

ECONOMIC ACTION IN SOCIAL COLLECTIVITIES

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ABSTRACT

This paper argues that economic action is affected by the embeddedness of economic actors in social collectivities in which collective practice is institutionalised. Supporting this argument are two micro-sociological qualitative field studies of economic action of Danish subcontractors in two regions of Denmark. Based on the data-analysis a framework is constructed to explain how and why these subcontractors learn from collective practice. The explanation draws on the practice-approach of symbolic interactionism in particular. The ongoing academic debate on governance structures has focused on national and sectoral governance structures. While this paper acknowledges its important contribution to our understanding of contextual economics, its explicit micro level analysis of the role of institutionalised practice for economic action offers a set of additional and alternative explanations of economic action to recent research on governance structures. The paper has potential interest to all scholars and practitioners interested in the link between economic- and social action and to those interested in explaining issues of strategic management from a sociological point of view.

INTRODUCTION

Empirical studies pinpointing regional and national differences in industrial organisation show a demise of the idea that a certain mode of economic action can lead to competitive advantage across industries and markets (Kristensen, 1997; Kristensen & Zeitlin 2001; Lane, 1997; Morgan, 1997; Lilja, 1997; Whitley, 1994, 2001). Economic action is affected by a large variety of institutions (DiMaggio & Powell, 1983; North, 1991; Scott, 1994, 1995), which call for contextually bounded analysis of economic action. Standard neo-classical microeconomic theory, which argues that economic action is co-ordinated by the market mechanism, neglects institutions and fails to explain the empirical differences observed in economic action across different contexts. With reference to Richardson (1972: 884), who writes: "...by looking at industrial reality in terms of a sharp dichotomy between

firm and market we obtain a distorted view of how the system works”, I argue that in order to understand what drives economic action in different contexts we need to do research on the embeddedness of economic actors, particularly paying attention to micro-level aspects of social regulation of economic action. This paper analyses such micro-level aspects and shows that economic action is guided and constrained by collective practice institutionalised in social collectivities in which economic actors are embedded.

The paper has four sections. Section 1 serves as a general introduction to the key terminology, and it positions the study in relation to the ongoing research on national and sectoral governance structures. Section 2 describes the methodology and the characteristics of the empirical fields. Section 3 presents empirical data, which supports the argument of the existence of social collectivities in which a collective practice is institutionalised which affects economic action. Section 4 gives possible theoretical explanations of the observed characteristics of economic action of subcontractors by modelling social dimensions of economic action.

SECTION 1: RESEARCH ON GOVERNANCE STRUCTURES

This paper studies subcontractors’ embeddedness (Granovetter, 1985, 1990, 1992) in social collectivities (Greenwood, 1994) and its consequences for their economic action. According to the view of embeddedness, economic action is affected by the social context in which actors occupy a social position. Three different types of economic action are analysed:

- ◆ Subcontractors’ constitution of cooperative relations with other firms (subcontractors or outsourcers).
- ◆ Subcontractors’ recruitment of workers for the shop-floor.
- ◆ Subcontractors’ engagement in research and development with other firms (subcontractors or outsourcers).

The explicit focus on subcontractors’ embeddedness in social collectivities offers a micro-level explanation of governance structures affecting economic action. The paper adds a micro-sociological dimension to the majority of the ongoing research on governance structures, which traditionally has applied macro- and meso-level explanations of economic action/industrial organisation (Hollingsworth and Streeck, 1994; Kristensen, 1997; Lane, 1997; Lilja, 1997; Morgan, 1997; Sorge, 1996, 2000; Whitley, 1992a, 1992b, 1994). Table 1 positions my study in relation to current research on governance structures.

Table 1: Perspectives on Governance Structures

Perspective	Business Systems	Societal Effect	Regimes of Governance	Social Collectivities
Key Author(s)	Whitley	Sorge	Hollingsworth and Streeck	Nygaard
Boundary	Business systems are mainly nationally bounded; acknowledging sectoral business systems, but arguing they are in the minority	Societies are mainly nationally bounded (due to a focus on the societal effect)	Regimes of governance are mainly nationally bounded (although described in connection to specific sectors)	The boundary of social collectivities depends on actors' internal- and external justification of institutionalised practice
Possible Constitutive Mechanisms	Business systems are mainly constituted by proximate social institutions, particularly the state	Societies are mainly constituted by societal and subject structures	Regimes of governance are mainly constituted by sectoral properties, products and product markets, modified particularly by the state	Social collectivities are mainly constituted by sets of arrangements, conventions and agreements
Suggested Type of Study	Business systems are best studied by cross-national comparative studies	Societies are best studied by cross-national comparative studies	Regimes of governance are best studied by cross-national comparative studies	Social collectivities are best studied by qualitative, micro sociological field studies
Suggested Focus	Macro Sociological	Macro Sociological	Macro Sociological	Micro Sociological

