PERSPECTIVE

The Firm as Social Networks: An Organisational Perspective

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ABSTRACT This paper offers an organizational perspective on the firm in new economic geographies. It starts with the premise of the firm as a production function in neoclassical economics and a cost minimisation device in transaction cost economics. By pointing out the inadequacy in these mainstream economic perspectives on the firm, I draw upon recent behavioral and managerial theories to develop a relational conception of the firm as social networks in which actors are embedded in ongoing power relations and discursive processes. In further elaborating this relational perspective on the firm as an organisational device, I show how the firm is governed through social relations among different actors, how it is a site of contested ideologies and political representations among these actors, and how space and geographical scales matter in shaping its social construction. Taken together, this organisational perspective aims to shift our research agenda in urban and regional development from promoting the growth of the firm per se to understanding how the firm serves as a relational institution that connects spatially differentiated actors in different places and regions.

Introduction

Since Alfred Marshall’s characterisation of the representative firm, the theory of the firm has fascinated generations of economists and, more recently, other social scientists. As Williamson (1990: 1) notes, the theory of the firm is “one of the two key analytical constructs on which microeconomic theory rests (the other being the theory of consumer behavior).” Classical and neoclassical economics view the firm as simply a set of production units responding to competitive initiatives in accordance with the law of

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diminishing returns. Whereas the market is regarded as the most efficient means of organizing economic activities, the firm is simply seen as “a black box which responds directly to changes in costs and the pressures of the market” (Hodgson 1988: x). The firm converts inputs into outputs according to its production function and market demand. Demsetz (1988: 189; original italics) explains that in neoclassical economics, “the firm is defined, not to approximate the activities of a real firm, pre- or post-corporate organisation, but as the theoretical institution in which production (for others) takes place.” Arrow (1999: vii; quoted in Williamson 1999: 1089) observes recently that “[a]ny standard economic theory, not just neoclassical, starts from the existence of firms. Usually, the firm is a point or at any rate a black box.” As neoclassical economics is primarily concerned with issues of price equilibrium and optimal distribution of resources, the firm does not occupy an important position in its research agenda.

More recent behavioral and managerial theories of the firm, however, have attempted to unpack the firm as a collection of productive resources (Garnsey 1998; Penrose 1995) and alternative governance structures (Williamson 1975, 1985, 1999) organised by managers with different expectations, bounded rationalities, and information matrix. The emergence of such a quasi-contractual approach to the theory of the firm has seriously challenged the neoclassical “black box” conception of the firm. In his classic paper, Coase (1937: 390) argues that “the main reason why it is profitable to establish a firm would seem to be that there is a cost of using the price mechanism.” His work is followed up much later by Williamson (1975, 1985, 1996) and Williamson and Winter (1991) who foreshadow the birth of the “new institutional economics.” Williamson goes one step further to explain the alternative “governance structures” in coordinating economic activities and economizing transaction costs within capitalist economic organisations. In this transaction cost approach, the firm is necessarily seen as “a nexus of treaties” made up of numerous contractual and non-contractual governance structures (Aoki, Gustafsson, and Williamson 1990). The firm becomes an alternative governance structure to the market. The approach is less concerned with the firm as a productive force in the economy than with the firm as an organizing entity in the economy.

Given these different developments in the theory of the firm in neoclassical and institutional economics, how then is the firm conceived in economic geography today (see also Barnes 1996; Dicken and Malmberg 2001; Dicken and Thrift 1992; Taylor and Asheim 2001; Yeung 1998a, 2000a, 2001, 2002a)? Reflecting certain general theoretical developments in economics, the “firm” has been a contested analytical category in economic geography.1 Much neoclassical economic geography takes the firm as a self-contained and homogenous “black box” capable of producing economic outcomes in space. This conception of the firm is clearly evident in the “geography of enterprise” approach that was preoccupied with its locational and behavioral patterns in space. This approach viewed the firm as an unproblematic category. The emergence of a radical approach in the 1970s and 1980s led to a major theoretical and empirical reorientation of research in industrial (economic) geography. This radical literature subsumed the firm under dominant capitalist class relations such that capital’s logic explains the firm’s spatial behavior (see a review in Scott
The recent emergence of “new economic geographies,” however, has challenged these pre-existing conceptions of the firm (see Barnes 2001; Lee and Wills 1997; Thrift and Olds 1996; Yeung 2003, 2005; cf. Clark, Feldman, and Gertler 2000; Scott 2004; Storper 2001). Influenced by a more contingent and hybrid interpretation of the “economic,” new economic geographers have drawn insights from network theories and post-structural management theory to develop alternative conceptions of the nature and organisation of the firm. The “firm” is seen as a problematical category in new economic geographies not just because the mechanistic and atomised view of the firm in neoclassical and transaction cost economics is unacceptable (see also Tomer 1998). The concept of the efficacy of hierarchical power within the firm has been criticised as “the atomized and anonymous market of classical political economy, minus the discipline brought by fully competitive conditions—an undersocialized conception that neglects the role of social relations among individuals in different firms in bringing order to economic life” (Granovetter 1992: 65). Although other economists have attempted to incorporate social relations in their analyses of the firm (e.g., role positions and role sets), the problem remains unsolved:

