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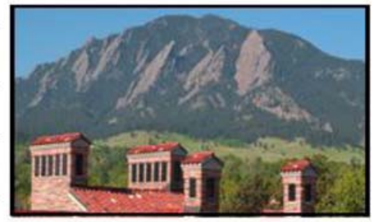

WORKING PAPER

The Limits to Embeddedness: Triangular Bargaining and the Institutional Foundations of Organizational Networks

Jennifer Bair

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Triangular Bargaining and the Institutional Foundations of Organizational Networks

Jennifer Bair
University of Colorado
Department of Sociology
UCB 327
Boulder, CO 80309
jennifer.bair@colorado.edu

Since the publication of Mark Granovetter's (1985) seminal article on the problem of embeddedness, the research agenda of economic sociology has been centrally concerned with demonstrating how social relations shape the structure of competition within organizational fields. Brian Uzzi's now-classic studies of inter-firm networks in the New York garment district were among the earliest and most rigorous efforts to "advance the concept of embeddedness beyond the level of a programmatic statement by formulating a scheme that specifies how embeddedness and network structure affect economic behavior" (Uzzi 1996: 674-675; also 1997). This research was designed to flush out empirically how embeddedness functions as a logic of exchange between firms, and to assess what kinds of benefits it provides network partners. In this article, I explain the ways in which Uzzi's influential account of embeddedness in the garment district was curiously under-embedded in the historical and institutional specificity of New York's apparel industry. Further, I demonstrate that this has implications both for the theoretical understanding of embededness advanced by Uzzi—namely, that embeddedness is an emergent property of the social relationship between economic actors—and his specific claim about the implications of network structure for organizational performance.

As has been widely noted (Krippner 2001; Breiger 2005; Swedberg 2003; Rauch and Hamilton 2001), Mark Granovetter's (1985) inquiry into the relationship between social structure and economic action launched the "new economic sociology" as a challenge to the undersocialized conception of human action offered by transaction cost economics. Granovetter's critique focused on Oliver Williamson's attempt to specify the conditions under which particular forms of economic organization are likely to arise. Specifically, Williamson asks when the costs of transacting on the market make the internalization of those exchanges within a firm the more efficient solution. He argued that certain kinds of transactions—those which involve uncertainty, are likely to recur, and entail transaction-specific investments—are more expensive to coordinate in the market, and are therefore more efficiently conducted within the organizational boundaries of the firm (Williamson 1975).

In Granovetter's view, this formulation ignores the fact that interpersonal relations between parties to an exchange, and the obligations and expectations that derive from them, can constrain the malfeasance and opportunistic behavior at the core of the transaction cost model (Granovetter 1985). Thus, in transaction cost economics, opportunism—defined as the use of guile in pursuit of one's interests—is a constant, and variation is explained by those characteristics of the transaction that affect how expensive the problem of opportunism will be to solve. In contrast, for Granovetter the extent to which opportunism shapes economic behavior is variable, and determined, at least in part, by the extent to which "continuing economic relations become overlaid with social content that carries strong expectations of trust and abstention from opportunism" (1985: 490).

Granovetter's observation about the way in which economic activity is "embedded in concrete, ongoing systems of social relations" (1985: 487) serves as the point of departure for Brian Uzzi's research into business relations in New York's garment district. Uzzi's study was an important contribution to the development of a sociological perspective on economic organization because it was among the first to operationalize embeddedness and to establish an empirical relationship between embedded networks and firm performance. On the basis of strategic interviews with 23 manufacturers (known in the apparel trade as "jobbers") and contractors in the "better-dress" segment of New York's apparel industry, Uzzi found that his informants differentiated among the kinds of relationships they had with local firms, distinguishing between arm's-length exchanges (one-off deals in which price was of utmost importance) and "special" ties, which refer to long-term relationships. Uzzi calls the latter embedded networks and claims that they facilitate economic exchange via three mechanisms: trust, joint problem-solving, and fine-grained information transfer on a range of issue beyond price. In elaborating on the importance of trust as a defining feature of embedded ties, Uzzi explains that

> [u]nlike governance structures in atomistic markets, which are manifested in intense calculativeness, monitoring devices, and impersonal contractual ties, trust is a governance structure that resides in the social relationships between and among individuals and cognitively is based on heuristic rather than calculative processing. In this sense, trust is fundamentally a social process, since these psychological mechanisms and expectations are emergent features of a social structure that creates and reproduces them through time. This component of the exchange relationship is important because it enriches the firm's opportunities, access to resources, and flexibility in ways that are difficult to emulate using arm's-length ties (1997: 45).

While emphasizing the benefits of trust-based relations, Uzzi goes on to describe the potential perils of *over*embeddedness, arguing that firms can also be disadvantaged when network relations become too insular, and thereby limit access to information or other resources not available from one's network partners.

Using network data obtained from a registry of manufacturer-contractor relationships, Uzzi tests his hypotheses about the relationship between network composition and firm performance. He conducts a logit analysis to estimate the probability of firm survival, his dependent variable, among contractors, given the structure of the inter-organizational networks to which they are connected.[1] The results confirm that contractors with embedded ties to manufacturers have a lower likelihood of failure than firms without such ties. However, this positive association holds only up to a certain point, past which returns to embeddedness become negative. Specifically, the "odds of failure decrease when contractors transact with manufacturers who maintain an integrated network of arm's-length and embedded ties with their other contractors," leading Uzzi to prescribe a mixed network structure as optimal for a firm's long-term survival.