The Business System Perspective

The business system perspective aims at providing a theoretical framework for: "...comparing and contrasting the different ways of organizing economic activities which have become established in different institutional contexts and to suggest how some key characteristics are interrelated in particular business systems" (Whitley, 1994: 154). In doing so the focus is on national aspects. It is so: "...because the nation state is the dominant collectivity for organising so many of the social institutions which impinge directly on economic activities, such as the legal, education and financial system, as well as itself constituting one of the major influences on firm structure and behaviour..." (Whitley, 1992a: 37). In this perspective the national level then becomes: "...the obvious starting point for any comparative analysis of business systems" (Whitley, 1992a: 37). He suggests a macro sociological focus and the implementation of a cross-national comparative study where explanation of industrial organisation is sought. It is by comparing and contrasting governance structures in different national contexts that we gain important knowledge about business systems. Whitley writes further: "...I would argue that dominant institutions in all societies structure processes of industrialisation such that particular kinds of firms and markets become established and form a distinctive system of economic relations that reproduces itself interdependently with political etc. institutions. Given the considerable importance of the state, and of state-regulated and supported institutions, in coordinating industrial processes and maintaining social boundaries, it seems reasonable to consider market economies initially bounded by states" (Whitley, 1992b: 271). The requirement for distinctiveness and cohesiveness within the nation state stresses his view on the national demarcation of business systems, and studies of industrial organisation and governance structures using the business system perspective as their theoretical foundation are bound to take a macro sociological focus.

The Societal Effect Perspective

Sorge (1996, 2000) follows suit in his comparative research on industrial organisation using the so called societal effect approach. He argues that industrial organisation differs across contexts, even when they seem identical, and he argues for different types of division of labour within different societies: "... the societal effect approach argues that internationalization and universal technical change lead to different outcomes in each society, within an intensification of the international

division of labour. How this division of labour develops we can only explain if we refer to societal characteristics that are relatively stable, even in the midst of change. This change triggers development of societal specificity, rather than bringing about convergence between societies. That is also the clear message which the approach offers to all those who think that European integration will reduce the differences between individual European countries. Such a message suggests that the societal effect approach will continue to be topical and inform new research into cross-national differences” (Sorge, 1996: 84).” From this it is obvious that the societal effect perspective sees the nation as the natural boundary of society. The way in which industries organise, Sorge argues, is affected by societal structures and subject structures within nations, and cross-national comparative studies make it possible for researchers to explain what constitutes industrial organisation in different countries. At the same time, researchers have to look for relatively stable societal characteristics in order to understand industrial organisation, hence the focus is merely placed on institutional representation and inertia. In respect to the suggested type of study being cross-national comparative, and the focus being macro sociological, the societal approach perspective is indeed similar to the business system perspective and they are in no way conflicting perspectives.

The Regimes of Governance Perspective

A similar national focus to that we find in the business system perspective and the societal effect perspective is argued by Hollingsworth & Streeck (1994: 272-273): “Differences in governance within sectors are often recognizable as national differences in that they follow a similar logic across sectors... The impact of the national context makes itself felt in at least three ways... Through identical rules of behaviour created and enforced at national level... Through identical factual conditions facing all economic subjects in a given country... Through identical cultural and political resources defining the constraints and opportunities under which individual and collective subjects operate”. They state the societal effect approach as their source for inspiration. Although arguing that their perspective has a sectoral focus, Hollingsworth & Streeck suggest a macro sociological focus, and they argue for the use of cross-national comparative studies when the constitution of industrial organisation has to be explained. It seems that sectors, in their governance perspective, become national entities when they argue that differences are national, and rules and behaviour are enforced at the national level. Like Whitley and Sorge, they draw their attention to the role of the state when explaining the main

constitutive mechanism affecting industrial organisation. In this way, the term “regimes of governance” equals the business system in Whitley’s use of the term. To Hollingsworth and Streeck, it is most likely that only one business system is constituted within each nation, and this business system may very well be cross sectoral. It is so, they argue, because the state apparatus is the major factor affecting industrial organisation, and although industrial organisation is constituted by sectoral properties, products and product markets, such are argued to be particularly modified by the state.

All three perspectives argue that economic action is guided and constrained by the institutional context, sectoral properties, societal and subject structures, or social networks and cultures. But the perspectives do not facilitate a discussion of the particular mechanisms by which this affect takes place. The role of interacting subjects is clearly bracketed in these perspectives. In this paper I confront such macro sociological perspectives and argue that we cannot understand economic action by focusing on national institutional distinctiveness only. We also need to focus on actors’ motivations and own understanding of economic action, which is why I analyse economic action in social collectivities and thereby show how embeddedness matters.

SECTION 2: METHODOLOGY AND EMPIRICAL FIELDS

Discussions and conclusions in this paper are based on findings from two empirical field studies of economic action in the Danish manufacturing industry. The main purpose of our studies was to shed light on the structures and processes governing economic action of firms in their industrial settings. 25 firms were studied in the county of Copenhagen (eastern part of Denmark), while 17 firms were studied in the county of Vejle (western part of Denmark). The respondents were randomly picked from the public register of firms in the two areas, contacted by phone and asked if they would like to participate in the study. We constructed our samples to avoid being biased by our intuition of which firms would be the most important or representative of a certain type of economic action in areas. If embeddedness is to be argued to have any effect on economic action, its’ effect must appear from a randomly generated sample and not just from a sample planned due to our prior knowledge of relations between firms in the industrial areas. 35 firms were subcontractors while 7 firms were outsourcers using subcontractors themselves. In this paper the focus is on the economic action of subcontractors. Qualitative, focused interviews (Merton, Fiske & Kendall, 1990) were done with managers or managing

proprietors of all firms. Focused interviewing: "... combines unstructured interviews with a loose pattern of agreement with the interviewee about the context of enquiry" (Spender, 1989: 79). I used this particular approach as: "It gives the subject the opportunity to express himself about matters of central significance to him rather than those presumed important by the interviewer... it uncovers what is on the subject's mind, rather than his opinion of what is on the interviewer's mind..." (Merton and Kendall, 1946, cf Spender, 1989: 79). Respondents were asked to motivate various forms of economic action and reflect upon it in relation to their embeddedness. We did not pre-construct homogenous categories for the respondents to "fill out," but during our continuous dialogues we constructed scenarios from the respondents' recounting of their everyday experiences which the respondents could then relate to. All interviews were transcribed and a thematic text analysis of the consequences of embeddedness on economic action was made based on the interview transcriptions. The data analysis showed empirical evidence of collective practice among subcontractors in both regions.

