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Companies Local Embeddedness and Culture: A Review

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Abstract
The criticism of neoclassical economic behaviour, the changing company-space dynamics, the effects of globalization, and the cultural turn have stimulated new trends in social sciences. In recent decades, the concept of embeddedness has evolved significantly and now holds a solid place in regional economics and economic geography; however, interdisciplinary studies remain common. This review article examines the interaction between corporate embeddedness and culture, aiming to demonstrate how previous research has interpreted culture's role in embeddedness. A comprehensive literature analysis, the primary question addressed is how corporate practices and cultural norms develop in a specific socio-cultural context. The review's novelty lies in its dual approach to culture's role in embeddedness. On one hand, it explores the value and norm system of embeddedness, focusing on culture's role in limiting social practices. On the other hand, it discusses culture's role in the interactions of the embedding process at all levels of embeddedness and culture. The literature indicates that the culture of both the company and the receiving space – including trust levels, openness, willingness to settle, and receptiveness – determines the success of embeddedness.

Keywords: Corporate embeddedness, Culture, Regional economics, Economic geography

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1. Introduction

The concept of embeddedness, rooted in the theories of Polanyi (1944) and Granovetter (1985), highlights that economic events are inherently contextual and 'embedded in spatial structures of social relations' (Martin, 1994, 42). Through the inter- and multidisciplinary study of embeddedness, it is axiom that things happen differently in different places because of culture (Barnett, 2004), i.e. it is impossible to explain the advantages of some regions over others without taking into account the cultural construction of firms' activities (James, 2007). As intercultural interactions grow in importance, studying the cultural factors of cooperation has become a priority. This involves examining the cultural values, historical, ideological, geographical, political, and psychological factors influencing cooperation (Ablonczy-Mihályka, 2018).

Geographical space and culture are strong determinisms for companies and influence certain development paths. Using comprehensive literature review method, the review undertakes to explore the relationship between corporate embeddedness and culture, with the aim of examining how culture affects corporate embeddedness. The novelty of the study lies in its dual approach to investigating embeddedness and culture, which has not been conceptualized in the literature before. This study synthesizes the coevolution of these terms and proposes two distinct ways of interpretation: the value and norm system of embeddedness, and the study of culture as an influencing factor of interaction in an intercultural context.

The relevance of this topic is evident from several perspectives. In the era of global capitalism, the rapid adaptation to changing market conditions is facilitated by the flexible organization of production based on supplier networks (Nagy and Boros, 2017). In the global value creation process, the accumulated knowledge and operational networks of participants are now as important as the availability of capital, labour, and other resources. Thus, in the global value chain, the role of a company, and consequently a specific place is determined by its relationships with the main actors of the economy. These relationships are partly based on mutual recognition and partly on the acceptance of common norms and rules (Nagy and Boros, 2017). The popularity of embeddedness, networks, un-traded interdependencies, institutional thickness, and innovation systems can be viewed as part of the cultural turn in economic geography, focusing on economic activities embedded in social and cultural relationships and practices (Watts et al., 2006). Chikán (2019) considers the incorporation and integration of cultural factors into competitiveness analysis and models urgently necessary in an era when the role of cultural factors is clearly increasing at both the global and domestic levels. The loyalty of companies and their regional retention remain central to academic discourse, with the consensus that local characteristics are a source of competitiveness. Companies are embedded in local relationships and networks (Markusen, 1994), interconnected by mutual networks of partners, institutions, and activities, and are influenced by their context (Ratajczak-Mrozek, 2014; Korsgaard et al., 2015; Müller, 2022). Recent literature has shifted from viewing regional conditions as external factors to recognizing the active role of companies in shaping these environments. Additionally, the importance of soft location factors, such as open and tolerant regional cultures, is increasingly acknowledged (Lengauer and Tödtling, 2010). Furthermore, regions reliant on foreign direct investment (FDI)-based development, including those in Central and Eastern Europe, face significant dependencies. Gál and Lux (2022) suggest that local embedding of FDI is crucial for regional development.

Although the literature extensively addresses the relationship between culture and embeddedness, systematic approaches are lacking, and it has not yet been recognized that culture influences corporate embeddedness in two distinct ways. For Central and Eastern European countries that rely on foreign direct investment, embedding foreign companies locally is an alternative route. However, the selection of the appropriate method for this embedding must be done in a context determined by cultural factors. This paper contributes to the understanding of corporate embeddedness by highlighting the dual impact of culture: it fosters local integration through cooperative attitudes and influences the embedding process through cultural proximity. The study emphasizes the need to adapt corporate strategies with local cultural contexts to enhance competitiveness and sustainability.