In economic models, this treatment of social relations has the paradoxical effect of preserving atomized decision making even when decisions are seen to involve more than one individual. Because the analyzed set of individuals . . . is abstracted out of the social context, it is atomized in its behavior from that of other groups and from the history of its own relations. Atomization has not been eliminated, merely transferred to the dyadic or higher level of analysis. (Granovetter 1992: 58, 65)

More fundamentally, the firm is an “undersocialized” analytical category in much economic geography. This paper therefore aims to review and reconceptualise the nature of the firm in the practice of new economic geographies from an organisational perspective. My concern is not so much with the origin and growth of the firm per se, that has been fairly well theorised in evolutionary and institutional economics (see Aoki 2000; Hodgson 1994, 2000; Ménard 2000; Nielsen and Koch 2004; Penrose 1995; Williamson and Winter 1991). Rather, I am concerned with explaining what exactly the firm is and what it does at the “ground level,” i.e., from the perspectives of social actors themselves. As a means of organizing social life, the firm is a constellation of network relations governed by social actors. Instead of being a mechanistic production function or an abstract capitalist imperative, it is a contested site for material and discursive constructions at different organisational and spatial scales. The firm is necessarily a site of power relations and power struggle among actors; it is a socio-spatial construction embedded in broader discourses and practices. The firm, in short, is a legal organisational entity arising from relational constructions of social networks and actors embedded in these networks (Yeung 1998a, 2005; see also Amin and Cohendet 1999, 2004; Grabher and Powell 2004; Gulati, Nohria, and Zaheer 2000). The firm is not a static “point” or “black box” as identified by Arrow (1999) above. It is indeed a dynamic and evolving organisation constructed through ongoing social relations and discursive struggles among social actors.
Coincidentally, this revitalised interest in the firm mirrors the material world in which the firm is continuously reorganised and reconstituted at different spatial scales. The late twentieth century witnessed the emergence of new organisational forms (e.g., strategic alliances and inter-firm networks) that are significantly different from the hierarchical control of the firm’s activities through vertical integration. These new organisational forms naturally resulted in different spatial configurations of economic activities. To say the least, these dynamic changes to the firm and the capitalist global economy have made existing theories in economic geography inadequate (cf. Dicken et al. 2001). Although the boundary of the firm is increasingly difficult to identify in empirical terms today (see Badaracco 1991; Holmström and Roberts 1998; Sanchez 1999; cf. Markusen 1999), it is conceptually important to map out the firm and its wider relations with other actors and institutions in society and space. Mapping the power geometries of the firm entails significant analytical attention to the relational power of social actors and their territorial organisation.

This paper is organised into four sections. The next section develops an organisational perspective of the firm and examines how it serves as an institutional structure for various actors to organise social life in three interrelated aspects. The second section discusses the role of social actors in the governance of the firm. The third section explores the material and discursive constructions of the firm enacted through different power relations. The penultimate section demonstrates how these power relations are differentiated at different spatial scales and how they contribute to different territorial outcomes. The concluding section draws some implications from this organisational perspective for practicing new economic geographies. I am concerned here with the analytical (re)orientation of future research in new economic geographies.

Towards A Relational Perspective on the Firm: An Organisational Analysis

Drawing upon insights from new economic geographies for an organisational analysis of the firm and cognisant of parallel developments in organisation studies (e.g., Boden 1994; Czarniawska 1997; Frost, Lewin, and Daft 2000; Whitley 1999), this section develops a relational view of the firm as a constellation of network relations governed by social actors through both material and discursive practices. These practices are embedded in specific power geometries and are highly differentiated at various organisational and spatial scales. The firm becomes an organisational entity to coordinate everyday life and the social relations of actors. It is no longer simply a production unit (or a “black box”) in the capitalist global economy (see also Dicken and Thrift 1992; Dicken et al. 2001). This conceptualisation of the firm differs significantly from the neoclassical view of the firm as a production function. It also diverges from the transaction cost view of the firm as a nexus of treaties because the firm is about more than just exchange and transactions. This emphasis on social actors is important because apparently even in evolutionary economics, social actors have no distinguishable role in the firm. As proclaimed by Nelson (1995: 68), “firms are the key actors, not individual human beings. Of course (implicitly) firms must provide sufficient inducements to attract and hold the individuals that staff them. But within these
[evolutionary economics] models, individuals are viewed as interchangeable and their actions determined by the firms they are in.”