In a Danish context we define small and medium sized firms as firms having 1-99 employees. The number of employees and the type of ownership of the subcontracting firms in our studies are described in Table 2.

Table 2: Characteristics of Subcontracting Firms in the Two Studie (number of employees and type of ownership)				
County of Copenhagen (Eastern Denmark)				
Number of Employees	5-9	10-19	20-49	50-99
Single Proprietorship	-	1	-	-
Private Limited Company	1	2	2	-
Private Company	-	8	4	-
Number of subcontracting firms	1	11	6	0
County of Vejle (Western Denmark)				
Number of Employees	5-9	10-19	20-49	50-99
Single Proprietorship	2	3	2	-
Private Limited Company	-	3	1	-
Private Company	-	1	2	3
Number of subcontracting firms	2	7	5	3

Subcontractors vary concerning their type of activity. Two main activity types are distinguishable among subcontractors. The first type involves traditional subcontractors specialising in manufacturing processes (such as drilling, welding, laser-cutting, deep drawing, or polishing). They enter manufacturing chains to sell a specific manufacturing process to outsourcing firms. The second type is subcontractors, who have specialised in manufacturing customer specific products and thus take part in the construction and development of products or processes for outsourcing firms. Some firms in our studies combine activities in order to be competitive and earn enough money to maintain their employees in times of recession. A typical model is one which supplements the manufacturing of customer specific products with the sale of manufacturing processes, where the subcontractor makes simple processes and some construction work at the same time. Table 3 shows the number of subcontracting firms working with each activity type.

Table 3: Firms and their Activity Type				
County of Copenhagen (Eastern Denmark)				
Number of Employees	129	292	20-49	50-99
Firms Selling Manufacturing Processes (time work).	1	2	4	-
Firms Manufacturing Customer Specified Products.	-	9	2	-
Firms Manufacturing their Own Brand / Product Portfolio.	-	-	-	-
Number of subcontracting firms	1	11	6	0
County of Vejle (Western Denmark)				
Number of Employees	38845	292	20-49	50-99
Firms Selling Manufacturing Processes (time work).	2	4	3	-
Firms Manufacturing Customer Specified Products.	-	3	2	3
Firms Manufacturing their Own Brand / Product Portfolio.	-	-	-	-
Number of subcontracting firms	2	7	5	3

Looking at the way in which subcontractors internally organise production and enter into flexible networks to produce a large range of outputs, I characterise the subcontractors as flexibly specialized firms. In the words of Hirst & Zeitlin (1991: 2), flexible specialization is “the manufacture of a wide and changing array of customized products using flexible, general purpose machinery and skilled, adaptable labor”. Studies of various parts of Danish industry have also pictured the general business system in Denmark as a system of flexible specialization (Henriksen, 1999; Lorenzen, 1998; Lorenzen and Foss, 2003; Lorenzen & Maskell, 2004; Kristensen, 1996, 1999; Nygaard, 1999; Kristensen & Nygaard, 2000). Within such flexibly specialized production systems the philosophy of administrative bureaucracies of mass production and vertical integration has been disbanded. The Taylor-Fayol system defined as “the manufacture of standardized products in high volumes using special purpose machinery and predominantly unskilled labour” (Hirst & Zeitlin, 1991: 2) does not represent today’s Danish industrial production nor the subcontracting firms studied here. The success of flexibly specialized production systems and the demise of vertically integrated bureaucracies call for an explanation of economic action alternative to the one of mass production (Piore & Sabel, 1984; Best, 1990; Pyke & Sengenberger, 1992; Sabel & Zeitlin, 1997).

SECTION 3: EMPIRICAL EMERGENCE OF SOCIAL COLLECTIVITIES

The data analysis showed that subcontractors motivate their economic action with reference to social and contextual aspects rather than to economics, resources, competitive advantage or strategic plans. At first glance they seem vague about their own strategies for economic action, as they are based on thoughts about reputation, self-worth, status, and situations that represent a hazard. Table 4 presents quotes from five interviews showing how subcontractors motivate their economic action.

Subcontractors use phrases like “in this city”, “it’s just the way it is”, “so as not to ruin”, and “somewhere up in the system”. A word like “morality” stands out as a central word. This raises some interesting questions. How is “in this city” defined? Why “it’s just the way it is,” when no legal institutions exist to sanction different economic actions? What is it they would not like “to ruin”? How and by whom is “morality” defined? What kind of “system” is it that is referred to? Why do subcontractors tell similar stories when they justify their economic actions? Why don’t subcontractors accept all the work they can get, when the business and the urge to earn money must after all be at the core of running a firm?