The study is structured as follows: First, the coevolution of the terms embeddedness and culture is synthesized and the possible interpretations of the two phenomena are given. The main part of the study outlines two possible approaches to interpreting the relationship between the concepts.

2. Literature coevolution of embeddedness and culture

The literature on embeddedness reveals periodic efforts by academics to reconceptualize the term in response to evolving environmental complexities. Over its 70-year history, the concept has expanded to include actors (Nelson, 1994; Uzzi, 1997; Woolcock, 1998) and receptive environments (Halien and Törnroos, 1998; Rooks et al., 2000; Beckert, 2003; Simsek, 2003), as well as temporal (Halien and Törnroos, 1998) and spatial dimensions (Oinas, 1997; Kloosterman, 2010; Heidenreich, 2012; Heidenreich and Mattes, 2012; Kramer and Diez, 2012; Mattes, 2013; Ratajczak-Mrozek, 2014; Spigel, 2016; Józsa, 2019). However, the fundamental role of social construction and culture within the concept has remained unchanged (Polanyi, 1944; Hess, 2004). The term, now canonized as corporate embeddedness, shares significant similarities with the concept of culture. Its emergence and scholarly attention can be largely attributed to criticisms of neoclassical economic theories, transformations in the company-space relationship, and the cultural turn.

The concept of embeddedness, along with efforts to understand and conceptualize the contextual influence on corporate operations, has been linked by several authors to critiques of neoclassical economic theories (Barber, 1995; Oinas, 1997; Dacin et al., 1999; Beckert, 2003; James, 2007). These critiques challenge assumptions of unlimited rationality, the simplification of analyses by omitting determinants such as culture, and the complete separation of the socio-cultural sphere from the economy. Embeddedness, as described by Beckert (2003), 'refers to the social, cultural, political, and cognitive structuration of decisions in economic contexts. It points to the indissoluble connection of the actor with his or her social surrounding.' (Beckert, 2003, 769). The changing understanding of the relationship between the company and space also highlights the interaction between embeddedness and culture. The relationship between company and location has long been a fundamental question of regional science and economic geography, with the location theory being a key research focus. It is now accepted that characteristics of the regional environment, such as the quantity and quality of labour available at a potential site, the existence of innovation systems, the proximity of suppliers and potential business partners, and infrastructure can be actively shaped by companies through formal and informal networks, knowledge flows and human capital (Nussmüller et al., 2009; Lengauer and Tödtling, 2010). Wood et al. (2016) along the dichotomy of 'company in region' and 'region in company' highlight that the previously underrepresented 'region in the company' dimension has gained particular value due to changes in trends in regional science and economic geography. Finally, the cultural shift that emerged in the 1980s in the analysis of spatial processes and the literature on embeddedness triggered another change in perspective, despite the long history of spatial thinking about culture (Ray and Sayer, 1999; Rodriguez-Pose, 2001; Anderson et al., 2003). Moving away from purely economic explanations and embracing interdisciplinary approaches, the term culture is often applied without precise definition to encompass aspects not reducible to economics or politics alone (Mitchell, 1995; Smelser and Swedberg, 2005). In this study, the cultural aspect of embeddedness is grounded in cultural theory, which posits that 'actors with different cultural viewpoints have distinct and predictable biases in terms of their expectations of collaboration and their preferences' (Weare et al., 2014, 590).

Based on numerous studies on cultural aspects of embeddedness (Saxenian, 1994; Crewe, 1996; James, 2007; Rajcsányi-Molnár and András, 2013; Bayat et al., 2014; Aerni, 2018) it can be concluded that an interdisciplinary and multi-level definition of culture should be given. Culture is inherently a collective phenomenon, encompassing basic assumptions and beliefs specific to a particular group (Eliot, 1948; Damen, 1987; Schein, 1991; DiMaggio, 1997; Thomas, 2010). It is a comprehensive concept that includes both intangible elements (value, norm, knowledge, method) (Geertz, 1974; Schein, 1991; Hampden-Turner 1994; Trompenaars and Hampden-Turner, 1993; DiMaggio, 1997; House et al., 1997; Scherm, 1999; Søderberg and Holden, 2002; Coe et al., 2007; Thomas, 2010) and material, tangible (art, object, institution) elements (House et al., 1997; Thomas, 2010). These elements are manifested in practices, orientations, modes of interpretation, thinking and decision-making mechanisms, problem-solving approaches, and patterns of attitude