More importantly, the firm is about how the everyday life of actors is conducted in the process of engaging production, exchange, and transactions. The firm is really about organizing social relations in different places and at different spatial scales. Its very constitution is made up of socio-spatial relations that define the core of the firm. To paraphrase Gibson-Graham (1996: 15), the firm does not have an “invariant ‘inside’.” It is constituted contingently by ongoing social relations at different organisational and spatial scales. This conceptualisation of the firm extends Penrose’s (1995: 9) theory of the growth of the firm in which she argues that the firm is “a complex institution, impinging on economic and social life in many directions, comprising numerous and diverse activities, making a large variety of significant decisions, influenced by miscellaneous and unpredictable human whims, yet generally directed in the light of human action.” To her, the firm is both an administrative unit and a collection of productive resources with certain boundaries (Penrose 1995: 24). The growth of the firm is significantly dependent on its existing repertoire of resources and managerial competence. The relational framework in this paper, however, goes beyond the growth of the firm per se and investigates its organisation and socio-spatial constitution.

Such a relational view of the firm clearly stresses interconnectedness, hybridities, and possibilities. Its intellectual origin can be traced back to the “substantivist” school (social organisation approach) in economic anthropology after Max Weber ([1947] 1964; [1922] 1978) and Karl Polanyi (1944; [1957] 1992). To the substantivists, the economy does not have a separate status from everyday social life as claimed by classical and subsequently neoclassical economists. Instead, the substantivists regard the economy as an instituted process to produce a structure with a definite function in society. As argued by Polanyi ([1957] 1992: 34), “[t]he human economy, then, is embedded and enmeshed in institutions, economic and noneconomic.” Such modern organisations as the firm, therefore, are not seen merely as an outcome of economic rationality, but also of social rationality. This view of modern organisations has given rise to the notion of the socially constructed nature of modern organisations (Granovetter 1991; Yeung 1998a).

It is one thing to view the firm as a social construct; it is yet another thing to clarify exactly what this social construction of the firm is about. The relational framework of the firm argues that the firm is an organisational unit bringing together diverse social relations in which actors in the firm are embedded. These relations may be interpersonal relationships, family linkages, or simply social ties. Through the interpenetration of these relations, the firm is constituted not by individual actors who are seen as rational and self-interested in neoclassical economics. Rather, the firm is constituted by the broader relations of these individual actors that also define the boundary of the firm (see Badaracco 1991; cf. Holmström and Roberts 1998; Sanchez 1999). Although the firm is bounded by certain contractual obligations—a phenomenon well-explained in transaction cost economics—these obligations are effectively carried out through specific social relations among actors within the extended boundaries of the firm. As such, the activities of the
firm (e.g., production, exchange, and transactions) are the collective outcome of realizing social relations and obligations by these actors. The firm exists because it serves to provide an organisational framework for the coordination of these social relations by specific actors. Its existence is not predicated on the minimisation of transaction costs per se.

In fact, the constant integration and disintegration of economic activities in the history of modern organisations (see Chandler 1962, 1990) indicate that the firm does not necessarily result in low transaction costs. In reality, the economisation of transaction costs should be better approximated as an outcome of economic institutions, not their cause. The fundamental problem with transaction cost economics is that “the idea of transaction costs has become a kind of catch-all phrase and it is not employed with sufficient precision and clarity” (Hodgson 1988: 180). One thing for sure though is that the firm provides an organisational site in which actors interact and produce economic outcome (e.g., lowering transaction costs). For example, the success of Benetton as a firm is explained with reference to its embeddedness in a geographically specific set of social relations (e.g., complex family business and subcontracting relations in Italy) that allow Benetton to innovate and exploit the advantages of flexibility in production and organisation:

The Benetton we see is quite different if we look only at the focal firm or if we look more broadly at the social relations in which it is embedded. What makes Benetton possible, in part, is a sophisticated application of “telematics” [computer applications in design, production and distribution] to enable a far more flexible manufacturing system than an older, labour-intensive organization could have achieved (Clegg 1990: 124).

This relational view of the firm as embedded in complex production networks therefore explicitly acknowledges the important role of social actors and their embedded relations in governing the firm—a theoretical approach explicitly developed in the global production network perspective in economic geography (see Coe et al. 2004; Henderson et al. 2002).

In conducting social relations and processes in the firm, actors construct certain discourses and engage in certain practices that may or may not be directly linked to material reality. For example, the board of directors may call for organisational reengineering based on their perception of the corporate “bottom line.” But as Schoenberger (1998) shows in the case of Nike, the issue of “competitiveness” is not so life threatening to the survival, let alone profitability, of the firm. The reference made by the board of directors to declining quarterly results to justify corporate restructuring (and hence the layoff of employees worldwide) may be an explicit discursive strategy for this group of actors to curb the power and welfare of labour. It is less a competitive strategy per se, but more likely a labour strategy to weave out the so-called “expensive” labour. It is clear that the firm is constituted not only by socio-spatial relations, but also by the differentiated power geometries of these relations. As a modern business organisation, the firm is not only the result of social actions, but also very much embedded in ongoing power struggles and discursive relations between social actors. The firm is not neutral in discursive and ideological terms, but is value- and power-laden in its functions as an organisational site for the coordination of social (economic) life. To elaborate on these conceptual ideas, the following sections will
explore how social actors govern the firm through social networks, how they engage in
discursive practices through differentiated power relations, and how these constructions
and practices are geographically differentiated and scaled.