Table 4. Subcontractors' Motivation of Economic Action

Quotes from Interviews	References to a Social Collectivity and Institutionalised Practice
<i>"I cannot, in the long run, live with going about stealing their customers... I don't think that we will gain much from that. Maybe we could earn a little more money in the short run, but in the long run – no. I would be sorry to have such a reputation. So I'm serious about this. If a firm's customer has asked us to do some work for them, I have contacted the firm and told them that we have been contacted by their customer, and that we are interested in doing the work, and what is their opinion of that? Personally, I don't care, but somewhere up in the system there are people who would not be pleased about it. So we stay away from the work. Indeed it's my philosophy of business, and I believe it works in the long run – very much. And I think there are a lot of people around with this business philosophy."</i>	<i>"to have such a reputation"</i> (self reference) <i>"somewhere up in the system"</i> (reference to significant others) <i>"I think there are a lot of people around with this business philosophy"</i> (reference to significant others)
<i>"...in this city we have the possibility to forward drawings. They are free to see who we work for, but you do not in actuality contact them with a competitive offer. Of course, it's not [surprised laughter], yes, of course it's not something that is written somewhere. It's just the way it is [with stress]."</i>	<i>"in this city we have the possibility"</i> (social collectivity, collective "we", institutionalised practice) <i>"they are free to see"</i> (significant others, social collectivity, collective "they", institutionalised practice) <i>"but you do not in actuality"</i> (institutionalised practice) <i>"of course it's not something that is written somewhere"</i> (institutionalised practice) <i>"it's just the way it is"</i> (institutionalised practice)
<i>"But when I say that we don't compete with each other, that's not correct. Of course we do, but not in any hard or brutal way. Often we call each other and ask: 'Isn't this something you have done before?' And then one stays away, so as not to ruin things."</i>	<i>"Often we call each other"</i> (institutionalised practice) <i>"so as not to ruin things"</i> (social collectivity)
<i>"I have a boy who is now in training. He is the nephew of a foreman with one of our customers who asked if we needed someone. But we are very careful not to steal from others..." [Interviewer: That is perhaps the reason why you use the newspaper to announce openings?] "Yes, I could never dream of contacting someone. Of course if there are some who come looking for work, or will move because they are dissatisfied with being somewhere, this is</i>	<i>"But we are very careful"</i> (self-reference) <i>"this hurts oneself in the long run"</i> (social collectivity)

Table 4. Subcontractors' Motivation of Economic Action

Quotes from Interviews	References to a Social Collectivity and Institutionalised Practice
<i>not something I can really get involved with. But if I advertise in the paper and there are two men who respond, where one works with one of our customers, then it will not be him I hire, even if he may be the best. I would not do that. I just think this hurts oneself in the long run."</i>	
<i>"Yes well, I think that most of those I have contact with, we do not see each other as competitors in that sense. There are of course always some who have some difficulty with, I had almost said "don't have a very high morality." But the majority, it is such that we see each other a bit more as colleagues. We can certainly exchange work, I have colleagues here in the city whom I can very well do some work for if they have a high workload, without my actually contacting the customer, even though in 99% of the cases I cannot avoid knowing where the end product shall go. But this is not the same as my contacting him to say that that is something I can do."</i>	<p>"most of those" (foreign reference)</p> <p>"morality" (institutionalised practice)</p> <p>"here in the city" (social collectivity)</p> <p>"not the same as my contacting him" (institutionalised practice)</p>

Why and how do subcontractors learn the collective understanding of economic action in the system, when no formal business education or systematic dialogue about it exists? I shall come back to answering these questions in the third section of the paper. Below I will shed further light on the collective practice institutionalised in the social collectivities of which subcontractors are members. For analytical purposes, three types of economic action are selected here. The collective practice institutionalised between subcontractors regarding the three types of economic action is presented in Table 5.

Constitution of Cooperative Relations with Others

When subcontractors are engaged in cooperative relations with others they experience a focus on the means by which they gain orders. Not only their competitive advantage (e.g., related to price, time of delivery, and quality) is in focus, but also the way in which they perform economic actions in order to be competitive. They express that it is morally offensive to steal work or dump your price level to attract orders. Work can be stolen by contacting cooperative partners of others and making an offer they cannot refuse, e.g., based on a much lower price.

A subcontractor living from the ability to step in and out of multiple and highly complex manufacturing chains has much information concerning cooperative relations, technology, and tasks, which can be exploited to steal work or dump the price level. To be able to co-ordinate many processes with other firms, subcontractors have a lot of information about each other. If a subcontractor misuses this information to steal work, he is in danger of being met with negative sanctioning from others, ranging from mere warnings to exclusion from further work in manufacturing chains for which those significant others are responsible.

Table 5: Economic Action Following an Institutionalised Collective Practice	
Economic Action	Institutionalised Collective Practice
Constitution of Cooperative Relations with Others	Do Not Steal Work Do Not Dump Your Price Level
Recruitment of Workers for the Shop-Floor	Do Not Steal Workers Do Not Attract Workers by Raising Salary
Research and Development with Others	Do Not Work for Competitors Do Not Forward Information, such as Drawings or Blueprints to Competitors Do Not Use Subcontractors Yourself for the Completion of an Order

Stories are told of firms that have been excluded from work on certain processes for several years, because they stole work. Subcontractors all know and tell such stories, even as third hand stories, when they justify their own economic action. Their interpretation of such stories make them phone up another subcontractor to ask for “permission” to take orders and engage in cooperative relations with others if they think that this work has previously been done by that subcontractor. Often a new customer wishing to place an order with a subcontractor will be asked why he does not use his former subcontractor anymore. Subcontractors act this way in order to be seen as good colleagues in the flexible networks of outsourcers and subcontractors.