In differentiating between embedded and arm's-length ties, Uzzi emphasizes that the former represent a "unique logic of exchange that results from the distinct social structure of organization networks and the microbehavioral decision-making processes they promote" (1997:61). These microbehavioral processes, which permit various kinds of communication and adaptive learning between partners, cannot emerge from market exchange. Thus, in keeping with the primary objective of economic sociology as a subfield, which has been to demonstrate the ways in which social structure affects economic behavior, the thrust of Uzzi's analysis is that embedded ties (i.e. networks, as opposed to market or hierarchy) have a salutary effect on organizational performance, as long as firms that have embedded ties with each do not allow their broader network structures to become too insular.

While Uzzi's main interest is in distinguishing between embedded and arm's-length ties, what I want to emphasize here is that both types of exchanges are rooted in a social structure of competition that was historically shaped by a collective actor that is largely absent from Uzzi's firm-centric view of the industry: the International Ladies Garment Workers Union (ILGWU), to which a majority of New York's garment workers have historically belonged. In the next section, I explain how a particular industrial relations regime promoting stable, long-term relationships among firms emerged out of the struggle that the ILGWU waged to bring stability to an industry that, for much of the early twentieth century, was characterized by intense competition, extremely high rates of firm mortality, and frequent labor unrest. In particular, I show that the trust-based, collaborative relationships that Uzzi believes emerge from the microsociological dynamics of embedded networks, originate in, and were maintained by, the institution

[1] Uzzi's independent variables are measures of first-order network coupling—that is, the degree to which a contractor has many ("market) or few ("embedded) ties to jobbers, and second-order network coupling—that is, the degree to which a firm's network partners maintain arm's-length or embedded ties with *their* network partners.

of triangular bargaining, which structured the organizational field of New York's garment industry and regulated the relations between jobbers and firms that took place within it.

The Rise of the Outside Shop: The ILGWU's Fight for Joint Liability

The garment district's origins date from the beginning of industrial clothing manufacture in the United States, with local shops specializing first in the production of wearing apparel for slaves in the Southern states, and later in the production of soldier's uniforms during the Civil War. It was only in the 1870s, however, that sewing machines became affordable, and their increased availability fueled a period of dramatic expansion in industrial apparel production. New York, with its swelling ranks of immigrant workers from southern and eastern Europe, was the epicenter of the industry's development.

Since its earliest days, women's apparel has been the mainstay of the New York industry. The first mass-produced garment was the shirtwaist, a type of ladies' blouse that is today remembered primarily for its inclusion in the name of the company in whose factory 146 workers perished in a famous fire. However even before the 1911 fire, the Triangle Shirtwaist Company had already secured a place in the history of New York's apparel industry: It was a labor conflict that occurred at the Triangle, as New York's largest blouse manufacturer was known, during the summer of 1909 that inaugurated a series of strikes known as the "uprising of 20,000." During this year of widespread labor unrest throughout the garment district, membership in the fledgling International Ladies Garment Workers Union (ILGWU) surged, but the general strike led by women garment workers from the Triangle and other shirtwaist and dress factories ended without achieving many of its goals. One year later, a second general strike by their male counterparts, the cloak makers, ended in a more comprehensive agreement between the union and the manufacturer's association.[2] Brokered by future Supreme Court justice Louis Brandeis, the so-called Protocol of Peace established both a Board of Grievances, jointly composed of employers and union representatives, which would hear all complaints, and a Board of Arbitration that would adjudicate whatever conflicts could not be resolved by the Board of Grievances.

Though the Protocol of Peace failed to provide adequate protection for garment workers, as would be demonstrated by the Triangle factory fire that occurred six months after it was signed, it was nevertheless regarded as an important achievement for organized labor. Among the purposes of the

[2] The International Ladies Garment Workers Union (ILGWU) was founded in 1900. The male counterpart to the ILGWU was the Amalgamated Clothing Workers of America, which was formed in 1914. In 1976, the Amalgamated merged with the Textile Workers Union of America, and in 1995 this joint union, the Amalgamated Clothing and Textile Workers Union merged to create the Union of Needletrades, Industrial and Textile Employees (UNITE). Yet another merger, this time with the union representing workers in the hospitality industry, created UNITE HERE in 2004. In 2009, a dispute between the two leaders of UNITE HERE, Bruce Raynor from the UNITE side and John Wilhelm from the HERE side, led to the departure of Raynor and some textile and apparel locals from UNITE HERE, and the creation of a new union, Workers United.

Protocol as Brandeis defined them, “was to create, through the strengthening of the Employers’ Association on the one hand, and of the Union on the other, bodies which should be able to enforce compliance with the terms of the agreement that was made. It was recognized that without a strong Union of employees on the one side, and a strong Employers’ Association on the other, the agreement could not attain the desired results” (Brandeis [1915] cited in Stein 1977: 121-122).

However, the effectiveness of the Protocol began to be undermined shortly after it was implemented: In response to the period of labor unrest that preceded the Protocol, and the growing strength of the union which followed it,[3] manufacturers began to rely increasingly on smaller, independent factories to which they subcontracted out orders. In fact, the rise of subcontracting was already underway in the previous century, with many of the first contracting shops opened by Jewish immigrants from Eastern Europe. Figure 1 illustrates the two models of production characterizing the industry in the early twentieth century—the so-called “inside” shop in which manufacturers employed their own production workers to make the garments they designed and/or marketed, and the “outside shop” which obtained its garments through subcontracting arrangements with independent sewing shops. As early as 1893 an inspector for the New York State Bureau of Labor reported that while “there were probably one hundred wholesale cloak houses” in the garment district, “not over half a dozen provide their own factories and workshops” (Levine 1924: 17), meaning the vast majority were using the outside system of production.