The Role of Social Actors in the Governance of the Firm

So much of the literature in economics and economic geography focuses on the firm
devoid of social actors. As the firm is viewed as representing the collective interests of
social actors and all firms in an industry/economy are the same (i.e., the notion of the rep-
resentative firm), there is no need in much of this literature to focus on variations in the
action and behavior of individual actors such as shareholders, investors, strategists, man-
agers, executives, workers, and so on who really constitute the firm’s existence. The firm,
as it stands, becomes the effective governance structure in facilitating production,
exchange, and transactions that the market mechanism cannot cope in a cost-effective way.
As argued above, however, the firm is not necessarily a transaction-cost-effective institu-
tion substituting the market. Ghoshal and Moran (1996) argue that the firm is not merely
a substitute for structuring efficient transactions when the market fails; it possesses unique
advantages for governing certain kinds of economic activities through a logic that is very
different from that of a market. Similarly, Holmström and Roberts (1998: 75) note that
firms are “complex mechanisms for coordinating and motivating individuals’ activities.
They have to deal with a much richer variety of problems than simply the provision of
investment incentives and the resolution of hold-ups.” One such advantage of the firm iden-
tified in this paper is its role in organizing social life among actors. The important theo-
retical issue here is to understand the attitudes, behavior, and power relations of social
actors in the firm. This organisational perspective contributes to an emerging “managerial
theory of the firm” (Bartlett and Ghoshal 1993; Schoenberger 1997; Thrift 2000; Yeung
2005) that would be more attuned to the above premises of the key actors within the firm.
This allows us to illuminate the corporate world as seen by these actors and to encompass
the issues that they perceive to be important.

Because the firm is necessarily made up of social actors and their embedded relation-
ships, it may be more useful theoretically to focus on the ways in which the practices of their
social actors and their intertwined relationships are organised. In the recent managerial
theory of the firm, researchers believe that the firm has particular capabilities to create and
enhance social and intellectual capital (Nahapiet and Ghoshal 1998; Tsai and Ghoshal
1998). Some of these organisational capabilities are embedded in the interactions of social
actors and intra-firm networks of their relationships. These interactions and networks are
effectively the key mechanisms through which social actors govern the firm. This organi-
sational perspective on the firm ascribes the power of governance to social actors, instead
of the abstract logic of transaction cost minimisation. After all, even the execution of this
transaction cost logic of the firm requires specific social actors. It is therefore important for
us to understand how social actors govern the firm by building a constellation of network
relations that effectively defines the firm and its organisational boundary.

If the firm is one key organisational unit for understanding modern social life, we can
come to grapple with the formation and dynamics of networks through a network typol-
ogy. In this typology, networks can be formed and classified into three types: (1) intra-firm networks; (2) inter-firm networks; and (3) extra-firm networks. I do not intend to repeat the nature of these networks here (see Cooke and Morgan 1993; Grabher 1993; Yeung 1994, 1998a, 2000a). The aim is to focus instead on how social actors govern the firm through these three types of networks. Through *intra-firm networks*, social actors can build up strong core competencies of the firm as a whole through internally coordinated and differentiated organisational structures and processes (see also Doz and Hamel 1998; Nohria and Ghoshal 1997). These competencies can be expressed in firm-specific knowledge (e.g., technology and patents), social capital (e.g., trust relationships), and organisational innovations (e.g., strategic business units). These competencies are predicated on the effective building of “corporate culture” within the firm by these firm-specific actors. Together, social actors in the firm form specific *networks of practice* that socialise other actors into their networks on the basis of shared representation, purpose, norms, and values (see also Amin and Cohendet 2004; Schoenberger 1994, 1997; Storper 1997; Storper and Salais 1997). For example, the top management of the firm may institutionalise certain good practices in relation to shop floor labour and technologists that in turn promotes shared understanding among these actors and brings them together to form a specific network of practice. Alternatively, the top management may socialise specific middle managers into their network of practice and achieve organisational learning, innovation, and entrepreneurship (for an example of Asian firms, see Yeung 1998b, 2002b).

Social actors may also govern the firm by building *inter-firm networks*. The Benetton example earlier in this paper has shown that trust relationships among actors in different firms (i.e., Benetton and its subcontractors) through certain networks of practices can enable long term sustainable growth of the firm as a whole within specific localities and regions. The industrial district and “learning region” literature has shown that actors from different firms have created important inter-firm synergies through their ongoing social relationships (see MacKinnon, Cumbers, and Chapman 2002; Smith et al. 2002). The notion of territorialised networks refers to inter-firm relationships in specific regional development context and contributes to the understanding of network complexity in firm-specific contexts. Storper (1997: 20) and Scott (1998, 2001) argue recently that territorial development is significantly embedded in networks of relational assets and geographical proximity particularly at the local and regional scales such that “territorialization is often tied to specific interdependencies in economic life.” At another spatial scale, social actors in the firm may build relationships with actors from local firms in other countries to form transnational inter-firm networks (Coe et al. 2004). This transnational inter-firm network is socially organised and can be strategically deployed to facilitate the extension of the firm’s economic activities across space (e.g., foreign direct investments and international trade). Social actors, whether from the parent firm or its foreign affiliates, control strategic resources and powers to shape these inter-firm networks “at a distance.” There is a mosaic of different geographies of powers exercised by different social actors in these transnational inter-firm networks (Marschan, Welch, and Welch 1996; Yeung 1998c, 2005; see empirical examples in Mitchell 1995; Olds and Yeung 1999; Yeung 2000b, 2004; Yeung...
In the words of Schoenberger (1999: 210) and Dicken (2003a), there are indeed different “places” within the firm.

