

THE EMBEDDED MARKET · CHAPTER THREE

# Where Embeddedness Goes Wrong

*Chapter Three of The Embedded Market*

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## A NOTE BEFORE YOU READ

This work is offered for education and leadership development. It is not legal, financial, accounting, investment, medical or psychological advice; take the advice of a qualified professional who knows your circumstances. Companies and events are described from the public record as the author understands it; characterisations are the author's analysis. Examples are illustrative, and no particular outcome is promised to any reader.

## ABSTRACT

In 1832 the British government appointed a Royal Commission to inquire into the Poor Laws, the parish system that had relieved the poor of England for more than two centuries. Its report, published in 1834, was among the most influential documents of the century. It described a countryside demoralised by relief: labourers paid from the rates whatever their wages, employers cutting pay because the parish would make up the difference, families multiplying on public money. The report's diagnosis produced the New Poor Law of 1834 and the workhouse. Karl Polanyi built a chapter of The Great Transformation on this history. In his account, the allowance system that magistrates in Berkshire introduced at Speenhamland in 1795 prevented a free market in labour from forming for a generation.

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## The report of 1834

In 1832 the British government appointed a Royal Commission to inquire into the Poor Laws, the parish system that had relieved the poor of England for more than two centuries. Its report, published in 1834, was among the most influential documents of the century. It described a countryside demoralised by relief: labourers paid from the rates whatever their wages, employers cutting pay because the parish would make up the difference, families multiplying on public money. The report's diagnosis produced the New Poor Law of 1834 and the workhouse.

Karl Polanyi built a chapter of *The Great Transformation* on this history. In his account, the allowance system that magistrates in Berkshire introduced at Speenhamland in 1795 prevented a free market in labour from forming for a generation. "During the most active period of the Industrial Revolution, from 1795 to 1834," he writes, "creating of a labor market in England was prevented through the Speenhamland Law." The allowance, in his reading, was an attempt to keep the economy embedded that went badly wrong, and its collapse cleared the ground for the labour market.

In 1963 the economist Mark Blaug published a paper with a title that said what it meant: "The Myth of the Old Poor Law and the Making of the New."[7] Blaug went back to the evidence the Commission had gathered and argued that it had been collected to support a conclusion already reached. The allowance system, he found, was less widespread than the report implied, often a response to low wages and seasonal unemployment rather than their cause, and much of the damage attributed to it could be explained by other things that were happening at the same time. Later historians have argued about the details since. The sociologists Margaret Somers and Fred Block, writing in 2005, traced how the Commission's story of perverse incentives became a template for welfare debates two centuries later.[8]

Polanyi had taken the Commission's account largely at face value. That is the first fair critique of his book, and it is a serious one.

This chapter sets out the strongest objections to both founding texts of this book, and to the way their ideas are used now. Each is stated as fairly as the evidence allows. Each is followed by what a careful reader can do with it, because a critique that leaves the idea unusable has usually been aimed at the wrong target.

## One: the history is not always right

The Speenhamland chapter is the best-known case, but the wider objection is that Polanyi wrote history in the service of an argument. His account of pre-market societies leaned on anthropology from the 1920s and 1930s that later fieldwork complicated. His picture of a single nineteenth-century attempt to create a self-regulating market compresses a long, uneven and contested process into a clean story.

The objection lands. It does not, however, reach the structure of the argument. Polanyi's central claims, that land, labour and money are not produced for sale, that treating them as if they were requires deliber-

ate institutional work, and that societies resist the treatment, do not depend on Speenhamland being what the 1834 report said it was. Somers and Block's reading is, if anything, an extension of his point: the Commission's story was itself an act of institution building, a narrative that helped make the labour market by describing the alternative as a failure.[8]

The way through is to read Polanyi as a framework for asking questions, and to check every historical example he gives against later scholarship before relying on it. For a leader, the practical form of this is simple. When someone tells you that an older arrangement, a guaranteed hours scheme, a long-standing supplier relationship, a mutual structure, "failed", ask who wrote the report that says so, and what they were trying to justify. Blaug's paper is a model of the question.

## Two: embeddedness can mean anything

The second objection is conceptual. If every economy is embedded, as Polanyi sometimes seems to say and as Fred Block argues he came to believe, then the word stops distinguishing anything.[9] If only pre-modern economies were embedded, the claim is historically doubtful, as Mark Granovetter argued in 1985 when he wrote that modern markets are also shot through with personal ties and that older ones were more calculating than the anthropologists allowed.[10] Greta Krippner's review of the field found that sociologists had come to use embeddedness as a way of studying everything around the market while leaving the market itself unexamined, as if it were the one thing that was not social.[11]

This is a fair hit, and the house takes it seriously because it applies to the house's own language. A word that can describe everything explains nothing.

