Embeddedness

CRJ 523
Network Criminology

Learning Goals

- ❖ Understand the logic of transaction costs.

- ❖ Understand the logic of embeddedness and trust.

- ❖ Know differences in views of "embeddedness".

Do you *trust* Subway?

Example

- Do you *trust* Subway?

    - A hypothetical:

        - You walk in to Subway and describe to the "sandwich artist" what type of sub you want.

            - *Do you trust that they will create a delicious meal that is safe for you to consume?*

Example

❖ NO YOU DON'T!

Example

❖ You don't have to trust them.

   ❖ <u>Why?</u>

      ❖ Aligned interests

      ❖ Certainty, monitoring, and sanctioning capacity

      ❖ Regulatory agency governance

Example

- **NOT** a trust situation.

  - It is a *market* transaction.

    - There isn't any risk, it is hard to take advantage of you, and you know what you are getting.

      - The **"costs of managing the transaction"** are low.

        - Buying a delicious sandwich from Subway has little to no transaction costs.

Example

- **BUT**, what if:

  - It was hard to make the sandwich <u>just how you like it</u>.

    - Not just anyone can do it.

    - You have to tell them precisely what to do.

    - You don't know if they will get it right and you have to pay regardless.

Example

- They could mess up your sandwich!

- This is a *risky* situation and they made engage in *opportunism*.
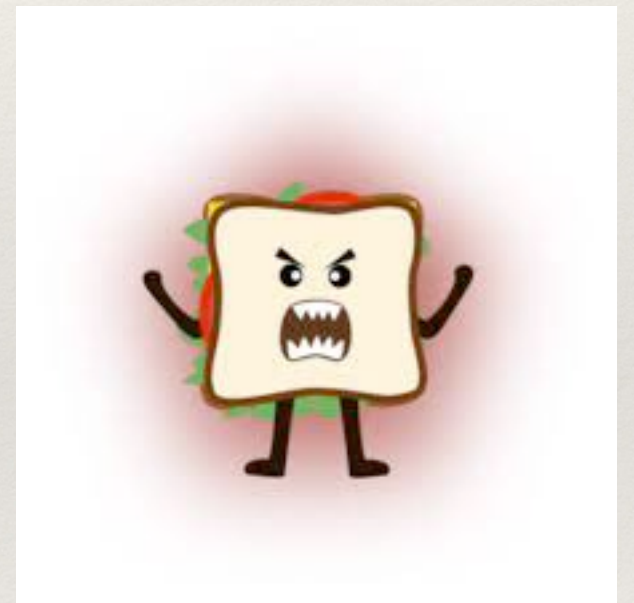
Example

❖ Getting the sandwich <u>just right</u> is a situation where the **"costs of managing the transaction"** are *<u>high</u>*.

   ❖ How do you solve the problem?

Example

- Hire someone, train them, and contractually obligate them to get it done right!

  - Form a *hierarchy* (i.e. vertical integration)

  - Because the *market* is too costly.