[Figure 1 about here]

Subcontracting arrangements not only enabled manufacturers to better manage the volatility and fluctuating demand typical of the highly seasonal apparel industry, but in many cases it also allowed them to avoid the union contracts that were becoming common in larger factories. Indeed, the “jobber”—a category of apparel firms that designed and sold, but did not manufacture any clothing—managed to avoid both the union and its workers by relying almost entirely on the so-called outside system of production (Schlesinger 1951). The result of this modern putting-out system was a decline in the average size of garment factories and an increase in the number of non-union shops (Esbenshade 2004).

The union’s response was to insist that the ultimate responsibility for labor conditions in sewing factories resided with the jobbers and manufacturers that provided the orders, not with the contractors

[3] In 1909, almost a decade after receiving its charter from the AFL, the ILGWU claimed fewer than 30,000 members. Following a series of major strikes that convulsed New York’s apparel industry throughout the second half of that year and the next, membership rose to 100,000 in 1910 and surpassed a quarter million by 1913, making it the largest union in the state of New York (Dubofsky 1968: 4).

who were the official employers of garment workers in the outside shops. As early as 1923, the ILGWU defined jobbers and contractors as "joint employers" in an "integrated process of production" (Quan 2007). In a study on the outside system of production conducted by an ILGWU attorney in 1951, the author emphasized that the apparel contractor does "not conduct a business or undertake business risks in the usual sense of the word.

> They do not invest in or purchase any of the materials needed for production. They do not design the garments which they turn out in their shops. Throughout the manufacturing process, the title to the materials and the garments remain in their manufacturer or jobber. They do not sell or have any connection with the sale of any garments. They do not maintain any showrooms or employ any salesmen. Their sole task is to provide a service function, i.e. to supervise the productive process in the same way as the foreman or the production man employed by an inside manufacturer does in the inside shop" (Schlesinger 1951: 5-6).

According to this logic, the independent contractor and the garment workers that he employed were both de facto employees of the manufacturer or jobber, who benefited from the large number of contractors vying for their business. To secure these orders, contractors were forced to compete on the basis of the single factor of production that they controlled—namely, the cost of labor. The term "sweater," from which "sweatshop" was derived, was used to refer to the middlemen in this contracting system, whose business strategy consisted in extracting the most labor he could at the lowest price possible. Low barriers to entry encouraged large numbers of would-be businessmen, many of them ethnic entrepreneurs, to enter the industry. All that was needed to launch them into the rag trade was a few sewing machines, some workers, and a single contract from a jobber. If the jobber failed to pay, or if further contracts were not forthcoming, the contractor as much as his workers was left without employment.

The apparel economy thus represented a market in which contractors were the suppliers of labor, and jobbers their clients.[4] The latter benefited from a surplus of the former, so a dynamic evolved whereby "jobbers concentrated their production among a small number of 'principal' contractors…giving the others insignificant amounts of work to 'keep them around'" (Schlesinger 1951: 15-16). A survey of the dress industry in 1935, for example, found that less than a third of the contractors (32%) produced over two-thirds (68%) of the jobbers' production. This surfeit of production capacity was sufficient to keep the favored contractors "in line" while also stimulating intense competition among that majority of

[4] Technically the term "jobbers" refers to firms that depend entirely on contractors to make the apparel that they design and/or sell. However, manufacturers that maintain some "in-house" sewing capacity may also rely on contractors for a portion of their production volume. For the sake of simplicity, I use the term jobber hereafter to refer to both kinds of firms.

contractors who lacked steady work, and were thus desperate to secure orders on virtually any terms. By the early 1930s, the union's strength was further being undermined by the phenomenon of "runaway shops"—apparel manufacturers that left the New York area to set up factories elsewhere, in the hopes that Connecticut, Pennsylvania and New Jersey might offer a supply of cheaper, unorganized workers. Although the ratio varied by product category and market niche, in some parts of the industry, such as women's dresses, outside shops employed a full three-fourths of workers, as compared with the one-fourth who worked for the traditional apparel manufacturers that retained in-house production. Intense price competition among contractors competing for the jobber's orders meant that outside shops were more difficult for the union to organize, and it created an environment inhospitable to the survival of those contractors that were unionized.

The Creation of Triangular Bargaining: Organizing Workers by Regulating Inter-Firm Networks

In recognition of the formidable obstacles that the rise of the outside shop posed to successful organizing, the apparel industry unions focused their efforts on transforming the structure of competition in the industry. In 1924, shortly before collective contracts in the men's wear segment of the industry were set to expire, the union proposed a program based on "recognition of the jobber's position as the real, though indirect, employer of labor and his acceptance of the responsibility for the labor conditions in the shops of his contractor" (Schlesinger 1951: 20). When the employers refused to agree to the union's demands and the union threatened to call a strike, the governor of New York, Alfred E. Smith, appointed a special commission to investigate the problems in the industry and propose recommended changes. The Commission issued its final report in 1926, but its recommendations for combating the "evils of the jobbing-submanufacturing system" were advisory, and as they proved unsatisfactory to the union as well as to the employers' association, they were never adopted. However, many of the proposals were similar to the system that *would* be implemented seven years later in the form of the "Codes of Fair Competition" that were created as part of the National Industrial Recovery Act. Two separate but similar codes were negotiated and approved by President Roosevelt, one covering the men's segment of the industry and another pertaining to ladies' wear. Both recognized the principle of manufacturer/jobber-contractor joint liability:

> All members of the Industry who cause their garments to be made by contractors and submanufacturers shall designate the contractors actually required, shall confine and distribute their work equitably to and among them, and shall adhere to the payment of rates for such production in an amount sufficient to enable the contractor or submanufacturer to pay the employees the wage and earnings provided for in this Code, together with an allowance for the contractor's overhead (cited in Schlesinger 1951: 37).

