

OPEN INNOVATION, SOCIAL EMBEDDEDNESS OF ECONOMIC ACTION AND ITS CULTURAL DETERMINANTS

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Abstract: *The paper concerns the position of the economy within a socio-theoretical conception as a part of the economic sociology, in the context of its influence of the economic action, especially in the macroeconomic view. Based on the secondary research we review and challenge the primacy of economy in the contemporary society and we focus on the cultural determinants for social embeddedness by using of examples.*

Key Words: *Social Embeddedness, Open Innovation, Economic Action, Cultural Determinants*

1. INTRODUCTION

By analyzing the literature related to the socio-economic issues, questions as *why did a propagation of market logics take place during the last thirty years as a social control form?* or *why did the political system lose the structural leverage on the economy which it had in the Keynesianism?* may arise. Explanation attempts refer to crisis-like phenomena in organized capitalism, on globalization processes, as well as to the ideological reorientations of economic policy and economic theories since the seventies years with an accompanied change of economic action settings. Some of these changes can be explained with the concept of embeddedness [1, 2] and social embeddedness [3] of the economic action. In the paper we take a deeper look on the different theories trying to explain value of the economy in the society theory. In the first part of the paper we clarify the term of the New Economic Sociology and its main issues and changes compared to the classical Economic Sociology. Further, in the second part we explain the embeddedness as a part of economic geography and its relevance for economic action. In the subsequent part we focus on the cultural determinants for social embeddedness and on social embeddedness in open innovation business model.

2. NEW ECONOMIC SOCIOLOGY AND ITS MAIN ISSUES

The economic sociology as a sub-discipline belongs to an important research area of the social science (sociology)

as a science in the modern, globalized society. Max Weber, a significant founding father of the sociology, dealt in the late 19th and early 20th century with the consequences of the economy on the society. His book *Economy and Society* [4] was the first strictly empirical comparison of social structures and normative orders and counts to the groundwork for further economic, sociological and ruling-sociological research. According to him, there is existing the so called "interest concept" which observe the economic actors as an exchange partner who act rationally to maximize the own profit. Based on this, he has concerted ideal types of economic actions and classified them into purpose (goal)-rational and value-rational action. He defines four types of the social action: (1) purpose (goal)-rational action, based on rational weighing and balancing between purpose, targets, means and consequences, (2) value-rational action, based on deliberate belief and confidence, in ethical, aesthetic or religious value of the own action, (3) affectional (emotional) action, based on the present emotional situation and emotions, (4) traditional action, based on the settled down, traditional custom. On this observation rests also the economic neoclassical research which considers the person as a *homo oeconomicus*. Homo oeconomicus is in the economic science the theoretical model of a „maximizer of the profit“ used for the abstraction and explanation of more elementary economic connections. In contrast to the homo oeconomicus concept, the *homo reciprocans* concept exists, which states that human beings are above all, forced by the desire to be helpful and to improve and look up at their environment. Other (newer) models of the social action use the concept of the reflection, the concept of the rational decision (rationally choice theory), or the concept of the "Autopoiesis" defined by Luhmann [5]. According to Luhmann [6] „A social system develops, whenever an autopoietic communicational interconnection which originates and differentiates itself by restriction of the suitable communication against an environment. Therefore, social systems do not exist out of the persons, also not out of the actions, but out of the communications“. From the perspective of a huge number of societal theories it appears to be not plausible, to grant the

economy with paradigmatic meaning in the understanding of the structures and dynamism of modern societies [7]. In particular, sociological differentiation theories deny just the primacy of a certain social function system prior-ranking to the other one. They argue that different functions must be fulfilled at the same time, so that social order can be stabilized. Societies must not only generate material resources, but they need compellingly the political control, cultural orientation, institutional procedures for the conflict solution as well as also the socialization of its members. According to Luhmann [5] societies differentiate in functional subsystems. The possibility of a hierarchical order of the functional subsystems with which a system could steer the others or to become the model in its function for other social subsystems is denied categorically by him. Luhmann's concept has been criticized with the arguments by the social-democratic control theories which however suggest the primacy of the political system, which can steer the configuration of social order about rational and democratically legitimized planning also in the case of the economic structures. Finally, the control theory by the political system had its background of experience in Keynesian theory and with it in the "adjusted economy". The realized own logic of capitalistic utilization processes via competition markets was narrowly enclosed in the post-war period by political defaults. Markets were politically limited, what enabled to oblige the economy in strong degree on the conversion of politically articulated social purposes and values. This horizon of experience has changed during the last thirty years drastically. Looking back on the years after the World War II, we can differentiate specific general orientations of the macroeconomic policy. Those stages related mostly to Germany and some other industrial developed countries as in the USA are [8]:

1. Postwar years – rules of "constrained" liberalism

Specifics: "embedded (in context integrated) liberalism". Parties, trade unions, employers and other decisive social forces represent the view that capitalism is to be constrained by numerous institutions.

2. The late 1960th and early 1970s years – Keynes' welfare state.

Specifics: for the first time the state pursued an active economic situation control, well-being-state benefits were expanded.

3. The late 1970s - criticism of the welfare state.

Specifics: the demand was: instead of the bureaucratic, achievement-hostile welfare state a slender competition state ("slim-state") should step ahead, which concentrates exclusively upon its nuclear tasks without of the interventions on the market (self-healing forces of the market needed to be used).

4. In the 1980th to middle of the 1990s – period of the slim-state.

Specifics: it lasted more than a decade, until the new general principle of the "slim-state" asserted itself against well-being-state institutions and corporation networks, union protests and remonstrance as well as in the federal system invested opposition. The cooperative relation between state and civil society which stresses the own responsibility of the citizens has been supported.

5. The late 1990s till this day - guarantee state.

Specifics: the role of the state changed from the public care monopolist to the public care manager. The result of it is competition-politically and socio-politically enclosed, but continuous denationalization policy of the state in economic matters.

6. Indications for a trend turn.

Specifics: the slim state which adjusts possibly many tasks to the market and only a little part of it becomes regulated, has recently lost to acceptance. The social problems like the poverty or have edged out the "reform traffic jam" of the political agenda of some states.

7. The results of the financial crisis.

Specifics: attempts to establish a new finance market regulation and state programs of economic measures show increased readiness for intervention of the state stronger in the capitalistic economy.

But as stated by Beckert [7] today we can speak at least about the control of competition markets only by political interventions for the realization of non-economic purposes but not of the serious re-definition of the market regulations and the role of the state. This opinion we share also today. Moreover the massive state interventions in connection with the financial crisis in 2008 do not contradict it. Thus just at the preservation of the market structures in an acute crisis situation and not a changed economic model, even in the case of the Greek crises, can be observed. The current position of the industrialized western states can be described with the time limited interventions in the role of the state as a protector against the catastrophes in the competition market. It shows that Luhmann's theory of differentiated functional systems, as for example function of the politics separated from economy, seems to be valid. The markets steer social exchange processes today in a more comprehensive manner than thirty years ago.

If we compare the economic sociology of the classical authors with the today's so-called „New Economic Sociology“ (NES), a significant difference can be found out. In contrast to the economic theories of Marx, Weber etc., NES faces as a type of economic-sociological research. It concerns rather that the stability of markets and organizations can be not explained only by economic condition factors and a "natural inclination" (Adam Smith) of the people to the use maximization of the profit, but is extremely socially and culturally interlinked. The NES shows in persuasive manner how capitalistic economists depend on an ingenious institution system, which is based on network relations between the actors, has moral action conditions and go back on culturally anchored knowledge supplies. In this context markets, enterprises or industrial districts are investigated in each case against the background of the question which importance the social context of economic action comes up for the coordination of extremely complicated and with varied risks afflicted economic exchange relations.

3. EMBEDDEDNESS AS A PART OF ECONOMIC GEOGRAPHY AND ITS RELEVANCE FOR ECONOMIC ACTION

Primary only the solution of the central coordination problems in the market exchange, of the competition, the cooperation and the value assessment allows the forming of reproducible role structures and with it forming of

stable markets. Coordination problem can be considered as the “situation in which the interests of negotiators coincide, and the aim is to try to reach an outcome in which those interests are satisfied. Informally, this is a situation in which each person has an interest in doing something that chimes in with what the others do” [9]. More officially, a clarification necessitates finding an balance and symmetry, meaning that no negotiator can do better by unilaterally doing something else given the options of the others. A good balance is one which each negotiator likes better than any other balance. Much societal action, including maybe inventing verbal communication and the social order, requires solving co-ordination problems. Institutional rules, social networks and cognitive or general principles allows, on the one hand, the solution of central coordination problems of economic action and to the other hand to adjust the distribution of economic wealth and lead with it to the stable orders. New Economic Sociology explains the most relevant coordination problems of today, which are linked with the term of embeddedness. Embeddedness is in the relational economic geography used as a concept for the embedding of economic activities in socio-cultural respect systems or embedding of an enterprise in his socio-cultural sphere.

