Relational Embeddedness and Learning: The Case of Bank Loan Managers and Their Clients

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As a complement to the literature on learning in firms, we investigate learning in markets, a nascent area of study that focuses on how learning occurs between, rather than within, firms. The core idea behind our framework is that networks shape knowledge transfer and learning processes by creating channels for knowledge trade and reducing the risk of learning. In developing our framework, we elaborate on the knowledge transfer capabilities of different types of social ties, the informational properties of public and private knowledge, and how types of knowledge transfer and forms of learning follow from the networks within which firms embed their exchanges. We conducted fieldwork at Chicago-area banks to examine our framework’s plausibility and application to learning in financial lending markets, a setting relevant to most firms. Findings indicate that learning is located not only in actors’ cognitions or past experiences, but also in relations among actors, and that viewing learning as a social process helps solve problems regarding knowledge transfer and learning in markets.

*Embeddedness; Networks; Social Capital; Learning and Knowledge*

Introduction

What types of informal interfirm arrangements promote knowledge transfer and learning benefits for firms transacting across their boundaries? This question has received increasing notice in the organizational learning literature (Darr et al. 1995, Powell et al. 1996, cf. Baum and Ingram 1998), no doubt due in part to the dramatic swell in the frequency of informal interfirm relationships and the rise of new industries that, by nature, depend on informal ties for prosperity. For example, Powell et al. (1996) point out that, for the hundreds of formal ties among firms that act as information conduits, thousands of informal relationships exist among scientists, engineers, developers, managers, and other personnel through which information flows. Other research shows that informal ties are precursors to formal ties or reduced learning costs (Gulati 1995, Lazerson 1995).

In this paper, we examine how informal interfirm relationships affect knowledge transfer and learning benefits across firm boundaries. Specifically, we develop a framework that links different types of knowledge transfer and learning to different types of informal ties. To organize our analysis we use a social embeddedness framework, which treats the quality of informal ties as varying in the degree to which commercial ties are embedded in social attachments (Granovetter 1985; Uzzi 1996, 1997). While the degree of embeddedness in an exchange relationship is variable, it can be characterized as either embedded or arm’s-length (Dacin et al. 1999). Arm’s-length