Recruitment of Workers for the Shop Floor

Similar mechanisms are at play when subcontractors recruit workers for the shop floor. Here it is regarded as morally offensive to steal workers from others or

to attract workers by raising the salary high above market level. Being highly engaged in different manufacturing chains, subcontractors often know which processes are carried out by what workers for other subcontractors, and it is possible for them to contact the best of those workers when they need a highly qualified worker themselves for similar processes. In that way they do not have to pay for the building of a worker's competence base themselves, but can utilise it at a minimal additional expense. As subcontractors sell their manpower, production, and construction processes on an hourly basis, they are highly dependent on a flexible internal organisation to be cost efficient. If a key worker is "stolen" from the shop floor it puts the subcontractor in a critical situation, and many resources have to be spent to find the right replacement. Subcontractors often use a family metaphor to characterise the team of workers on the shop floor, which stresses their dependency on the "right man for the right machine." If a subcontractor phones up a worker and offers him a job, the subcontractor is in danger of being negatively sanctioned by others. Stories are again told of firms that have been excluded from work, because they stole workers. Subcontractors' interpretation of such stories makes them put an advertisement in the local newspaper, so that any worker can apply for the job. In doing so they show respect for others' difficulties in finding the "right man for the right machine" and express that they do not intend to "steal" workers. By symbolising this there is no problem as such for the subcontractor in actually recruiting a new worker through his personal network, because the existence of the newspaper advertisement legitimises that action. Subcontractors relate that if a new worker arrives out of the blue and asks for a job, they phone up his employer to ask if they can assign him to a vacancy. As such there are ways in which to act in order to be seen as a good colleague in the flexible network of outsourcers and subcontractors.

Research and Development with Others

Subcontractors say that it is morally offensive to work for competitors, to forward information such as drawings or blueprints to competitors, or to use subcontractors themselves for the completion of an order when engaged in research and development with others. A large firm with its' own product program does not like to use a subcontractor who also serves as subcontractor for one of their. Research and development of tools and processes is often accompanied with a contract that specifies which parties the subcontractor cannot work with. Stories are told of subcontractors who work for competitors and outsourcers and have been

commanded to immediately terminate cooperative relations with competitors in order to maintain the commanding firm as their customer. If the subcontractor has 4 workers who carry out three main processes on 6 machines, and every process takes from 2-3 minutes on each product, they need a lot of orders to fulfil their quota. To be competitive on price they have to work within normal working hours, as workers unions require extra pay per extra hours. If a subcontractor cannot complete an order within the agreed time it is more cost efficient for him to use subcontractors to “put out the fire” and complete the order. That may be considered morally offensive, just as it is to forward outsourcers’ drawings or blueprints to other subcontractors. They all know stories of firms that have been excluded from work due to such instances of “illegal” subcontracting. Subcontractors’ interpretations of such stories make them pen contracts and say “no” to certain orders to be seen as good colleagues in the flexible network of outsourcers and subcontractors.

SECTION 4: MODELLING SOCIAL DIMENSIONS OF ECONOMIC ACTION

Looking at the above examples, a collective practice appears to exist among subcontractors. When they justify their economic action they refer to a collective practice. Now, what is collective practice, and how does it come to play such a role in economic action? I shall turn to a theoretical discussion of collective practice, social collectivities, institutions, and identity projects, mediated by symbolic interactionism in particular, in order to find the possible answers.

Collective Practice

Collective practice is a practice shared by two or more persons. To share something means that an agreement of understanding exists. Following Selznick (1992) and Greenwood (1988), it can be argued that collective practice is practice institutionalised in a social collectivity. Institutionalisation has been defined “...to infuse with value beyond the technical requirements of the task at hand” (Selznick, 1992: 233). Not only is the immediate solution of a problem at play, such as carrying out a production process for a customer. The infused “values beyond” express this. Subcontractors’ interpretation of “values beyond” is clearly expressed in the stories and scenarios they tell when they justify their economic action. They find some types of economic action to be morally offensive, which shows the

presence of an institutionalised collective practice. There exists an agreement of understanding regarding economic action which can be referred to. Taking into consideration such institutionalised collective practice an institutional identity is shaped, and thereby an ideal of social collectivity in which the modes of social integration have shifted towards common personal values rather than following merely personal goals (Selznick, 1992). This is not to say that persons have no goals, but it emphasises the importance of the impact of consensus in social collectivities regarding symbols attached to certain acts.

Not all actors assign the same symbols to economic action, of course. However, there has to exist some consensus regarding the meaning of symbols (Shibutani, 1986) if people have to be able to fit together their lines of action (Blumer, 1969). This consensus is connected to the collective practice institutionalised in social collectivities. In the social collectivity of subcontractors, specific conventions and agreements are assigned to economic action such as “engaging in new cooperative relations” and “employing a new worker,” as we saw in table 4.

Social collectivities are “those populations whose members are parties to sets of arrangements, conventions, and agreements governing their behaviour” (Greenwood, 1994:37). Social collectivities are different from mere aggregate social groups where no arrangements, conventions, and agreements have been defined. According to Greenwood (1994), social collectivities:

- ◆ Specify status elevation and reversal.
- ◆ Provide possible and progressive routes for the management of reputation and self-worth.
- ◆ Do define situations that represent hazards to them.