In May 1935 the U.S. Supreme Court ruled the National Industrial Recovery Act unconstitutional, thereby invalidating and suspending the operation of all Codes of Fair Competition then in effect. However in spite of the Court's decision, the position of labor was strengthened during this era by other New Deal legislation, including the National Labor Relations (Wagner) Act in 1935 and the Fair Labor Standards Act of 1938. In this context, the ILGWU was able to incorporate key provisions of the Code into new collective agreements that were bargained between the union and employers' associations. These contracts formalized the concept of joint liability by including, as parties to the agreement, both the contractors' employers association as well as the stronger jobbers' employers association. Under the regime of triangular bargaining developed by the ILGWU, "the union 1) first negotiated a collective bargaining agreement with the jobber, 2) then negotiated an agreement with the contractors, and 3) finally the jobbers and contractors negotiated an agreement with each other" (Quan 2007: 4). As a longtime research director at the union explained to me, "the ILGWU recognized that the jobber was the lynchpin of the industry. Contactors couldn't pay anything unless the jobber paid it to him or for him. The trick was to get as much as you could in the contract to protect the workers and the union."

[Figure 2 about here]

As the term triangular bargaining implies, contract negotiations in the garment district involved three sets of relationships: that between the union and the contractor as the direct employer of labor, that between the union and the jobber as the indirect employer of labor, and, most importantly for the argument that I am making here, that between the contractor and the jobber. The union recognized that the interests of workers could not be protected unless some degree of stability could be introduced into the jobber-contractor relationship. Indeed it was the conflict between jobbers and contractors, not the capital-labor relation, which was identified as the major problem to be solved in a 1936 agreement covering 105,000 workers in the dress segment of the industry. Signed by the ILGWU and four industry associations representing the contractors and jobbers of both "better" (up-market) and "popular" dresses, the purpose of this agreement was "to remove existing disputes and differences between contractors on the one hand and jobbers and manufacturers on the other" (cited in Wolfson 1950: 39). This goal was achieved via a series of specific regulations designed to promote two principles: first, that no manufacturer or jobber belonging to an employers' association that was party to the agreement would place subcontracting orders with a nonunion shop, and second that "a jobber must use only the number of contractors actually required to manufacture his garments" (Hoeber 1936: 27).

In one sense, triangular bargaining simply extended the union's existing practice of trying to negotiate individual "jobbers' agreements" with particular firms. The first such agreement had been signed in 1922 between a New York-based dress wholesaler called Wiesen, Cohen and Smith and the dress contractors' association (New York Times, 1922). Early jobbers' agreements were unsatisfactory, however, because they applied to individual firms and were therefore much more limited in coverage than new collective agreements that were bargained with the employers' associations that represented multiple firms. Further, the landmark 1936 contract improved considerably on the older jobber agreements because it contained numerous specific clauses which regulated inter-firm networks in detail, thus stabilizing jobber-contractor relationships and institutionalizing the principle of joint liability through a battery of new provisions and enforcement mechanisms. Among these was the creation of an administrative board composed of representatives of both the union and each of the employers' associations, which would adjudicate disputes that arose. The administrative board would be headed by an impartial chairman to be chosen jointly by the union and the employers' associations, or in the event that these parties were unable to agree on a candidate for the chairman position by a certain date, by New York City mayor Fiorello LaGuardia.

The union was responsible for maintaining and distributing a list of organized shops in the city, and the jobbers were responsible for insuring that they did not place orders with any non-union contractors. Policing of this provision was the responsibility of the employers' associations as well as the union, since any firm found to be in violation was to be fined by the association to which it belonged. Fines assessed on violators were to be "sufficient to offset any advantage gained by the employer through such a transaction, together with an appropriate penalty" (Hoeber 1936: 26).

Critically, the 1936 agreements went further than requiring union jobbers to use union contractors; it also regulated in considerable detail the *nature* of subcontracting relations between them. As of January 1, 1936, jobbers were required to submit to the union and the administrative board the names of all "necessary" contractors. Jobbers were not permitted to remove any of these designated contractors from their production networks unless such a change was approved by the board in advance. The board recognized only two grounds as just cause for termination: poor quality and late delivery. Further, jobbers were not permitted to work with new contractors unless given permission by the board, and permission was only granted when such additions were warranted either by increased production volumes or by a change in the jobber's product line.

Given the seasonal nature of the industry, triangular bargaining agreements sought to balance the goal of stable jobber-contractor relations with the reality of fluctuating demand: In high season, jobbers were permitted to give work on a temporary basis to one additional contractor without prior board approval. When demand was slack, jobbers were to divide what work there was equally among the set of designated contractors. The registry of jobber-contractor relationships, which included information about all orders placed by jobbers with contractors, was a critical component of the agreement. (Significantly, as

I will discuss later, this registry was maintained through the 1990s, and furnished Uzzi with the network data used in his study.) Triangular contracts specified that jobbers were responsible for making contributions to the workers' pension, vacation and health care funds, which were maintained by the union, so a registry was necessary to keep track of these obligations on the part of jobbers towards their contractors' employees. This registry also allowed all parties to the agreement to monitor compliance with regulations regarding the allocation of orders among outside shops. Monitoring was further facilitated by the fact that unionized shops kept an eye out for non-union competitors that might undercut them. When non-union shops were identified and reported, frequently by the employers' associations, new organizing opportunities were created for the union. In short, the triangular agreements that were signed in the dress and other segments of the apparel industry from the mid-1930s forward elevated the principle of joint liability into an enforceable standard by regulating the relationship between employers, which was seen as a necessary condition of regulating the relationship between employers and workers.