The access to local business and other forms of inter-firm networks in the host countries may also enhance the overall performance of the firm. The strategic strength and spatial reach of social actors through transnational networks determine the competitive advantage of the firm. When foreign affiliates are capable of building up strategic strength through a process of spatial integration (intra-firm networks) and local embedding (inter-firm networks) rather than through reliance on the ownership-specific advantages of the firm, it is much more likely for the firm as a whole to compete effectively at the global and local levels. Globally, the firm can pool together strategic strengths from its networks of local subsidiaries to achieve product and technological excellence, market penetration, and effective management. Locally, the firm can compete less so on the basis of its ownership-specific advantages, but more on the basis of its embeddedness in local inter-firm networks. While the firm may have the capabilities to act at a distance, an effective strategy for local competition requires flexibility and responsiveness. In this way, embedded networks enable the firm to achieve simultaneously global integration and local responsiveness that form the basis of competing in an age of alliance capitalism (see Dunning 1997; Dunning and Mucchielli 2002; Gomes-Casseres 1996; Prahalad and Doz 1987). Economic geographies of the firm can thus be understood within this global–local dialectic (Yeung, forthcoming).

Finally, the governance of the firm can be executed by social actors through extra-firm networks. Because these extra-firm networks comprise firms, nation states, research institutions, non-profit and non-governmental organisations, and other quasi-organisational forms at all levels, the governance of the firm becomes more diffused through the regulatory capacities of these institutions and organisations. The role of firm-specific actors in the governance of the firm is complemented by the broader institutional framework in which the firm is embedded. These extra-firm synergies can often be enhanced through the notion of “institutional thickness” developed by Amin and Thrift (1994: 15; see also Amin 1999). They defined “institutional thickness” as “the combination of actors including interinstitutional interaction and synergy, collective representation by many bodies, a common industrial purpose, and shared cultural norms and values.” For example, a firm may enroll into extra-firm networks through specific arrangements made by its top executives and local government authorities. In return, the firm is granted certain incentives and privileges that facilitate its presence and growth in specific localities. These incentives and privileges, however, may constrain the future trajectories in which the firm grows. They may serve as a complementary form of governance. In Asia, for example, actors in firms may build strong interpersonal relationships with other actors from government institutions (see Yeung 2000c, 2002b, 2004). These extra-firm networks facilitate the extension of special incentives and privileges to the firm, and thereby, the involvement of those government actors in the governance of the firm. On the other hand, the firm may benefit from extra-firm networks at the expense of local authorities and institutions. Actors in the firm may be driven by specific motives to negotiate with local authorities for investment.
benefits. In Phelps, Lovering, and Morgan (1998) study of LG, a South Korean conglomerate, in South Wales, this phenomenon is known as “institutional capture” in which the host institution is locked into the strategic imperative of the firm (see also MacKinnon and Phelps 2001; Phelps and Raines 2003). This example illustrates the importance of understanding the politics of the firm and its networks at different organisational scales.

**Constructing the Firm: The Politics of Representations and Contest**

By building firm networks, social actors are capable of exercising power and control of the firm “at a distance.” Although there may well be formal control and coordination mechanisms between different operating units of the firm (Gupta and Govindarajan 1991; Harzing 1999), the realisation of such mechanisms is often dependent on the discursive powers of those social actors involved: humans (chief executive officers, local managers, and network partners) and non-humans (communications equipment, guidelines, rules, conventions, corporate finance, and so on). The relationships between different units of the firm are often socially constructed in the sense that they involve the participation and interaction of social actors, rather than merely formal rules. It is these elements of social construction that underscore the emergence of the firm as an organizing device for the coordination of social life.

A central component of any such analysis of the firm is the existence of *differential power relations* within an actor network that shape the processes of constructing discourses and discursive practices in the firm. Powerful actors are those who drive networks and make things happen. Their ability to do so depends on their asymmetrical control of key resources (physical, political, economic, social, and technological). In the network literature, most commonly, it is suggested that power in a network is a function of *positional-ity* within the network (e.g., centrality) or as being derived from “the strength of association between actors in the composition of the network” (Bridge 1997: 619). But the structure of a network tells us little about the qualitative nature of the relationships that is far more important than structure per se. Instead, I view power as the *capacity to exercise* which is realised only through the process of exercising. The control of resources does not automatically imply that the actor is powerful until power is exercised—such control is only a necessary, but not sufficient, condition for the ascription of power to any actor. In other words, power should be conceived as a *practice* rather than a *position* within a network (see Allen 2003; Pratt 1997). As argued by Allen (1997: 60; original italics):

[P]ower is an *inscribed capacity* of either individuals or institutions—inscribed in the sense that power is something that is possessed by virtue of the social relationships which constitute you or an institution . . . To speak of multinational firms in this context is thus to speak of the powers they possess by virtue of their capitalized multi-country operations and the workforces which comprise them, as well as the web of nation-state and market relationships which envelopes them.