These mechanisms make it possible for members to reconstitute arrangements, conventions, and agreements in the social collectivities. Having institutionalised sets of arrangements, conventions, and agreements, it is also necessary to specify collective practices leading to status elevation, reputation, self-worth, and the level of hazard within the social collectivity. Mechanisms for inclusion and exclusion of social collectivities have to exist. Otherwise it would be impossible for persons to judge their own membership of social collectivities or the membership of significant others, just as it would be impossible for the social collectivity to maintain itself as a social collectivity. Although subcontractors fear negative sanctioning if they engage in morally offensive economic action, which can result in termination of cooperative relations, collective practice is not a fixed

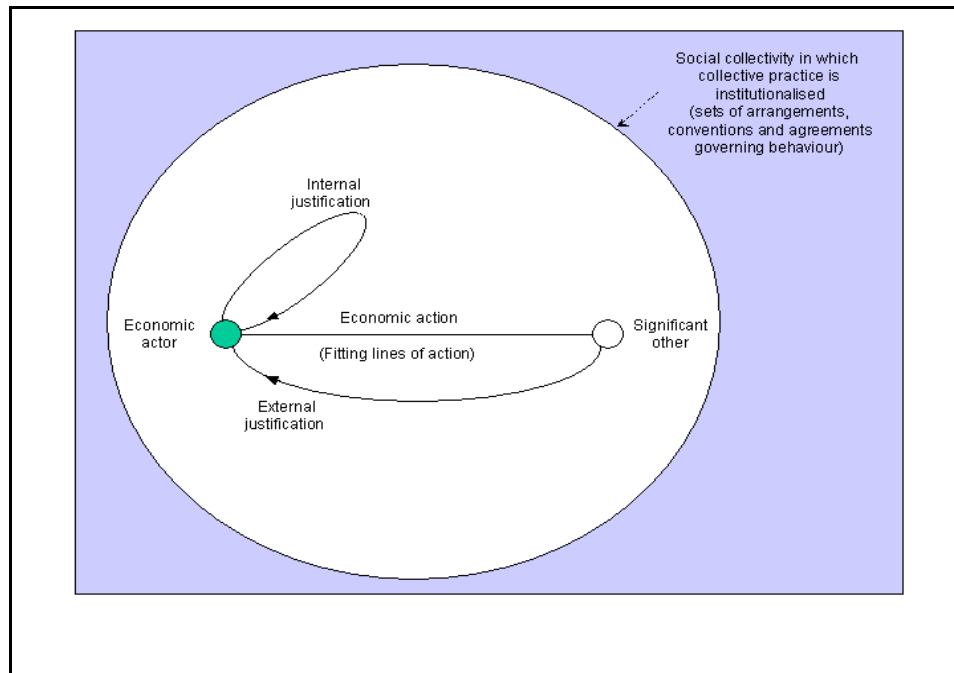
structure which has and will stay the same over time. Collective practice constrains and enables economic action, but it can be deviated from. Economic action is a personal choice of the subcontractor, although he exposes himself to sanctioning, may that be negative or positive, whenever carrying out economic action within a social collectivity. In that way the formation processes of social collectivities go on over time.

Institutionalisation of Collective Practice

In an attempt to understand why and how collective practice is constituted and further institutionalised and shared by several persons, the perspective of symbolic interactionism is beneficial, where meaning is described as a social product. To be social, meaning has to be shared or constituted by more than one person. According to Blumer (1969), people create a subjective objectivation of reality through symbolic interaction with others; hence meaning is not based on self-interaction or personal experience only, but is constructed through interaction with others as well. In this perspective, personal experience itself is a product of self-interaction and interaction with others. Although subjective to people, meaning arises from symbolic interaction with others, and positioning the one's lines of action to fit other's demands an ongoing social construction of meaning. If people do not construct meaning socially they cannot fit their lines of action to others'. A subcontractor stepping in and out of multiple manufacturing chains will find it essential that meaning is socially constructed in interaction with others. To complete his tasks, the subcontractor has to know and understand his role in the manufacturing chain, and his customer has to know and understand his own need for subcontracting in order to put out the order to the right subcontractor with the right competencies. Meaning is situational and always constructed anew, even in cases of pre-established and repetitive joint action.

Because significant others socially construct a meaning of subcontractors' economic action, subcontractors have to take into consideration the way in which economic action appears to others. The process of construction of meaning or personal experience through self-interaction and interaction with others points to the existence of the mechanisms I have previously labelled internal and external justification of action (Nygaard, 1999). Figure 1 illustrates the consequences of these justification processes for subcontractors' economic action, and shows what can be termed *social dimensions of economic action*.

Figure 1: Social Dimensions of Economic Action



External Justification of Action

The processes of external justification can be seen when others are aware of subcontractors' economic action and give it importance by assigning a name to it. The name transforms economic action into a social object with certain symbols assigned to it. The symbols can be publicly discussed and determine whether others positively or negatively sanction economic action. Economic action is the basis for symbolic interaction with others. Subcontractors' engage in economic action and others read symbols into it. If the symbol "stealing of work" is assigned to the economic action "constituting a new cooperative relation" or the symbol "stealing of worker" is assigned to the economic action "employing a new worker" the sanctioning is most probably negative and damages the reputation of the subcontractor, or worse, results in a termination of a cooperative relation or exclusion from further cooperative relations with one or several significant others. As figure 1 illustrates, the subcontractor engages in symbolic interaction with others

based on his economic action. The external justification of economic action is based upon and institutionalises further collective practice.