For several decades, triangular collective bargaining agreements succeeded in stabilizing the domestic apparel industry. Arm's-length, one-shot deals between jobbers and contractors were discouraged by provisions which sought to lock jobbers into longer-term relationships of mutual dependence with their contractors. Because union jobbers were obligated to use union contractors, contractors had an incentive to join the relevant employers association and thereby become party to the collective contract signed between that association and the union. Again, the jobber was the lynchpin in the sense that "a high density of union jobbers led to high density of union contractors, which led to high density of union members" (Quan 2007: 7). From the vantage point of the ILGWU, triangular bargaining agreements created an industry environment ripe for organizing, and these propitious conditions were reflected in the ILGWU' swelling ranks throughout the middle decades of the twentieth century. By the mid-1950s, the ILGWU represented approximately 70% of all garment workers in America, double the national average of 35% union density in manufacturing. In New York's garment district, the percentage was even higher.

Disembedding the Embedded Network: The Decline of Triangular Bargaining and the Collapse of Domestic Garment Production

Apparel production is often regarded as the classic footloose industry (Bonacich and Appelbaum 2000). In Uzzi's view, the characteristics of the garment industry that have earned it this reputation make it a least-likely case for demonstrating the benefits of social embeddedness for organizational performance: "Because of the low barriers to entry, the low start-up costs, and the many substitutable shops, this industry approximates the ideal conditions under which atomistic market exchange relationships should be most successful relative to alternate forms of organization" (1996: 675).

According to this interpretation, Uzzi's principal empirical finding that the most successful firms in the garment district are those whose networks contain a mix of socially-embedded and arm's-length ties is all the more surprising and powerful.

Curiously, however, Uzzi's case for embeddedness is underembedded in the historically and institutionally specific environment of the garment district. Consequently, he fails to acknowledge the relationship between this environment and the behavior of the organizations he analyzes. In fact, it is rather more accurate to characterize the New York garment district as a *most-likely case* to demonstrate the "competitive advantage of social forms of organization relative to market-based exchange systems" (Uzzi 1996: 674). This is because the embedded ties that Uzzi describes between jobbers and contractors are precisely those that the principle of joint liability, institutionalized in the form of triangular collective bargaining, were intended to produce. It is therefore not surprising that these relationships did not approximate the short-lived, intensely price-competitive exchanges that we might expect from the industry that generated the term "sweatshop."

If this argument is correct, and embedded ties between jobbers and contractors reflect, at least in part, the institutional environment created by triangular bargaining, then how can we explain the co-existence within Uzzi's dataset of inter-firm relationships that he characterizes as arm's-length ties—i.e. those that *do* more closely resemble market transactions? One answer is that Uzzi's snapshot of inter-firm relationships in New York's garment district captured a particular moment in an ongoing process of *disembedding*, whereby organizational behavior became progressively decoupled from the institutional environment, which was less able to constrain firm behavior due to the decline of the triangular bargaining regime.

This decline occurred in tandem with the transformation of the U.S. apparel industry, which was dramatically impacted by an increase in imports of foreign-made apparel and a concomitant collapse in domestic clothing production. Apparel employment in the United States peaked in 1973, when imported apparel accounted for less than 10% of U.S. consumption. Although employment began to decline shortly thereafter, the rate of job loss was gradual over the course of the next decade. It accelerated somewhat in the mid-1980s in the context of an import surge, but domestic manufacturers still enjoyed a degree of protection from foreign producers thanks to the Multi-Fiber Arrangement, which regulated apparel imports from developing countries through a complicated system of quota allocation. In 1995, the Multi-Fiber Arrangement was replaced by the Agreement on Textiles and Clothing, which was designed to facilitate a gradual phase-out of all quantitative restrictions on the global garment trade. By the time this phase-out was completed in 2005, import penetration for clothing was over 90%.

[Figure 3 about here]

Much of this garment trade is coordinated by a new set of jobbers, who have essentially recreated on an international scale the "outside system of production" that first emerged in New York's garment district more than century ago (Bonacich et al 1994; Esbenshade 2004). These include a wide range of retailers, from department stores (e.g. Nordstrom's) to specialty retailers (e.g. the Limited) to mass discounters (e.g. Wal-Mart). In addition to buying clothing from traditional brand-name manufacturers, these retailers also offer their own "private label" or store-brand apparel. Typically produced offshore by independent subcontractors, private label apparel now accounts for a third or more of all sales in certain product categories.

In some ways, retailers and brands marketing private label apparel are similar to the jobbers who have long-dominated the garment district. Like jobbers, these companies design apparel and then contract out the manufacturing portion of the garments to independent suppliers; in this sense, neither the traditional jobber nor today's retailer offering private label lines "produce" the apparel they market. However unlike traditional jobbers, most of whom started as apparel manufacturers and some of whom continued to maintain at least a minimal amount of in-house production, retailers have no history of garment production and thus no experience in manufacturing. This difference was repeatedly emphasized in my interviews with garment district informants, who explained that retailers are not "in the garment business." Industry experts observed that the number of traditional jobbers in the industry has declined precipitously, which they attribute, at least in part, to the success of retailers' forays into private label. In developing and expanding their private label lines, what retailers have sought to do, apparently with considerable success, is bypass the jobber as an unnecessary middleman by going direct to the (typically offshore) contractor; eliminating the jobber link in the chain is what enables retailers to enjoy higher profit margins on their private label sales as compared with sales of traditional branded products.

According to several industry informants, the rise of private label "changed everything" because it shifted power in the industry from the jobber to the retailer. Unlike jobbers and contractors, retailers are not embedded in the social structure of the garment district as it has evolved over the last century. One union official emphasized that "the retailer was never party to a collective contract." Another elaborated on the same point: "Retailers coming in was the beginning of the end. They could care less. They aren't part of this community. They'll just go somewhere else." On the one hand, these references to the garment district as a "community" in which past practices are contrasted with a contemporary situation in which firms "could care less" about others, provide support for Uzzi's claim that socially-embedded ties can be distinguished from the amoral, rationally calculative decisions that compel today's jobbers to "just go somewhere else." However, in describing these developments, several industry actors drew a connection between the deterioration of business relations in the industry, the decline of traditional jobbers, and the enervation of the triangular bargaining system. Typical was the view expressed by one informant, who described retailers as increasingly powerful players who have “got into business by end-running or circumventing the jobber-contractor formula we had developed in the U.S.”