    - **Impose governance!**
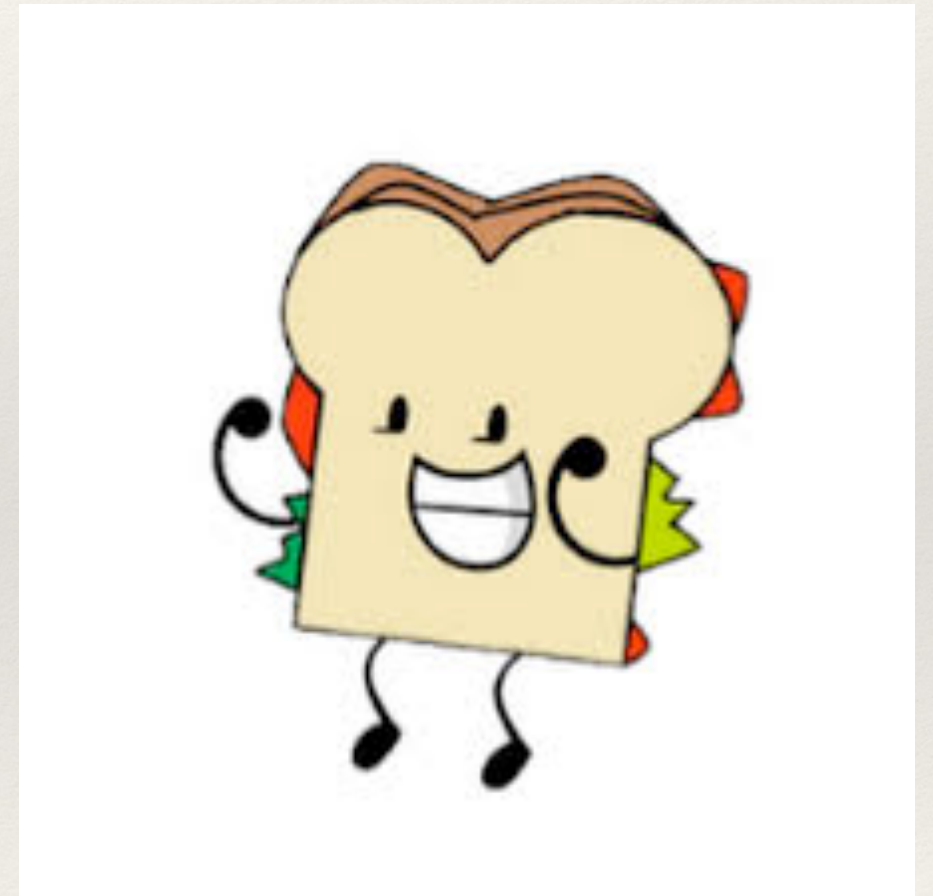
Transaction Costs Theory

- **<u>Opportunism</u>** <u>can occur when transactions involve</u>:

  - Asset specificity (your detailed sandwich specifications)

  - Uncertainty (not sure what the outcome will be)

- When opportunism is high, individuals will invest in "governance structures" to prevent abuse.

  - These are the "transaction costs" of such exchanges.

    - This will happen because it is more efficient (discriminating alignment hypothesis) than market transactions.

Trust and Embeddedness

- Granovetter (1985) argues that the world does not work like this.

  - Most transactions take place between firms and involve obligations "embedded" in social relations.

    - **Trust**: The belief that someone will act in your interest when they have incentives to be opportunistic.

      - Social relations create informal governance, reducing malfeasance (though increasing potential).

Example: Buying a used car

* <u>You need a new ride</u>.

    * Option: go to a used car lot.

        * *But,* the transaction costs are high.

            * You can't anticipate all potential problems (incomplete contract).

            * You might not know what existing problems to look for (asymmetric information).

Example: Buying a used car

❖ <u>You need a new ride</u>.

❖ Op... ...t.

  ❖ *...* ...s are high.

    ❖ ... l potential problems

    ❖ ... what existing problems to ... nformation).

Example: Buying a used car

❖ You *still* need a new ride.

 ❖ Option: ask your friends where they got their sweet (used) ride.

  ❖ Reputation is an informal device that will facilitate trust.

   ❖ Why sell you a jalopy if it will curtail future sales?
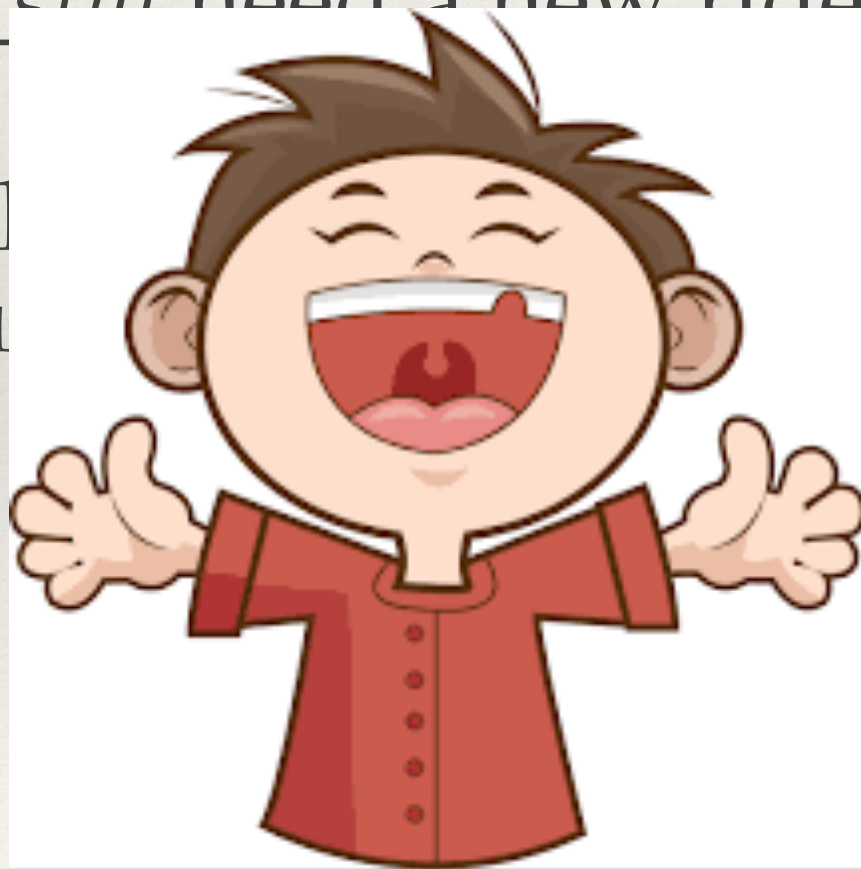
Example: Buying a used car