(Schein, 1985; Damen, 1987; Schein, 1991; Terpstra and David, 1991; Lederach, 1995; Scherm, 1999; Hofstede, 2001; Anderson et al., 2003; Coe et al., 2007; Marker, 2010; Thomas, 2010). Culture constitutes the environment of humanity and emerges from human activities (Hall, 1976; Hampden-Turner 1994; House et al., 1997), forming a consistent system (Terpstra and David, 1991; Hampden-Turner 1994; House et al., 1997), the dynamism and evolutionary perspective of which is shaped by the programming acquired and transmitted during socialization (Hofstede, 2001; Schein, 1991; Terpstra and David, 1991; Søderberg and Holden, 2002), resulting in stable and enduring beliefs (Søderberg and Holden, 2002). Culture also manifests at supranational, national, regional, organizational, and group levels, with each level influencing and defining the others. Organizational culture inherits the characteristics of national cultures (Ribiére, 2005), companies cannot develop an organizational culture that is radically different from the cultural factors of the country in which they operate (Shahin, 2003). According to Lengauer and Tödtling (2010), national and regional institutions, and thus culture, shape corporate practices and culture, since the day-to-day operation of companies is strongly influenced by the values that shape people's everyday decisions. As organizations and companies operate within regional and national contexts, the influence of national culture is decisive. Overall, behaviours incorporating values are primarily influenced by the national level of culture. In contrast, behaviours incorporating competence values and practices are more significantly determined by organizational and regional industrial culture (Karahanna et al., 2005).

3. Determinism of culture in corporate embedding and embeddedness

The determinism of culture in corporate embeddedness highlights the profound impact that cultural contexts have on the operations and success of businesses within a given region. Understanding how cultural norms and values influence corporate practices is essential for both domestic and foreign companies striving to integrate into new markets. In the case of foreign companies, this issue becomes more important since skills, values, norms, and practices acquired in their country of origin can be devalued in the host country. Consequently, their success depends significantly on the structure within which they are incorporated (Portes and Sensenbrenner, 1993). Cooke (2001) defines embeddedness as 'the extent to which a social community operates in terms of shared norms of co-operation, trustful interaction and untraded interdependencies' (Cooke, 2001, 960). Oinas (1997) found that embedding enables firms to acquire characteristics that allow them to integrate into their local or wider environment, resulting in seamless collaboration with environmental actors.

When exploring the factors influencing embeddedness, Rechnitzer (2018) highlights that the integration of a company's system is also affected by cultural characteristics, identities, differences, and their reception characteristics. Core values and norms such as the need for local integration, openness to other cultures, level of trust, knowledge of a foreign language, and the degree of uncertainty avoidance play a crucial role. The embedding of a company is smoother and simpler when dealing with similar, culturally close parties (Kecskés and Rácz, 2016), although cultural proximity does not necessarily eliminate conflicts. In the relationship between embeddedness and culture, it is crucial to emphasize that, although culture is mostly space-bound – being determined by the environmental context and the carriers of culture, such as society or groups of people – the role of individuals, particularly local society and employees as "transport vehicles," becomes increasingly important (Halien and Törnroos, 1998; Konczos-Szombathelyi, 2014). Soroka et al. (2020) found that the embeddedness of companies stems from employees, just as Billington et al. (2017) argue that culture and identity are built into the company through people. The cultural embeddedness of companies can, therefore, be understood in terms of how regional cultural systems – comprising collective beliefs, ideologies, perceptions, and conventions (regional culture) – influence the management practices, rules, and decision-making processes of local firms (organizational culture) (James, 2007).

The study outlines two effects of culture on corporate embeddedness. First, cultures promoting cooperation and networking increase the likelihood of embeddedness. In cooperative cultures, joint projects and collaborations facilitate local integration, while competitive, individualistic cultures lead to less embeddedness. Second, cultural proximity or distance between interacting parties can either hinder or facilitate embedding, analysing the interactional culture of the embedding process.