The CEO of a major New York fashion house, whose description of the trust relations that developed over time between traditional jobbers and contractors was consistent with Uzzi’s argument about embedded networks, simultaneously emphasized that the industry environment was changing due to the growing power of retailers, who are not bound by the same rules:

> So we were doing a lot of business with “store x” [a major specialty, mid-market retailer of women’s wear], about $6 million a year in dresses; we were doing several different styles for them, with production volumes ranging from 60 to 600 dresses, depending on the style. One season we were having fabulous success with a particular black dress. Then I get a phone call from a client [a buyer for an upscale retailer] who tells me “I can’t sell this dress anymore because “store x” is selling it at half price.” I tell her that’s impossible, but she insists it’s true. So I get on the subway and go down to the store, and sure enough, there’s my dress hanging on a rack. But it turns out it isn’t my dress: it’s the same style, same cut, same fabric, but it’s got a ‘store x’ label. I call up “Joe” [the CEO of ‘store x’]; I know Joe, Joe and I are friends, but I tell him “Look, I’m not a design laboratory” [for your private label line]. And he says, “actually, you are. We gave you a big order for that dress, but now we’re ordering it in the thousands.” And that was it. That was the ruination of our business.

Although the industry executive described “Joe” as a friend with whom he had long-standing business ties, this relationship was not able to sustain the betrayal of trust that was implied by Joe’s copy of his design.

These developments were well underway in the early 1990s when Uzzi conducted fieldwork in the garment district, and his article does not fail to provide a flavor of them. For example, Uzzi describes one jobber that was in process of shifting all his production to offshore factories, thereby terminating his relationships with local contractors. The jobber notified those contractors with whom he had an embedded tie well in advance that he would be taking his business elsewhere, while no such warning was provided to those contractors with whom he worked on an arm’s-length basis. Providing advance notice to any of his contractors put the jobber at some risk: Since the shadow of future transactions no longer hung over the relationship, contractors might be less careful with the quality of remaining production for the jobber, or even abandon the relationship altogether in favor of looking for new clients. That the jobber exposed himself to such risk is interpreted as evidence for the proposition that actors in embedded relationships develop feelings of mutual obligation that cannot be reduced to an economic bottom line. Thus, Uzzi uses this example to buttress his argument that “a key behavioral consequence of embeddedness is that it becomes separate from the narrow economic goals that originally constituted the exchange and generates outcomes that are independent of the narrow economic interests of the relationship" (1996: 681). Though this is a plausible interpretation of the jobber's behavior, the same example can also be used to illustrate the limits to embeddedness, and the way in which inter-firm relationships are shaped by the environments in which organizations act: Though the interpersonal relationship between the jobber and contractor enabled the latter to access information that would not have been communicated through an anonymous market transaction, this embedded tie was insufficient to protect against the loss of the jobber's business to less expensive producers in Asia.

The decline of domestic manufacturing and the challenges that increased import penetration pose for the principle of jobber-contractor joint liability was a theme that emerged strongly from my interviews with both union officials and private sector actors in the garment district in 2008. As recently as 1990, New York City employed 90,000 garment workers. By 2000, the number of jobs has declined to 58,700. The pace of job loss accelerated during the last decade, with a particularly steep decline following the terrorist attacks of September 11, 2001, which effectively sealed off an area of Chinatown that is home to many small sewing shops from the rest of the city for several months. By October 2010, apparel employment in the metropolitan area had plunged to under 16,000 workers. The situation in New York mirrors that of the embattled textile and apparel sector nationally: More workers were employed in New York's garment district in the heyday of its apparel economy than are today employed in the entire United States.

[Figure 4 about here]

These developments posed serious challenges to the union's ability to enforce the triangular contracts described above, since firms could plausibly argue that heightened competition from imports made compliance with the terms of these agreements increasingly onerous. By the time Uzzi conducted his fieldwork in the garment district in the 1990s, some restrictions on jobber-contractor relationships had already been eased. For example, jobbers had more flexibility with regard to the number of contractors they used and the volume of business they placed with each one. This was reflected in the mixed networks described by Uzzi, whereby jobbers reported having embedded ties with some contractors and arm's-length exchanges with other. The principle of joint liability was still operative insofar as jobbers were obligated to make monthly payments to the union to cover the benefits of their contractors' workers. At the same time, however, contracts were being modified to recognize that a growing number of the clients for contractors were non-traditional jobbers, such as retailers, who, a union official explained "didn't want to come into the union with that [joint liability] deal." After a series of ultimately unsuccessful efforts to reconcile the principle of joint liability with the growth in offshore production,[5] triangular bargaining agreements were abandoned as unworkable. Just as the rise of the outside shop transformed the landscape of the garment district at the end of the nineteenth century, so too did the rise of private label and the liberalization of the global garment trade again restructure the organization of domestic clothing production, and the structure of competition in the garment district, at the beginning of the twenty-first century.