It is, however, possible to ascribe causal power to networks per se when network relationships generate an emergent effect so that the sum of these relationships is much greater
than that of individual actors (Yeung 1994, 2005). The configurations of these emergent network relationships provide another central dynamic to drive networks. In many conceptualisations of the firm, unequal structural power relations provide an explicit starting point of analysis. The radical economic geography literature (e.g., Harvey 1982; Hudson 2001), for example, derives structural understandings of the firm on the basis of the existence of unequal relationships between capital and labour and members of particular class formations. I would concur with these approaches that any discussion of the firm must address power relations, although not necessarily with the economistic essentialism that has characterised some radical approaches. This would include the power of social actors to control resources, and their power to influence events, to participate in the economy to varying degrees, and to exclude or marginalise other actors. These dimensions of economic power are fundamental to the operation of the firm, whether they are explicitly recognised in structural relationships or subsumed within the market mechanism (wherein power is seen as residing not with social actors, but with a mechanism that is assumed to operate in the name of efficiency, without prejudice or structural inequity).

One way or another, power drives the firm and its constellation of networks, be it corporate, political, or social power. This power circulates and flows through actor-specific strategies, techniques, and practices. In gathering and exercising their power, social actors in the firm often engage in certain discursive constructions, representations, and practices. There are different aspects to this process of discourse construction and discursive practices. First, certain social actors in the firm may construct a discourse to advance specific corporate action, although this construction may not present a coherent “united front” against other social groups (e.g., workers). As explained in the case of Nike above, some actors in the top management may construct a “competitiveness discourse” to legitimise their ultimate aim to restructure the firm for better profit and “bottom lines” (see also Schoenberger 1998). This discursive construction is necessary because it relegates the “problem” to a different organisational scale and avoids the loss of power and respect by the top management. The firm is seen as losing its “competitiveness” to an external competitor(s) discursively constructed by these actors in the top management. This justifies specific corporate action taken by them to regain “competitiveness.” From this analysis and other recent work (see McDowell 2001a, 2001b; O’Neill 2001; O’Neill and Gibson-Graham 1999; Pritchard 1999), the business of the firm is about constructing (multiple) discourses to get social actors organised for a collective profit-making purpose of production, exchange, and transactions. These discourses are often translated into certain discursive practices that further enhance and legitimise unequal power relations among different social groups in the firm.

Second, this discursive construction is not always acceptable to other social actors in the firm. For example, the labour union may pose a counter discourse of “exploitation” that demystifies the “competitiveness discourse.” Such politics of discourses may lead to different representations of the firm and severe contest of power among social actors from different networks in the firm. Whereas the top management may sometimes coherently represent the firm as “uncompetitive,” the labour union may view the prevailing corporate
practices of the firm as “exploitative” and refuses to accept the “competitiveness discourse.” The neoclassical assumption of a representative firm is clearly misleading here because it does not represent what a firm is like in reality—it is a complex constellation of different network relations and their interactions. The representative firm is an ideal-typical construct from the perspective of the market. In other words, the market recognises a representative firm that produces, exchanges, and transacts goods and/or services. There is no attempt in this neoclassical concept of the firm to unpack what exactly the firm does and who runs the firm. This “undersocialized” view of the firm may not be entirely wrong because it helps to understand the abstract role of the firm in an economy. But its usefulness ends there because it fails to enlighten us on the nature of the firm and its social-spatial constitution in reality, as all these subtleties or “soft” elements of the firm are assumed away in neoclassical models of the firm. They cannot be modeled because they corrupt the elegance of mathematical calculations.

Third, the specific functions of the firm may be understood differently by different social actors in the firm. The top management may want to view the firm as a production device to generate profit for its shareholders and, sometimes, their own pockets. Middle managers may see the firm as an avenue for career advancement. Having little hope for career advancement, some shop floor employees may think of the firm as a site for everyday social interaction with other fellow employees. Or the firm may just be seen as a workplace to earn enough wages to support whatever personal and family endeavors they have. The motivations of social actors in the firm, or even in the same social class (e.g., workers, top managers, and so on), are not necessarily the same all the time. Incoherence seems to be a key attribute in defining different social groups in the firm. It is thus very difficult to conceptualise the firm as an undifferentiated production unit in the economy. There is no particular “centre” or “core” of the firm, unless we define the top management as the centre of the firm by virtue of their executive power and management fiat (see McDowell 2001b; Schoenberger 1999). When it comes to getting the productive work done, however, the core power of the firm must be its labour force (at least by their sheer number!) and/or its technologies embodied in technical staff. The firm is made up of different social actors and their networks interacting with each other in both hostile and/or cooperative ways.

