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The Sociology of Markets<sup>1</sup>

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## Abstract

The sociology of markets has been one of the most vibrant fields in sociology in the past 25 years. There is a great deal of agreement that markets are social structures characterized by extensive social relationships between firms, workers, suppliers, customers, and governments. But, like in many sociological literatures, the theory camps that have formed often seem to speak by each other. We show that some of the disagreement between theory camps is due to differences in conceptual language, and other disagreements stem from the fact that theory camps ignore the concepts in other theory camps, thereby making their theories less complete. We end by considering deeper controversies in the literature that seem open both to new conceptualization and further empirical research.

Key Words: networks, institutions, performativity, culture, politics

*“O how they cling and wrangle, some who claim  
For preacher and monk the honored name!  
For, quarreling, each to his view they cling.  
Such folk see only one side of a thing.”*

*Jainism and Buddhism. Udana 68-69: Parable of the Blind Men and the Elephant*

## Introduction

The sociology of markets has been one of the most vibrant fields in sociology in the past 25 years.<sup>1</sup> Starting with a trickle of empirical and theoretical papers, it has grown to a river. One of the seminal pieces in the field, Mark Granovetter's "Economic Action and Social Structure: The Problem of Embeddedness" (1985) has been cited over 2500 times since its publication, making it the most cited paper in Sociology in the postwar era.<sup>2</sup> While sociologists have made significant progress in their attempts to understand the origins, operations, and dynamics of markets as social structures, the primary perspectives that have emerged tend to remain separate and distinct at the theoretical level. Much like the blind monks and preachers who fail to see the whole of the elephant in Buddha's famous parable, scholars have often focused on a particular social aspect of markets and acted as if it was a more general understanding.

This produces two problems. First, because many scholars use similar concepts but identify them by different terms, it creates confusion about the degree to which people are saying different things. For example, most scholars, regardless of their approach, believe that culture (shared meanings, normative understandings, local practices) plays an important role in market projects. Much of this conceptual overlap is hidden by the use of jargon (for example, the use of terms like "frames", "logics", "performativity", "scripts", "conceptions of control", "local knowledge"). This means that

scholars who purport to approach their subject matter from a particular perspective actually share concepts with a wide variety of other scholars. Second, to the degree that scholars are really saying different things, it makes it hard to assess the degree to which their theoretical views are complementary or contradictory. In the case where one viewpoint complements another, theory is advanced when scholars realize that taking into account other possible elements in the social structuring of markets will yield a more complete view of market processes. In the case where theories contradict, scholars need to understand why their perspectives differ and how those differences can be usefully explored to further both theory and research. The primary purpose of this essay is to attempt to begin to untangle the theoretical and empirical work on the sociology of markets to clarify what we know and where scholars really disagree.

The literature (and the way that people teach their graduate courses) has often been divided into three theory groups (Fourcade-Gourinchas 2006): scholars who use networks (Burt 1992; Granovetter 1974; 2005; White 1981; 2002), institutions (Dobbin 1994; Fligstein 1990; 2001; Powell and DiMaggio 1991), or performativity (Buenza and Stark 2004; Callon 1998; Callon and Muniesa 2005; MacKenzie and Milo 2003) as explanatory mechanisms in the emergence and ongoing dynamics of markets. Scholars in the network tradition have focused on relational ties between actors as the material of social structure. Institutionalists focus on how cognition and action are contextualized by market rules, power, and norms. The performative school of thought views economic action as a result of calculative processes involving the specific technologies and artifacts that actors employ.