- You *still* need a new ride.
  - Op[...]ds where they got their sweet (u[...]
    - [...]ormal device that will facilitate
    - [...]opy if it will curtail future sales?

Embeddedness

❖ Transactions do not involved **atomized** actors where:

    ❖ You generally just trust people (e.g. tipping while visiting).

        ❖ "Over socialized"

    ❖ Or you do not consider future transactions.

        ❖ "Under socialized"

❖ IRL, transactions occur in a space where social relations create governance.

    ❖ This is what is meant by **embeddedness**.

Example: Gossip

❖ Your friend just gave you some *juicy* info on some sketchy stuff they did.

    ❖ The information has value.

        ❖ *Do you leak the info and cash in on the social value of it?*

Example: Gossip

* Probably not because your friend has <u>control over you</u>:

  * dyadic embeddedness

  * network embeddedness

A different view of embeddedness…

❖ How are you embedded in a "persistent education trajectory?"

A different view of embeddedness…

- How are you embedded in a "persistent education trajectory?"

  - You are good at it and you like it (human capital)

  - It is where your friends are (social capital)

  - You know how things "work around here" (cultural capital)

A different view of embeddedness…

❖ **Criminal** capital is often thought of this way.

    ❖ Accumulation of capital through social relationships and experiences develops *motivation* and *ability* to engage in crime.

    ❖ People have capital, so they use it to maximize value.

    ❖ Is this the same concept as Granovetter's embeddedness?

Questions?

Break

Discussion

Network Theories and Theories of Networks*

Explanatory Model	NETWORK THEORIES ("networks as *cause*")		THEORIES OF NETWORKS ("networks as *effects*")
	Explanatory Goal		*Explanatory Goal*
	Social Capital/ Performance ("why are the benefits?")	Homogeneity ("why are nodes similar?")	Network Structure ("why is the network this way?")
Network Flow (ties as pipes)	<u>Capitalization</u> Definition: Acquisition to resources through ties and this influences human capital which contributes to performance. Examples: Access to unique information via bridging ties. Information control benefits of structural holes. Solving problems through access to diverse knowledge.	<u>Contagion</u> Definition: Nodes become similar through a process of "infection" where various "bits" are passed from one node to the other. Examples: Diffusion of innovations. Peer influence. Disease transmission.	Examples: Homophilous Selection ("why do people with the same attitudes cluster together? They sort into these groups")
Network Coordination (ties as bonds or "prisms")	<u>Cooperation</u> Definition: Networks provide benefits that can coordinate multiple nodes in order to bring all their resources to bear on a problem. Examples: Unionization. Collective efficacy in neighborhoods.	<u>Convergence</u> Definition: Nodes adapt to their environments, and as a result nodes with similar structural environments will demonstrate similarities. Examples: Administrative assistants have higher levels of communication in organizations.	Examples: Popularity ("why do some individuals receive more ties than others?")

*Adapted From Borgatti and Halgin (2011) and adams (2020).