Due to the mechanism of external justification, the subcontractor does not engage in whatever cooperative relation is being proposed. He ascribes a sense of meaning to a possible engagement in a cooperative relation, which is done regarding to his position in the social collectivity; adjusting his economic action to the “values beyond” institutionalised in the social collectivity. This institutionalisation of “values beyond” was shown empirically, as subcontractors do not automatically accept working for others, even if they have the free capacity to do so and would benefit economically. They will reflect upon how that cooperative relation affects their reputation in the social collectivity of subcontractors. That is the reason why subcontractors may phone up others to ask for their interpretation of the symbols they attach to and read into certain instances of possible economic action. By doing so, economic action undergoes an external justification and helps create the personal identity project of subcontractors.

Subcontractors’ personal identity project is affected by the external justification, stemming from the symbolic interaction when lines of action are fit together with those of others in the social collectivity. If a subcontractor who acts according to his subjective meaning is negatively sanctioned and loses his cooperative relations, his “mis-fitting” of lines of action tells him that the symbols he attached to his economic action were not seen in the same way by others, and not done according to the institutionalised collective practice. It also tells him that he does not have the personal identity (when justified by others) he thought he had.

Reflected empirically, the meaning for the subcontractor in entering into a cooperative relation may well be one, while others may see another, that of “stealing work.” In this way meaning is a social product, and the subcontractor cannot be sure if he has really “stolen the work” until he becomes aware of the sanctioning by others. As such, meaning is social, constructed, and verified through symbolic interaction.

Economic action is closely connected to subcontractors’ sense of identity, which is in turn affected by their membership of different social collectivities. Belonging to a social collectivity makes it possible for the subcontractor to engage in his own identity project (Greenwood, 1994). The collective practice institutionalised in the social collectivity makes it possible for him to attach a meaning to his economic action (Blumer, 1969), according to the way in which it is sanctioned by the members of the social collectivity. As proposed by Blumer (1969), economic action is sanctioned on the basis of the symbols that members of

the social collectivity socially construct and attach to it. Subcontractors phoning up others to ask if taking this or that work will interfere with their present cooperative relation is also a way to symbolise that they do not intend to steal work from others, and a way to strategize according to the institutionalised collective practice.

Internal Justification of Action

When subcontractors engage in economic action, they create their own personal identity project. The subcontractor may accept an order, because he finds it is the right job to do, based on his technology and workers. In this way he sees himself as a qualified subcontractor concerning certain processes. The mechanisms of internal justification and the personal identity project emerge from the meaning of economic action socially constructed by the subcontractor.

Mead (1937) argues that people create their self / meaning by taking the attitude of significant others, seeing themselves through the others' eyes. This is what I label their personal identity projects with reference to Greenwood (1994). That is what subcontractors do when they argue what economic action is morally offensive in the social collectivity. They see their own economic action reflected in the eyes of others, and as such they socially construct their personal identity in respect to the way in which they believe it is in accordance with the view held by significant others in the social collectivity. That process of taking the attitude of others is an internal justification process that does not require economic action to be externally justified. The attitude of the other is taken before economic action, as a way to internally justify economic action when it is actually carried out. Before (and during) economic action, the subcontractor can objectify himself as a significant other, making it possible for him to construct the meaning of the symbols of his economic action, in accordance with the consensus of the collective practice institutionalised in the social collectivity. This process also becomes obvious when subcontractors internally justify their economic action because it has not led them to be negatively sanctioned by members of the social collectivity. With empirical references they are able to tell about morally offensive economic action which is based on their own internal justification of economic action. "If someone did this to me, I would find it morally offensive, so I had better not do so to him." A consensus of collective practice in the social collectivity helps this process of identity creation and internal justification of further economic action, while at the same time economic action according to collective practice leads to external justification by the members of the social collectivity. When asked, subcontractors have a clear-cut gut

feeling concerning which economic actions are positively and negatively sanctioned. That feeling is obtained by seeing themselves as significant others, and additionally by having their personal identity project affected by being sanctioned by others.

My argument is not that subcontractors spend their valuable time sitting behind their desk being philosophical, but in their identity projects they have concerns about their reputation, they feel a sense of honour and dignity, and they assess their own self-worth (Greenwood, 1994).

The personal identity project of every subcontractor may well be an unconscious or tacit process that is rarely or never reflected upon by the subcontractor himself with the labelling “personal identity project”. However, it is obvious that the subcontractor has to sell his processes to others, and seeing himself as the “best subcontractor for laser-cutting in stainless steel” does not attract orders. If the quality of raw materials, price, time of delivery, and design is out-competed by others, or if the subcontractor seen upon as unreliable due to prior instances of negative sanctioning having badly affected his reputation, the subcontractor is no longer the “best subcontractor for laser-cutting in stainless steel.” From this it is obvious that even if personal identity is ascribed to individuals, personal identity creation is not individual, but social. Following Greenwood, personal identity cannot be created by internal justification only.

Were there no external justification of economic action, the person could not carry out his identity project. Therefore the subcontractor creates a sense of identity by belonging to the social collectivity of subcontractors, where status elevation, management of reputation, management of self-worth, and definition of hazards are specified (Greenwood, 1994). Some situations are defined as representing hazards to the members of the social collectivity of subcontractors, such as “stealing work”, “stealing workers”, “increasing wages”, and “dumping prices”.

