically: path dependency due to network centrality in case of multiple equilibria. This argument can be broadened with regard to Weber's idea of "elective affinities." Weber argued in favor of historical reconstructions that highlight the mutual reinforcing of contingent social, material, or cultural factors. His famous rationalization thesis showed that the rise of the modern world is due to the positive mutual influence of rational ideas, the nation state, bureaucracy, and rational science. Socially framed interests ("Seelenheil," profit maximization) and habits (rational way of living) reinforced each other and thereby changed not only personal relations, but also the overall institutional setting. With this in mind, economic sociology can go ahead by analyzing the relationship between mostly anonymous interest-based relations in modern economies and general social institutions like money, time schedule, exchange rules, business firms, etc.

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