The way through is to use embeddedness as a matter of degree and of channel, not as a property something has or lacks. The useful questions are specific. Through which relationships does information about quality travel? Which of those relationships can carry a complaint, and which only a price? How quickly does a problem raised at the edge reach someone who can act? Those questions have answers, and the answers differ between two firms in the same industry. That is the version of the idea this book uses, and it is closer to Hirschman than to Polanyi.

Ammanuel Santa Anna's *Ecstatic Economics* holds itself to the same discipline when it draws on the traditions Polanyi studied. Of gift economies, it says plainly that they "were not utopias", that the potlatch "could be coercive", and that gift obligations "could create hierarchies of debt and dependence." Then, in four words: "We are not romanticizing." An embedded economy is not automatically a kind one. The question is what the embedding carries.



*Three: embeddedness can suffocate*

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## Three: embeddedness can suffocate

That leads to the third objection, which is empirical and comes from inside the sociology that made embeddedness popular. In a study of twenty-three apparel firms in New York, published in 1997, Brian Uzzi found that firms whose relationships with their partners were embedded, built on trust, fine-grained information and joint problem-solving, did better than firms that dealt with everyone at arm's length. But he also found a threshold, beyond which the benefits of embeddedness reversed. Firms that were embedded

with too few partners, or too exclusively, became vulnerable: closed to new information, dependent on a small circle, exposed when a key partner failed.[12] He called it the paradox of embeddedness.

Every leader who has run a family firm, a long-standing partnership or a team that has worked together for a decade will recognise it. The relationships that carry trust can also carry blindness. The supplier you have known for twenty years may be the last to tell you that a competitor has a better process, because neither of you is looking.

The way through is to treat embeddedness as a portfolio, not a virtue. Uzzi's finding points to a mix: some deep relationships that carry trust and fine information, and some arm's-length relationships that keep you exposed to what the wider market knows. The practical test is whether any of your deep relationships would tell you something that embarrassed both of you. If none would, the depth has become comfort.

## Four: voice is expensive, and not everyone can afford it

The fourth objection is to Hirschman, and it is the one leaders most need to hear. Voice costs something. It takes time, it takes standing, and it carries risk. The person who complains may be labelled difficult. The employee who raises a problem may be blamed for it. The member who speaks up may be the first to be let go.

The research on organisational voice has spent thirty years documenting these costs. Elizabeth Morrison and Frances Milliken, writing in 2000, described organisational silence as a collective state, not an individual choice: a climate in which people share the belief that speaking up is futile or dangerous, and stay quiet together.[13] James Detert and Ethan Burris, studying 3,149 employees and 223 managers in a restaurant chain, found that the leader behaviour most consistently related to employees offering improvement ideas was managerial openness, that the relationship ran through employees' sense of psychological safety, and that it was strongest among the best-performing employees.[14] That last finding is Hirschman's railway in a restaurant. The people with the most to say are the ones most attentive to whether it is safe to say it, and among the first to stop.

Santa Anna's canon work *Organizational Soul Work* names a form of this that is easy to miss because no one chooses it. He calls it structural silencing: meeting formats with no space for reflection, feedback forms with no open-text field, decisions that move faster than dissent can form. "Structural silencing is particularly insidious because it appears neutral," he writes. "No one is *deciding* to suppress truth. The structures simply don't create space for it."

The way through is to lower the price of voice deliberately and to measure whether you have. Detert and Burris's study suggests where to start: what leaders visibly do with what they are told matters more than how inspiring they are. A leader who acts on one small concern within a week, and says so publicly, has reduced the cost of the next concern. A leader who thanks people for raising issues and then does nothing

has raised it. The same applies to a household. A child who mentions a worry and is met with a lecture learns the price of voice in that house.

There is a finer point here that leaders often miss. The price of voice is not set by the leader's intentions, which are invisible, but by the last three or four occasions on which someone spoke, which everyone remembers. A single public dismissal of a concern can raise the price for a year. That is why the tool at the end of this chapter looks backwards at what actually happened to concerns, rather than forwards at what the leader hopes will happen next time.