3.1. The system of values and norms of corporate embeddedness

Authors agree that corporate embeddedness involves companies adapting and localizing their operations to fit the host country's environment (Oinas, 1997; Gerhart, 2009; Mattes, 2013; Wood and Reynolds, 2014; Wood et al., 2016). Factors such as regulation, institutions, markets, collective bargaining, workforce characteristics, and culture vary across countries, necessitating localization for optimal outcomes (Table 1). The organizational culture is adapted to the context of the host country and localized to different degrees based on various theories. Institutional theory suggests that organizations conform to environmental pressures to appear legitimate, leading to structural and practice similarities that foster regional or industrial culture. Conversely, the resource-based view emphasizes unique organizational attributes as sources of competitive advantage, favouring employees who fit the corporate culture. Although unique culture can be interpreted as a resource, companies tend to prioritize employees who fit the corporate culture and needs. Thus, culturally close or culturally highly heterogeneous areas have an advantage in exploiting companies' local workforce (Gerhart, 2009).

Mattes (2013) argues that a high degree of embeddedness requires mutual adaptation between the company and its regional environment. Oinas (1997) describes embedding as a process where companies integrate into local environments and cooperate seamlessly with local actors. Wood and Reynolds (2014) found that retail TNCs with differentiated, multi-domestic strategies experienced lower alienation when embedding in competitive, institutional, regulatory, and cultural contexts.

However, companies' willingness to embed locally and the receptivity of the host environment are influenced by institutional and cultural factors (Lengauer and Tödtling, 2010). Financial constraints, corporate strategy, industry characteristics, and the role of the subsidiary all affect local integration. Cultural factors such as trust, international experience, and uncertainty avoidance are crucial for establishing local relationships (Rechnitzer, 2018).

Meyer et al. (2010) found that open and transparent institutional structures attract foreign direct investment. Kloosterman (2010) noted the importance of both market openness and institutional factors in embedding companies. Socially constructed and culturally defined networks are essential for embeddedness (Crewe, 1996).

Table 1 - Cultural characteristics that foster company embeddedness

Values, norms	Practices
• Willingness to adapt and localize, openness • Conformance to institutional pressures to appear legitimate • Emphasis on unique organizational attributes (Resource-Based View) • Multi-domestic strategy • High levels of trust • Social capital and the ability to work together • Openness, personal risk perception, identity, and sociocultural background of local government members, university leaders, and corporate managers • Corporate culture of long-term strategy and responsibility	• Mutual adaptation and interaction • Willingness to cooperation with local actors • Development of relational goods: Learning and adapting through interaction routines • Spatial proximity and intermediary institutions: Frequent meetings and events • Openness to regional renewal and innovation

Fukuyama (1995) emphasized that the competitiveness of a nation is determined by the level of trust in that society. The economy is one of the most important environments of human cooperation and association, which, like all other components of human behaviour, is significantly influenced by culture. Common values inspire trust, which, as stated by Fukuyama (1995), has great and measurable economic value. Social capital, i.e. the ability to work together in groups and organisations to achieve common goals, plays a particularly important role in building trust. Storper (1997) highlighted the importance of relational goods and adaptive interaction routines in uncertain economic environments. By examining small and medium-sized enterprises, Mackinnon et al. (2004) found that spatial proximity, frequent meetings and intermediary institutions foster trust-based networks and embeddedness.

The openness, personal perception of risk, identity and sociocultural background of key charachters in the process of embedding, such as members of local governments, university leaders, representatives of city institutions, as well as corporate leaders and managers, also greatly influence the process of embedding (Fekete and Rechnitzer, 2019; Yeung and Li, 2000; Wrigley et al., 2005; Völlers et al., 2021). Watts et al. (2006) found that owner-manager characteristics, such as place of birth, education, experience, influence businesses' dependence on local markets and network participation.

Rehfeld (2012) suggested that active corporate participation, long-term strategy, management continuity, responsibility, and visibility facilitate embeddedness, especially in regions where these attributes are culturally embedded. Effective embeddedness requires companies to engage in regional renewal, innovation, and knowledge economy development through business-university collaboration and open innovation (Rehfeld, 2012).