The flexibility stemming from decisional capabilities, teamwork, and manufacturing capabilities which define the nature of the firm, can be said to be progressive routes for the management of reputation and self-worth. Dignity is made empirically explicit when some subcontractors express they do not engage in certain economic action as it would be against the collective practice, such as “stealing of workers” from others or “working for competitors.” The sense of honour is made empirically explicit when subcontractors help each other by quickly stepping into manufacturing chains and “putting out fires,” and when they refuse to steal work from others for whom they subcontract, even though they often know their customers and could make an offer they could not refuse. The sense of reputation is made empirically explicit when the craftsmanship and the way in which one is

looked upon by others (as a good subcontractor not acting in a morally offensive way) are put up as central aspects in order to market oneself in the social collectivity of subcontractors.

In this way, the mechanisms of internal- and external justification are interrelated, entangled, and help explain why and how subcontractors learn from collective practice. They need to in order to create a sense of meaning and maintain their own personal identity project.

FURTHER REFLECTIONS AND UNSOLVED MYSTERIES

Why do subcontractors experience being a part of a certain social collectivity of subcontractors? In the situation of not having all resources at hand themselves, they know that they are dependent on other subcontractors for their own survival. They know that they themselves use colleagues (rather than competitors) when placing orders, and they know that they judge whether other subcontractors are colleagues or competitors due to their reputation. A reputation earned due to craftsmanship, flexibility, price, quality, delivery time - and maybe more important, due to the fact that the colleague is satisfied with his role as a colleague and does not strive to be a competitor. With the high degree of inter-firm relations between subcontractors, the potentially opportunistic subcontractor may think twice before he “steals” work or workers from another subcontractor. If his actions offend, the subcontractor puts himself in a position where further cooperative relations with others may be at risk due to the possible negative sanctioning by other members of the social collectivity. The emphasis on values rather than goals (Selznick, 1992) is institutionalised in the social collectivity, which exemplifies the sense of a social collectivity (Greenwood, 1994; Selznick, 1992). The membership of social collectivities constrains and guides economic action, and importantly, it enables subcontractors to carry through identity projects (Greenwood, 1994; Mead, 1937).

Reflecting upon the matter of time-invariance it is impossible to say how long collective practice institutionalised in the social collectivity of subcontractors stays the same. What is perceived by subcontractors to be “illegal” and “legal” economic action may well change over time. Nevertheless, I think a time-invariance exists where collective practice is institutionalised, creating a sense of consensus about how to do in the social collectivity of subcontractors. Otherwise I do not think I would have heard such similar stories and explanations of economic action from the subcontractors I interviewed. At the end of the day they all own a unique firm competing for orders in the market. Obviously, the economic conjuncture seems to

play a role for economic action. Subcontractors relate that there is a tendency that some steal workers, steal work, do illegal work, dump prices, and the like – in times when competition gets rough. It may well be that a hard economic decline will lead to a general shift in the beliefs, principles, and commitments governing economic action, helping to institutionalise a new collective practice, just as an increase of the economy or an introduction of a major breakthrough technology may do the same.

Returning to figure 1, an obvious question that still needs further clarification is, whether it is the internal or the external justification processes which affect personal identity projects the most. It is an empirically based question that cannot be answered theoretically. Aspects of power relations between subcontractors and significant others play a role, as do social positions of subcontractors vis-à-vis significant others when economic action is justified, which I have argued and shown elsewhere (Nygaard, 1997, 1999). I cannot judge when the social collectivity is to change, neither has it been my intention to do so. Instead I have discussed theoretical aspects behind the constitution of collective practice and its' institutionalisation, which led me to create figure 1 and draw the following conclusions.

CONCLUSION

This paper has reported the results of two empirical field studies of economic action of subcontractors in the Danish manufacturing industry. It has taken a particular micro sociological point of departure to show different micro-level structures and processes governing economic action. With its explicit focus on actors' motivations and own understanding of economic action, this paper has refined macro sociological perspectives such as the Business System perspective (Whitley, 1992a, 1992b, 1994, 2001), the Societal Effect perspective (Sorge, 1996, 2000), and the Regimes of Governance perspective (Hollingsworth and Streeck, 1994) clearly brackets the role of interacting subjects.

Three different types of economic action have been analysed:

- 1) subcontractors' constitution of cooperative relations with other firms (subcontractors or outsourcers).
- 2) subcontractors' recruitment of workers for the shop-floor.
- 3) subcontractors' engagement in research and development with other firms (subcontractors or outsourcers).

The empirical findings show an institutionalised collective practice among subcontractors, indicating the existence of a social collectivity. Overall, competition between subcontractors for cooperative relations is constituted by and institutionalises collective practice in the social collectivities of which subcontractors are members. Subcontractors have to be aware of the institutionalised collective practice of being able to act according to the sets of arrangements, conventions and agreements. Economic action to reach some ends is decided upon during a process of internal justification. The subcontractor justifies his economic action to himself, which may be “engaging in a new cooperative relation by phoning up a firm to ask if they have some work for me to do.” At the same time, economic action is externally justified by others, who read symbols into it, which may be “now he phones up my customer to steal my work.” I have argued that collective practice enforces a sense of social collectivity among subcontractors, in which there is a consensus of certain particularities about economic action. Based on symbolic interaction and peer group sanctioning, subcontractors constitute their identity projects and attach further meaning to their own economic action, making them capable of constituting and maintaining cooperative relations on the basis of which they earn a living. As such, competitive advantage follows from the ability to learn from collective practice. With the concepts of internal- and external justification, I have focused on some of the possible micro-level processes underlying economic action and I have shown how embeddedness matters.

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