According to Beckert [7], there are three important coordination problems:

- 1) Institutionalization of work as a paid labor (wagework). As stated by Polani [1] like as it was in similar way stated by Karl Marx or Adam Smith, the work power is defined as “fictive commodity” (fictive goods) which can’t be separated from the matching person. But the market acts, nevertheless, in such a way, as if the work power was any product like anyone. It leads to the regulations and institutionalization which are again different “constellations of forces” if we consider different national economies. It leads to the uncertainty in penetration of the capitalistic economic system.

- 2) Social risks based on defection of an exchange partner. With the exchange of commodities linked social risks, which originate from the possible defection of an exchange partner, constitute another coordination problem. The capitalistic economic system is characterized by a (discontinuous) process of the expansion of market relations. Hence, the division of labor processes must be integrated over bigger and bigger social and geographical distances. The bigger distance of the actors entails that, during the economic action, the expectation security of the exchange partners decreases; it signifies more insecurity for the contracting partners by which cooperation problems anew position themselves. The historical consideration reveals here systematic changes of forms of the embedding of economic action. The security of the relation between the contracting partners can be also analyzed by historical and cross-cultural perspective in order to find indicators for potential of cross-national contracting defection.

- 3) Valuing of the goods offered on the markets. Economic actors must value the goods offered on markets, in order that demand for them can originate. The appreciation and evaluation of the goods is connected, if it not determined by biological necessities,

in connection with the cultural and social sphere. An example for it is described by Zelizer [10] which exemplarily clearly describes the problem, mentioning the cultural limitation of market demand in the historical beginnings of the market for life insurances in America, to whose origin at first the religiously reasonable view had to be avoided, according to, life insurances have been declared to be “immoral” because with it, one is making a profit on account of the death of a beloved person. Similar examples are also today to be found in South Korea in regard of the chaebols and government interaction or in the case of Chinese Guanxi networks, which implies mutual obligations, assurance and understanding even when doing business, so that such social relationships have in those cases primary consequences in valuing of the goods. By exemplifying the coordination problems it becomes obvious that economic actions are linked with the socio-cultural sphere. It means that socio-cultural sphere can’t be observed as separated societal functional unit but as embedded action within the economic action. Also in this case so called „double movement“ is established, for example in form of institutionalization and global regulation as a reaction for contracting problem, in order to diminish the cases of defection. Similar movement can be observed in the role of the money which creates the primacy of economy [7]. According to Schimank [11] money exercises economical pressure on the other social subsystems in which the whole-social primacy of the economy manifests itself. So, only money provides a complete access to society, indeed, not in regulating manner, but as available or missing “energy” which is allowing impacts everywhere - or just makes things impossible. Therefore politics depends on economy (money), conditions of the politics are friendly to economy and wage demands of the private household as a consideration (equivalent) for the working achievements made available to the economic system, remain limited.

4. EXAMPLES OF CULTURAL DETERMINATES FOR SOCIAL EMBEDDEDNESS

The attempt to link the social embeddedness with the cultural determinants based on the cultural values and anthropological sources of the societal behavior, is an imputed venture which requires extensive research. It is also still a quite unexplored field of cross-cultural and social studies. We refer in this paper on two examples related to the cultural implication on social embedded economic actions. As stated by Rooks and Matzat [12] “embeddedness theory stresses the importance of concrete personal relations and networks of relations in economic life. Recent sociological research shows that effects of embeddedness may differ between social settings, and recent experimental anthropological findings reveal that levels of cooperation and norm-enforcement differ between cultural settings”. As a result of the research the author states that “in Germany sharing a history of previous transaction and the existence of alternative partners had a larger effect on trust than in the Netherlands” [12]. Also Rai et al. [13]