**Territoriality and Scales in the Constructions of the Firm**

Closely related to the issue of organisational loci is the importance of territoriality in constructing the firm (Yeung, forthcoming). How does geography shape these constructions of the firm? If networks are social structures and relational processes constituted by intentional actors and are causal mechanisms capable of effecting empirical changes, they must be recognised as having distinctive time–space specificity in their workings such that no regular conjunctions of events and outcomes can be fully predicted by network formation. We can expect networks to create a variety of different spatial configurations in economic life. Some networks are relatively more localised because they are dependent on the traded and untraded interdependencies of geographical agglomeration achieved
through territorial embeddedness (see, for example, the literature on new industrial spaces: Clark, Feldman, and Gertler 2000; Storper 1997; Storper and Salais 1997). Other “global” networks, however, are controlled “at a distance” when the key actors are spatially distanced from the sites where empirical events happen (see Coe et al. 2004; Dicken et al. 2001; Henderson et al. 2002). In all cases, however, a specific spatial configuration is created and connected to other configurations at smaller and larger geographical scales. Territoriality and scale matter because they shape the constitution of the firm through their geographical effects on social actors and their network relations. Understanding the territoriality of actor networks helps us to understand the nature and behavior of the firm at different organisational and geographical scales.

For example, just think of the relationship between the child labour employed by a Nike subcontractor in Indonesia and the executive board of Nike in the U.S. This subcontractor is strongly embedded locally in Indonesia through extra-firm networks, thereby being able to circumvent local labour laws. This child labour abuse by the subcontractor, however, may be discovered by some non-governmental organisations (NGOs) or media reporters from outside Indonesia and popularised unfavourably in the U.S. This local event in Indonesia may trigger the Nike board in the U.S. to reconsider its relationships with all its subcontractors that result in tightening of its suppliers’ code of conducts. This change in corporate practice may come voluntarily on the basis of the top management’s reflexivity. The board may also be forced by the bad publicity generated by the NGOs to declare the end to the use of child labour by its subcontractors. The Indonesian subcontractor may be finally dismissed from Nike’s global production networks. What appears to be a local phenomenon may be represented by institutions at another geographical scale (e.g., the U.S.). The outcome may become global when Nike forbids all its worldwide subcontractors to employ children for the manufacturing of all Nike products.

The Nike example shows that by virtue of its flows in different spheres (i.e., capital, labour, goods, and services), the firm is a de facto territorial device for organizing social life. The actors and networks that constitute the firm are territorially embedded. Emphasizing this general issue of territorial embeddedness in the firm and its networks is important because it sidesteps a potential weakness in emphasizing the networked nature of economic activity. Moving away from the “topological presupposition” (Thrift and Olds 1996) of the “bounded region” runs the risk of losing sight altogether of profound geographical variations across localities and regions. More significant, however, is the tendency to denigrate the role of the territorial state in shaping the governance of the firm. While some approaches in economic geography successfully incorporate the state as an actor, the state as a territorial entity is less well recognised. A network link that crosses international borders is not just another example of “acting at a distance,” it may also represent a qualitative disjuncture between different regulatory and cultural environments (see, for example, Taylor 1994, 1995; Yeung 1998c). Although networks cross-cut national borders, the integrity of the latter can be maintained because networks themselves are often compelled to “localize” differently within specific national territories. National regimes of regulation continue to create a pattern of “bounded regions.” Networks of social actors and
their economic activities are not simply superimposed upon this mosaic, nor is the state just another actor in these firm-specific networks.

The regulatory environment created by different states is still an immensely formative influence on the firm and network development. Even firms operating in highly internationalised sectors still tend to retain distinct organisational forms and practices that largely reflect the regulatory environment of their home country (see Christopherson 1999; Dicken 2003b; Doremus et al. 1998; Guillén 2001; Whitley 1999). At the same time, however, the very fact that production networks cross nation-state boundaries means that territories (at all scales) are, in effect, “inserted” into firm-specific networks whose coordinative and control mechanisms may lie elsewhere. This has implications beyond that of the old debates on the “external control” of local economies (Dicken 1976). A relational perspective on the firm encourages us to address the direct and indirect connectivities between firms and economic activities stretched across geographical space, but embedded in particular places. We have a mutually constitutive process: while social actors and their firm-specific networks are often embedded within territories, territories are also embedded in these networks. As space is socially constructed through culturally mediated processes, the spatiality of social relations has to be negotiated by social actors, and this process may be intertwined with how actors make sense and construct their corporate reality. Understood as such, different territorial configurations of regions and industrial ensembles may be closely linked to corporate constructions and both may thus mutually influence each other (see Coe et al. 2004; Dicken and Malmberg 2001; Yeung 2005, forthcoming).