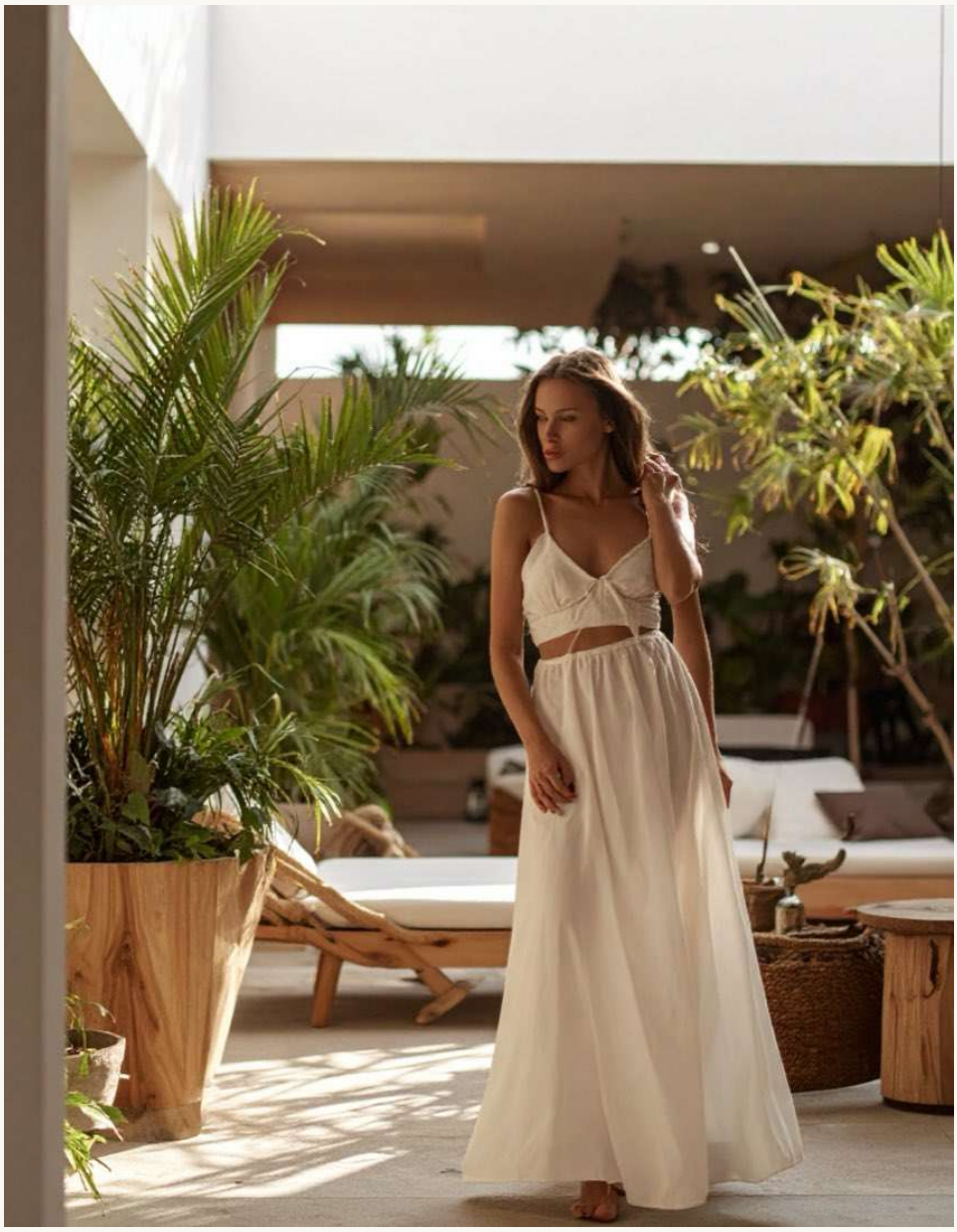
## Five: loyalty can be used against the loyal

Hirschman's loyalty holds exit back long enough for voice to work. The objection is that the same attachment can be used to hold people in place after voice has stopped working, or to keep them from using it at all. "We're a family here" is a sentence that can mean *you can tell us anything* or *you would not betray us by complaining*. Organisations that invoke loyalty most often are not always the ones that reward voice most.

Later researchers made this concrete by adding a fourth response to Hirschman's three. In 1983 Dan Farrell, studying how employees respond to dissatisfaction, found a pattern that was neither leaving, speaking nor staying in faith: neglect, the slow withdrawal of effort and care by people who have stayed but stopped trying.[15] Caryl Rusbult and colleagues, testing the expanded model in 1988, found that high satisfaction and high investment in a job encouraged voice and loyalty, while better outside alternatives encouraged exit and, perhaps surprisingly, voice as well.[16] People who could leave were more willing to speak, because speaking cost them less.

That finding turns the loyalty objection into an instruction. An organisation that makes leaving very hard, through non-compete clauses, punitive vesting, or sheer dependence, may reduce exit. It does not thereby get voice. It is as likely to get neglect.

The way through is to stop treating loyalty as something the organisation is owed and to treat it as something it earns by honouring voice. In practice that means two things a leader can do. Make it safe to leave well: generous notice, decent references, no punishment for departure. And make it visible that staying and speaking changes things. People who know they could go, and who see their concerns acted on, are the ones who stay and tell you the truth.