The effectiveness of embeddedness varies due to political, economic, financial and historical differences between countries. Wrigley et al. (2005) distinguish three environments: particularistic, collaborative, and relationship-building. In particularistic environments such as Latin America and Central and Eastern Europe, weak collective mediators and paternalistic power relations dominate. In collaborative environments, such as Western Europe and Japan, the state plays a significant coordinating role. In near-arm environments like the US and UK, the state acts more as a regulator. According to Sally (1994), the US and UK rely on short-term market transactions, while Japan has strong long-term agreements. Germany is exemplary with strong institutional embeddedness, while France has weaker external relations with multinationals.

3.2. Culture as an interactional factor of corporate embedding

The process of embedding is fundamentally determined by several factors, including the age, size, industry characteristics of the company, furthermore, results confirm that foreign-owned companies are less committed than regionally-owned companies (Rehfeld, 2012). Culture plays a vital role by both limiting actions and creating synergistic benefits (Emirbayer and Goodwin, 1994). Culture is not a one-time effect, but a permanent determinant of the process, which is constantly built up and constructed during interaction (Figure 1). It not only shapes its members, but they also shape it, partly for their own strategic reasons (Oinas, 1997). The origin idea of intercultural interaction is that the partners think and act from the perspective of their own cultural understanding, even though the two monocultural perspectives overlap each other. The dynamics in overlapping situations can result in four different patterns of behaviour according to Thomas (2010): Treating one's own culture as superior and dominating the interaction, accepting and integrating the other culture for assimilation, alternating between both cultures for achievement, and creating mutually binding norms through cultural synthesis.

Based on the interdependence theory of Kelley and Thibaut (1978) in intercultural context it can be assumed that people from an individualist culture mostly value a balanced relationship and strive for a certain degree of independence, self-sufficiency and freedom of choice among the range of possible actions. In contrast, people from collectivist cultures are much more likely to accept and support interdependence and dependence within the primary social group, such as the family, organization, or work group.

A newer aspect of cultural research is represented by the Cultural Frame Shifting Paradigm, which concludes that individuals are able to dynamically integrate into or disconnect from another culture (Adler and Aycan, 2018). The situational dependence of the importance of values and norms is put into a new aspect by Leung and Morris' (2015) Situated Dynamics (SD) framework. Accordingly, values play a more important and stronger role in situations involving moral or ethical situations, while norms of behaviour become more important in situations involving interpretive and behavioural tasks (Adler and Aycan, 2018).

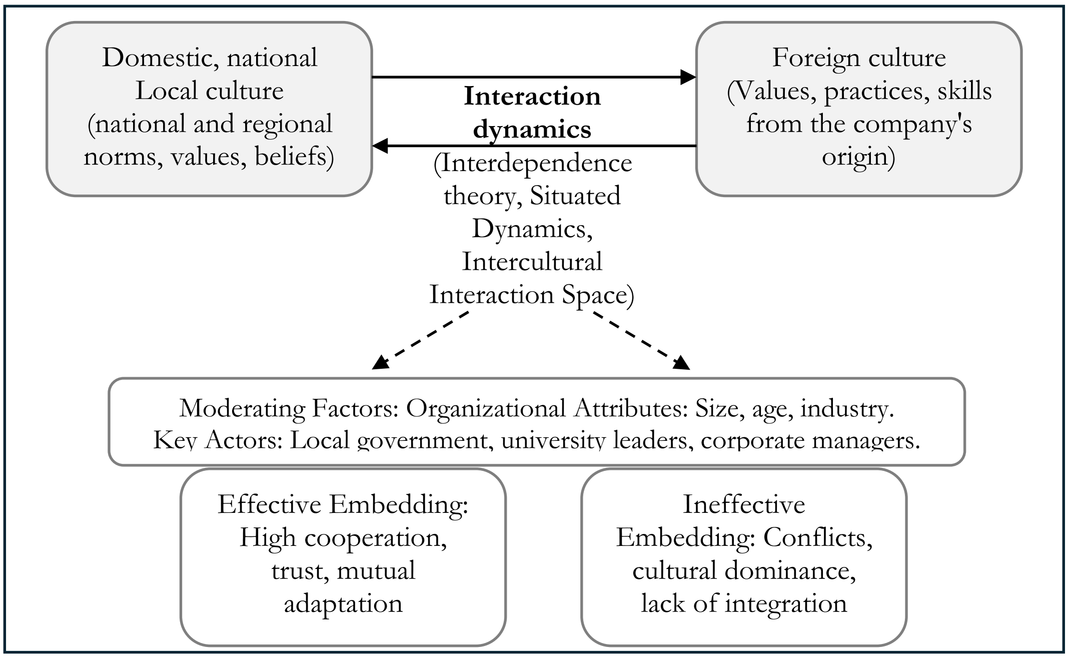

Figure 1 – The interaction dynamics of corporate embeddedness from cultural perspective