To sum up this relational framework for understanding the firm in new economic geographies, we need to start by identifying both social actors and their firm-specific networks because the firm is constituted by “spaces of network relations.” Social actors in the firm can be represented by different operating units, business divisions, labour unions, subcontractors, and other organisational forms. We then need to understand the intentions and motives of these social actors and the emergent power in their network relationships. These relationships are embedded in particular spaces. This, of course, does not mean that all social actors in each network must be bound together in exactly the same territory. Rather, there are distinct “spaces” for social actors to engage in network relationships. These “spaces” can include localised spaces (e.g., financial districts in global cities) and interurban spaces (e.g., webs of financial institutions and the business media that bind together global cities). The firm is made up of social actors engaged in relational networks within a variety of “spaces.” The analytical lens we adopt can thus vary widely. It may be geographical, it may be sectoral, and it may be organisational. It may be some combination of these. The key point is to recognise the fundamental interrelatedness of all of these phenomena, not in some abstract sense as shown in neoclassical economics, but in seriously grounded forms.

**Conclusion**

This paper has proposed a relational perspective on the firm through an organisational analysis of its foundations, constituents, and socio-spatial formations. Much of the litera-
ture in economics and economic geography has taken for granted the firm as a production unit in the capitalist world economy or as a passive organisational entity driven by abstract capitalist logic (see a review in Clark, Feldman, and Gertler 2000; Maskell 2001; Taylor and Asheim 2001). Drawing upon insights from recent theoretical advances in new economic geographies and organisation studies, I have unpacked the firm as a “black box” and showed that it is more than an abstract economic entity in search of profit. Instead, it provides an organisational site for coordinating everyday life among and by social actors. The firm is therefore a constellation of network relations governed by social actors at different organisational and geographical scales. In governing the firm, different social actors build network relations with actors within the same firm, and from other firms and non-firm organisations. These firm-specific networks form the organisational basis for social actors to govern the firm. To ensure the efficacy of governing the firm, social actors engage in discursive constructions of the firm to represent their interests and legitimacy. These constructions are possible because of uneven distribution of power and the capacity to exercise power. The firm becomes a site of contested discursive practices. These contested practices, however, are fundamentally territorial because firm-specific networks are spatially embedded and the consequences of contest by different social actors are geographically specific (see an empirical example of the breakdown of General Motors’ just-in-time production system in Herod [2000]). In conclusion, this relational perspective on the firm elevates the firm from an “undersocialized” theoretical status in mainstream economics. It also goes beyond the social constructionist view of the firm and its organisation, because the firm is recognised as an organizing device for the advancement of the collective interests of its social actors, whether these interests are political, social, and economic in outlook.

There are at least three theoretical implications of this relational perspective for the study of firms in the global economy. First, because social actors, not the firm as an abstract entity, become the key analytical focus, it is important for us to shift our attention from the underlying capitalist logic of the firm to the relations among these firm-specific actors. As argued by Schoenberger (1999: 211), we need to study “not only where ‘the firm’ (conceived as unitary agent) meets the world (competitors, markets, suppliers), but also internally as competing subcultures strive for validation and expression. In short, it’s not just the cavalry versus the Indians, but the Thursdays versus the Yorkes, that are centrally at issue.” By exploring their interrelationships and interconnectedness, we are in a better position to understand the nature of the firm, its functions in the economy, and the organisation of its operations. The successful shift in our analytical attention may bring us back to McNee’s (1960) plea for a more humanistic economic geography. After all, the firm in economic geography should be concerned with its organisational capacity and its benefits to actors in society and space. In doing so, we would have gone a long way from the abstract economic modeling of the firm that tells us little about what the firm and its actors really do (see also Tomer 1998).

Second, there is a need for a more fluid and open conception of the firm in new economic geographies. It is one thing to believe that the firm is about relations among actors,
it is quite another thing to conceptualise the firm as more than an abstract capitalist device for economizing costs and maximizing profits. We need to reconceptualise the firm as an organisational entity constituted by political, economic, social, and cultural forces. The firm is surely more than about serving the economy. It is also about bringing benefits to society and its people. We must go beyond a narrow economistic conception of the firm by integrating insights from different academic disciplines (e.g., organisation studies, business management, economic sociology, and institutional economics). We need to “decenter” the firm and to appreciate the diverse and, often conflicting, discourses and practices by its actors and their network relations (see also Carr 1998; Miller 1997).

Third and in a related way, we need to refigure the economic dimension of the firm and to recognise the role of the firm as a site for engaging politics, cultural practices, and social interactions in specific territorial settings. Strangely, the territorial outcome of these interactions and practices is often not limited to a specific locality. It may sometimes have a global impact. As economic geographers, we should be even more sensitive to these different geographical configurations of firm-specific interactions and practices. In these ways, I believe we can bring social life back into the firm and understand the firm as a fundamentally socio-spatial being, not just another fancy set of equations in the calculus of some econometric models.

NOTES
1. The use of inverted commas to describe “the firm” implies that I do not accept neoclassical economic definition of the firm as a pure economic and transactional entity to organise modern economic life. For simplicity purposes, I shall use inverted commas only once at the beginning of this paper. All my subsequent references to the firm imply “the firm” unless otherwise specified.
2. My own empirical research in Chinese family firms has clearly shown that the firm in Chinese business is both an economic device and a social organisation for the advancement of the family and its immediate network actors (see Yeung 1997, 1998b, 2004).

REFERENCES