*Six: the double movement can go to dark places*

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## Six: the double movement can go to dark places

The last objection is the gravest, and Polanyi made it himself. Society's countermovement against the market, in his account, did not always produce wise protection. In the 1930s it also produced fascism, which promised to protect people from the market by abolishing their freedom. A theory that celebrates society pulling the market back inside has to say what kind of society, pulling in what direction.

Santa Anna's book holds the same line in its chapter on governance, and it is the right warning to carry into any application of this book. "Policy without consciousness change," he writes, "produces bureaucratic

structures that reproduce the old patterns in new forms." A protective structure built by people in fear tends to protect fear. Re-embedding the market is not automatically liberating. It can mean capture by incumbents, protection for the comfortable, or a closed circle that calls itself a community.

The way through is to judge every re-embedding by whether it widens voice or narrows it. A licensing rule that protects patients and lets them complain is a re-embedding worth having. One that protects practitioners from competition and from complaint is a closed shop. A supplier partnership that shares information both ways is embedded. One that locks a smaller firm into dependence on a larger one is a hold. The test is Hirschman's, applied to Polanyi: after the change, can the people inside it still say what is wrong, and does anyone have to listen?

## What the critics cannot show either

Fairness runs both ways. Blaug's revision of the Poor Law history weakens one of Polanyi's examples. It does not show that labour can be treated as an ordinary commodity without consequence, and nothing in the research since has shown that. The voice literature shows that speaking up is costly and unevenly distributed. It does not show that organisations do better without it, and Freeman's finding that grievance channels are associated with lower quit rates points the other way. The paradox of embeddedness shows that relationships can become too close. It does not show that arm's-length dealing is better on average, and Uzzi's own firms suggested the opposite.

Each critique, read carefully, narrows the idea and makes it more usable. That is what good criticism does to a living idea. It is also, as chapter 4 argues, how a living system stays alive.

## The report, read again

Go back to 1834. The Commission had a question, and it gathered a great deal of evidence. What it did not do was listen to the labourers whose lives the allowance system touched, except as objects of the inquiry. The voice that might have complicated its story was not in the room. Blaug's correction, a hundred and thirty years later, was in part an act of returning that missing voice to the record.

Every organisation writes its own reports of 1834: the exit interview summarised for the board, the engagement survey reduced to a single score, the customer churn analysis that lists reasons nobody was asked. Santa Anna's *Organizational Soul Work* describes what a leader can do instead when a hard truth is finally said aloud, and it is harder than it sounds: resist the reflex to explain or fix, and for a moment, simply receive it. For that moment, he writes, "the only appropriate response to a truth that has been suppressed for months or years is to let it land."

The critics of Polanyi and Hirschman have, between them, let a great deal land. The ideas are better for it.

## The Tool: The Voice Cost Ledger

A tool for a leader of a team of any size, or for a household. It measures what it costs, in practice, for someone to tell you something is wrong. Allow one hour to set it up and ten minutes a month to keep it.

1. List the last ten concerns. Write down the last ten times someone raised a problem, objection or idea with you, in the past six months. For a household, include the children. If you cannot find ten, that is the first finding; write down as many as you can and note the number.
2. Record five facts for each. For each concern, record: *who raised it* (role, not name, if you will share the ledger); *how* (in a meeting, in private, in writing, through someone else); *how long it took you to respond* in days; *what you did* (acted, explained why not, deferred, nothing); and *whether you told them what you did*.
3. Score the cost. Mark each concern with one point for each of the following that is true: they raised it only in private; they raised it through someone else; your response took more than seven days; you did nothing; you did not tell them what you did. A concern scoring zero cost its raiser almost nothing. A concern scoring four or five was expensive.
4. Find the missing voices. List the people or groups who report to you, supply you or live with you. Mark everyone who does not appear among the ten. Then mark which of those are among your best performers or most committed members. Detert and Burris's study suggests these are the voices most sensitive to cost.
5. Lower one price. Choose the single cost that appears most often in your ledger, slow response, no follow-up, private only, and change one habit to lower it for the next month. Common examples: a standing rule to reply to every concern within three working days, even if only to say when you will decide; a short line at the end of each team meeting naming what was changed because someone spoke up.

Reading the ledger. Average cost per concern should fall over three months. The number of concerns may rise; that is the measure working, not failing. If the missing voices start to appear, you have lowered the price of voice where it was highest. If cost stays high and concerns fall, you are moving toward silence, and the next exits will tell you what the concerns would have.

Your page — run the The Voice Cost Ledger here, dated.

A note on method

Polanyi's sentence on Speenhamland is quoted from the first edition, *The Great Transformation* (Farrar & Rinehart, 1944), chapter 7, checked against a full-text scan of that edition.

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