Zellmer-Bruhn and Gibson's (2014) Intercultural Interaction Space (IIS) approach suggests that the impact of cultural differences varies with the situation. Recognizing cultural roles and providing appropriate behaviours becomes crucial under extreme conditions, whether physical (limited personal contact), cognitive (ambiguity or uncertainty), or affective (risk). Similarity-attraction theory emphasizes that shared values, attitudes, and behaviours enhance cooperation (Adler and Aycan, 2018), relating to trust's origin and its role in fostering acceptance.

The analyses focused on norms, values and institutional practices that limit and shape spatial and economic actions, i.e. answering the question of how space-specific sets of values and beliefs affect the functioning of companies in a given regional economy (James, 2007; Trippl and Tödtling, 2007). Indeed, culture limits economic rationality, shapes the conditions for cooperation and trade, provides scenarios for the application of strategies, and regulates market exchange (Zukin and DiMaggio, 1990; Dequech, 2003) and makes networks operable by adopting common norms and rules.

4. Conclusions

Based on the literature, the study outlines two distinct effects of culture on the process of embedding and the state of corporate embeddedness. Firstly, culture influences embeddedness by promoting relationships and networking through cooperative attitudes, thereby enhancing the likelihood of companies becoming embedded. In cultures where cooperation is highly valued, joint projects and collaborations facilitate local integration of companies. Conversely, in cultures dominated by competition and individualism, companies focus more on their own profits and interests, leading to weaker local embeddedness. However, cultural values are not the sole determinant of embeddedness. In future research, values that describe the system of norms that help embedding will be identified along the cultural dimension models widespread in the culture literature.

Secondly, culture influences embeddedness through the interactional nature of relationships and networks. In this case, it is the cultural proximity or distance between interacting parties that influences the embedding process. Further empirical research should answer the question which effect is stronger: the impact of a collaborative culture or the cognitive and cultural similarities that facilitate collaboration processes.

Examining the influence of culture on the process of embedding and corporate embeddedness is critical for several reasons. Understanding how cultural values impact embeddedness helps companies strategically align their operations with local contexts, which leads to better integration into new markets, enhancing competitiveness and long-term sustainability. Cultural insights enable companies to optimize their internal practices and management strategies according to local norms and expectations, reducing stakeholder confrontation and improving efficiency. Cultural analysis helps companies anticipate and mitigate potential risks associated with entering new markets or engaging with diverse stakeholders. By understanding cultural dynamics, companies can more effectively navigate regulatory, social and political landscapes while fostering innovation by bringing together different perspectives and ideas.

While this study provides insight into the impact of culture on corporate embeddedness, the complexity of the terms themselves should be acknowledged as a limitation of the literature review. The review of culture did not take into account that supranational and subnational (e.g. regional, regional industrial) cultures also exist, and moreover, companies themselves represent their own organizational culture. Another limitation of the study is that, although it identifies numerous values and norms based on the literature, quantifying and measuring the impact of culture on embeddedness remains a challenge for future research. Another difficulty is that while culture is a significant factor, corporate embeddedness is influenced by a variety of other, hard factors, such as economic conditions, regulatory frameworks, technological advancements, and infrastructure.

The literature synthesis presented in this study lays the foundation for future empirical research. Addressing the problem of path dependency in Central and Eastern Europe presented in the introduction from the perspective of embeddedness is not possible without the examination of culture, since geographical location and spatially bound culture are strong determinants for companies. Consequently, the path to success is unique for each region. As Lux et al. (2020) emphasize, the question is not whether the high-tech industry of Silicon Valley, the characteristics of the German Mittelstand, or the deeply socially embedded, norm-based approach of Italian industrial districts is the better way to regional and corporate competitiveness. Rather, the focus should be on which concept can be implemented within the given socio-cultural, economic, and political context. Therefore, distinguishing the mutual determinism of these two topics into different analytical perspectives helps empirical studies uncover the relationship between culture and embeddedness and contribute to the current literature, making it possible to determine the pathways of corporate integration through the analysis of specific contexts.

Conflict of interest

The author declares no conflict of interest.

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