Institutions, Industry Structure and Organizational Networks

How does the system of triangular bargaining pioneered by the ILGWU in the 1930s and 1940s bear on the jobber-contractor relationships that Brian Uzzi observed in the early 1990s while carrying out fieldwork in the garment district? Uzzi emphasizes the advantages that embedded ties provide relative to other organizational forms, such as trust, complex information-sharing and joint problem-solving. His focus is on the "microbehavioral decision-making processes" that network forms of organization promote (1997: 61) and the implications of these for firm-level outcomes. While Uzzi may indeed be correct about the advantages offered by special ties, his account provides no explanation for and how these ties emerge in the first place. In the case of the New York garment district, historical inquiry reveals that the the social structure of competition in the garment district was shaped by a particular institutional environment—specifically, the industrial relations regime of triangular bargaining—that encouraged the emergence of long-term, stable relationships.

If this argument about the relationship between institutions, industry structure and inter-firm networks is correct, then we would expect changes in the institutional environment to be reflected in changing organizational dynamics. The final section of the article presented evidence that this is indeed the case: The institutional environment created by triangular bargaining was gradually undermined by the liberalization of the global garment trade and the rise in offshore production, and in this transformed environment, the advantages provided by embedded ties have proven insufficient to ward off the competitive challenge that lower-cost producers pose to local contractors. Even prior to the phase-out of the Multi-Fiber Arrangement and the inauguration of quota-free trade in 2005, rates of firm mortality were high and increasing. Between 1980 and 1999, the number of firms producing apparel in the garment

[5] The best-known of these is the ILGWU's increased reliance on "liquidated damages," which were fines imposed on firms that violated collective bargaining agreements by using non-union contractors. Theoretically, liquidated damages were intended to offset the cost savings of contracting with unorganized shops, at home or abroad, thus disincentivizing their use. Over time, however, the benefits for jobbers of shifting production to suppliers in lower-wage countries came to clearly outweigh the cost of these payments to the union, and by the 1990s, the pretense that liquidated damages were sufficient to prevent jobbers from taking their business offshore was largely abandoned. In the context of declining membership and falling dues, liquidated damages became an increasingly important revenue stream for the union, and from the perspective of the companies that maintained a relationship with the union, they became a standard operating cost (Frank 2000).

district fell by more than half (54%) (Hum 2003). This decline in the number of contractors manufacturing in the city is reflected in plummeting apparel industry employment, as described above. It is also signaled discursively by increasing references among tourism promoters and urban development agencies to the "fashion district" rather than the "garment district"—a terminological shift suggesting that although there is little in the way of actual clothing production occurring in this area of Manhattan, it continues to house the offices and showrooms of major designers and retailers, and thus remains the country's fashion capital.

In 2000, after deciding that it was no longer possible to enforce the principle of joint liability, the apparel industry union signed the first non-triangular, collective agreements with the small set of unionized apparel firms that remained in the city. It is somewhat surprising that, although the system of triangular bargaining had been under pressure for decades, some elements of this industrial relations regime had managed to survive until that point. One was the jobber-contractor registry, which recorded all transactions between jobber's and the contractors they used. This registry, which was used to enforce rules regarding the distribution of orders among firms and to track the obligations of jobbers towards their contractors' workers, was a critical component of the union's effort to regulate the relationships between jobbers and contractors. *This registry, and the specific inter-firm relationships that it recorded, was the source of the network data that Uzzi used in his study*. Thus, the research design that allowed Uzzi to identify the importance of embedded ties in the garment district was itself dependent on the existence of the very institution that promoted the emergence of such ties.[6]

In conceptualizing embeddedness as an emergent property of the social ties between exchange partners, Uzzi's approach is consistent with the bulk of sociological research on networks. In Woody Powell's famous formulation, it is the social content of the network relation that makes it "neither market nor hierarchy" (Powell 1990), but rather a distinct organizational form (cf. Williamson 1991). Like Granovetter, Powell emphasizes that networks are unique because they consist of repeat transactions that tend to generate both trust and interdependence, which, over the long term, enable collaboration and reduce the threat of malfeasance. The social content that characterizes networks "generate standards of expected behavior that not only obviate the need for but are superior to pure [i.e. bureaucratic] authority relations in discouraging malfeasance" (Granovetter 1985: 498). Indeed, it is because of their "distinct ethic or value-orientation" that networks are "not reducible to a hybridization of market and hierarchical forms, which, in contrast are premised on a more adversarial posture" (Podolny and Page 1998: 61).

[6] Initially, I had hoped to replicate Uzzi's study by using a similar sampling strategy for identifying specific jobber-contractor dyads. However, because triangular bargaining has been abandoned, systematic data regarding inter-firm networks is no longer gathered. , This methodological challenge was theoretically instructive because it underscored the extent to which the original research design depended on the triangular bargaining regime.

As the above examples suggest, much sociological research on networks is motivated by a desire to challenge the assumption that organizational forms reflect efficiency gains from minimizing transaction costs. Uzzi's study is exemplary in this regard, in that it proposed a middle-range theoretical account of how network structure might influence firm performance. Although he does identify the perils of overembedded network structures, Uzzi nevertheless concludes that embedded ties are associated with positive organizational performance, and he suggests that the mechanism connecting embedded ties and firm outcomes is the "distinct social structure of organization networks and the microbehavioral decision-making processes they promote" (1997: 61). It may indeed be the case that embedded ties affect the decision-making processes of exchange partners in ways that have a salutary effect on firm performance. But the effects of these ties do not tell us the cause of their emergence. In short, although Uzzi's conclusion—that trust between actors in the garment industry emerged out of networked exchange relations—is plausible, there is more evidence to support the different and causally prior claim I have made here, which is that network relations emerged from the institution of triangular bargaining. And indeed, when triangular bargaining disappeared, so did the supposedly robust and advantageous structure of trust-based network relations.

This argument has two, related implications, both of which extend well beyond the specific case of New York's garment district. The first is that claims about the importance of embedded ties between individuals and firms cannot ignore the broader institutional structures in which these relationships are themselves embedded. Second, in order to recognize the broader socio-structural embeddedness of actors and organization requires broadening the analytical perspective of economic sociology beyond the microsociological approach to social structure that has dominated the field to date, in which social structure is defined as interpersonal relations.