addressed the gap between the cultural determinates and social embeddedness by “integrating the social embeddedness perspective and the culture literature to theorize how and why relational factors affect the success of offshore information system (IS) projects that are strategic in nature”. Because of the argumentation the organization of the exchange connection has a important impact on economic action, embedded relationships in contrast to atomistic live-and-let-live interactions, display collective norms and values, decrease the need for observing and control, and make easy the transfer of information and incorporation of particular knowledge and capability. The economic inference of such embeddedness is accepted to be particularly significant in a circumstance such as strategic IS project improvement, where implicit knowledge has to be incorporated and characteristic problems have to be addressed. Explicitly, authors found that information exchange, joint problem solving, and trust, which are culturally based characteristics as for example project leader cultural values or shared norms between partnering firms, would influence the success of offshore project and would have effects of the reduction of the project cost overruns and improvement of client satisfaction.

5. SOCIAL EMBEDDEDNESS OF ECONOMIC ACTION AND OPEN INNOVATION

Collaborative networks of users can solve problems the companies are unable to solve themselves [14]. This new nature of innovation is more than only driven by new technologies. It is against this background that cooperation's are engaging in forms of open innovation [15, 16, 17, 18, 19] Open innovation is “. . . the use of purposive inflows and outflows of knowledge to accelerate internal innovation, and expand the markets for external use of innovation, respectively” [20]. Customer co-creation entails the active involvement of customers in the innovation activities of the firm [21] where value is co-created by multiple actors [22]. Customer innovation depends on the degree of freedom and the degree of collaboration at the front end and the back end of the innovations process [23]. But, is it the single customer deciding only by himself really, or isn't every customer decision embedded in a community or a social context? This collaborative production is a new kind of collective action that is socially embedded, e.g. in internet communities, and includes self-selected individual action as part of collective self-organization. Specifics of this social embeddedness have received less attention in the debate [24]. This is not surprising, because “few persons competent in sociological theory have any working knowledge of economics, and conversely few economics have much knowledge of sociology [25]. The New Economic Sociology therefore argue, that economic behaviour is “embedded in networks of interpersonal relations”, so that the assumption of atomized decision-making is wrong [3]. “Sociologist focus on the actor as socially constructed entity, as ‘actor-in-interaction’ or ‘actor-in-society’” [26]. Economic sociology is not limited to showing the social contextualization of economic action as such, but

needs to demonstrate a systematic connection between the embeddedness of economic action and historical developments [7] - the context. When we look at context as a unique set of actors and the unique reciprocal links among them [27] it is clear, that this reflexive practice leads to a more reflexive (open) innovation model [28, 29, 30, 31, 32, 33]. This *Embedded Innovation* [34] displays the dependency of innovation from social inclusion and the *emergence of innovation* from social interactions. This *innovation openness* differs fundamentally from the definition of open innovation [20], because “an innovation is ‘open’ in our terminology when all information related to the innovation is a public good – non-rivalrous and non-excludable. This usage is closely related to the meaning of open in the terms ‘open source software’ [35] and ‘open science’ [36]” [37].

6. CONCLUSION

In this paper we show different perspectives of the reasoning for economic actions and take a closer look at the earlier and contemporary view of value of the economy in the society theory. We explain that the concern of the New Economic Sociology consists rather in showing that the stability of the markets and organizations cannot be explained only by economic condition factors and by a natural inclination of the people to the use of maximization of the profit, but that it is enormously socially and culturally depended. The New Economic Sociology shows in persuasive manner how capitalistic economists depend on an ingenious institution system and at least on money, so that primacy of economy can be indicated. It lead to the institutional reactions and partially re-use of the earlier used and during the last 30 years temporarily rejected instruments in macroeconomic policy, however following the sense of the denationalization policy of the state in economic matters. At least embeddedness theory highlights the importance of real personal relations and networks of relations in economic life, which are based on the cultural settings. This collaborative production is a new kind of collective action that is socially embedded, but the specifics of this social embeddedness have received less attention in the debate. Open innovation from the New Economic Sociology point of view leads to a more reflexive or embedded innovation model. In further studies we aim to start the analysis in regard of the social embeddedness of economic actions in (open) innovation processes in Balkan countries to have a closer comparative look at the cultural implications.

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