This critique resonates with a number of recent calls for economic sociology to move beyond the polemic with economics that has defined it thus far, and which has paradoxically reinforced the distinction between conventional economics and sociology by positing the market as "the *other* of the social economy, rather than constitutive of it" (Krippner 2001: 787). Similarly, Rauch and Hamilton have argued that, in emphasizing the social constructedness of the market, "the sociological literature obscures the fundamental economic features of markets—the exchange of goods and services and the setting of prices in complex organizational settings characterized by cooperation and competition. What are the effects of institutions on market processes? An equally important question is: What constraints do these processes place on the social constructability of markets?" (2003: 15-16). In response to Rauch and Hamilton's query about the effect of institutions on market processes, my inquiry into the institutional foundations of embeddedness has shown how the structure of competition in the garment district was shaped by the regime of triangular bargaining in which firms were embedded. When this institution disappeared, so did many of the supposedly advantageous network relationships between firms, and thus this analysis also suggests the limits to embeddedness.

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Figure 1
Emergence of two production models

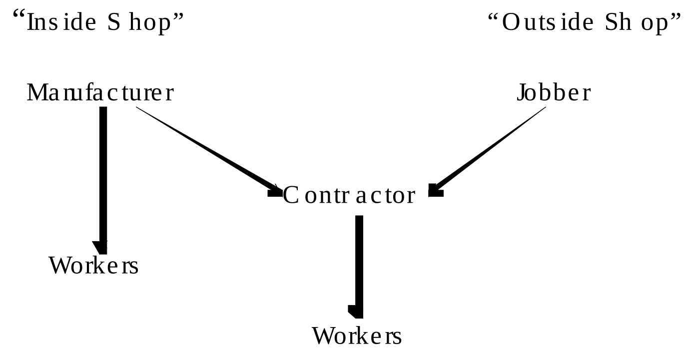


Figure 2
Triangular bargaining model institutionalizes joint responsibility

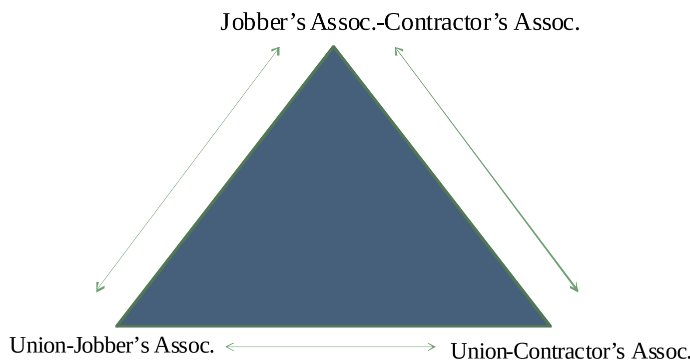
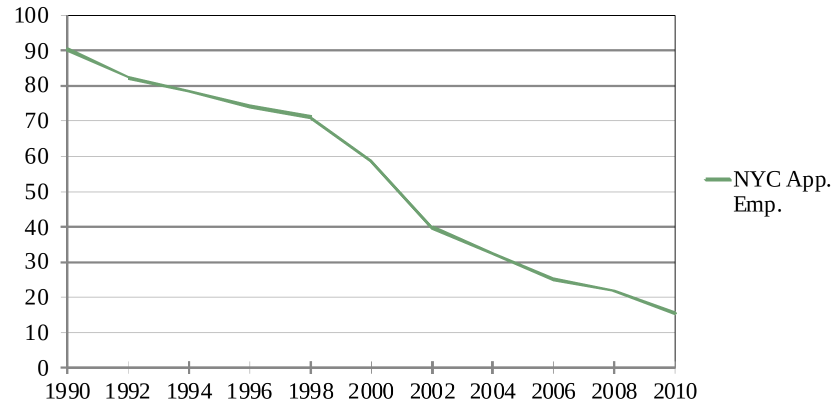


Figure 3

The Decline of Garment Production in NYC

Apparel Manufacturing Employment, 1990-2010

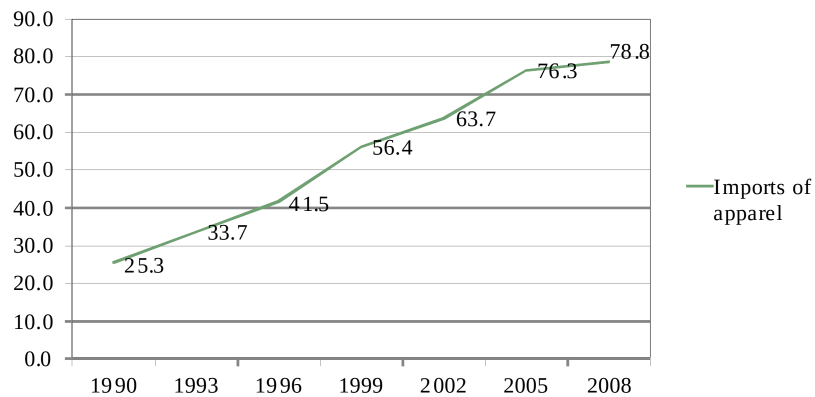


Thousands of workers in NYC metropolitan area, not seasonally adjusted.
Source: U.S. BLS Employment, Hours and Earnings Series; BLS Series ID SMU 36935613231500001.
All years are annual averages, except for 2010 data, which is based on the last month (October) for which BLS data available.

Figure 4

Increased Import Penetration

U.S. apparel imports, 1990-2008



Imports of apparel in US$ billions, customs value, SITC category 84.
Source: U.S. International Trade Commission, Data Web.