This division of the field over emphasizes the degree to which these perspectives are in fact separate theory groups. All three approaches rely on viewing markets as social arenas where firms, their suppliers, customers, workers, and government interact, and all three approaches emphasize how the connectedness of social actors affects their behavior. Network analysis is a data technique to find social structures in relational data. It is not a theory of the underlying relationships in the data and the mechanisms that they represent. Scholars who use network techniques invoke theoretical constructs like power, resource dependence, co-optation, information, and trust to explain the social structures that emerge from their analyses. These mechanisms are common to institutional theory and other theories relevant to the sociology of markets. Institutional theorists are interested in how field level phenomena diffuse to make fields isomorphic, often through social networks (Davis 1991). Performativists have explicitly connected their approach to network theory in what Callon (1998) calls the “actor-network” approach. The actor-network approach views not only humans, but also objects and artifacts, techniques, and ideas as agents embedded in networks of calculative relations. In addition, performative approaches overlap with institutional theory in their interest in how products come to be created and sold, and in how the local cultures of particular markets form, what would be called by institutionalists, the institutionalization of particular markets.

While these three approaches encompass a large portion of the work done in the sociology of markets, they are by no means exhaustive. Along with considering these particular perspectives with the goal of extracting what sociologists have learned about markets and what remains to be resolved, we consider the degree to which the different theory groups offer incomplete representations of the social structuring of markets. The

division of the field into networks, institutions, and performativity excludes other theoretical perspectives that should also be at the core of thinking about markets as social structures. We focus on two important approaches that have been underplayed in the literature: political economy and population ecology.

Political economy has pioneered thinking about the linkages between states, law, and markets and the historical emergence of systems of governance. The literature on the comparative study of capitalist arrangements and their effects on various outcomes, including economic development, is part and parcel of the sociology of markets. Institutional theory is the approach to most frequently add political economy into its analyses. It focuses on the role of governments and law in the creation of particular features of markets, for example the type of alliances and forms of cooperation that are legal. But, network theorists and scholars interested in performativity have generally ignored the possible effects of government and law and the role of preexisting relationships between the owners of firms, managers, workers, and governments on market processes. This makes their accounts of particular markets incomplete.

Population ecology is the branch of organizational theory that deals most directly with the effects of competition on the production of markets. Scholars who use this approach have drawn on network or institutional analyses (Baron et al 1999; Haveman and Rao 1997). But, it has not figured into the core of the sociology of markets. This is mostly because population ecology has developed a vocabulary and set of methods which do not easily translate into many of the current approaches to social structure. This is unfortunate because many of the developments in population ecology have paralleled those in the other approaches. We show how many of the ideas in population ecology

have been expressed in a different language in the other points of view and argue that the insights of population ecology should be added more explicitly to scholarly thinking about the social structuring of markets.

After noting some of the similar ideas that run through the literature, including the less recognized areas of contribution, there remain a number of interesting problems that stem from theoretical differences. Scholars in the performative tradition have presented their perspective as a critique of the predominant sociological modes of understanding markets. Their basic idea is that economic action is about calculation, and that the ways in which the qualities of goods are calculated, i.e. the amenability of goods to calculation, the calculative capacities of actors and the interaction between them in the act of exchange are crucial to understanding market structure. They argue that the tools actors have at their disposal to interpret and define their economic worlds and the ways in which they organize interaction over exchange are created by and enact ideas about how economic activity should and does operate. We interpret their argument as an attempt to insert cultural understandings of actors into the core of the social construction of markets.

A second disagreement focuses on linkages between producers and consumers. Many of the analyses of markets focus exclusively on producers and their competitive relationships. Here the main focus of attention is on how social structures resolve the myriad forms of resource dependence or mediate competition. But, other scholars who view the links between producers and consumers as pivotal to the production of markets emphasize the role of trust and culture (i.e. commonly held meanings about the product, its morality, and its usefulness) in those relationships as key to understanding market processes. Granovetter (1985) argued early on that the main purpose of embeddedness in



markets was that it increased the trust between buyers and sellers. Zelizer has taken the relationship between producers and consumers in a different direction. Her argument is that consumers have to be convinced not just of the utility of the products they buy and the trustworthiness of those who sell them, but also the morality of the product (Zelizer 1983; 1994; 1997). Her more cultural approach alerts scholars to the problem of framing products in order that consumers find them not just useful, but also to fit with their values.

A third source of disagreement is that some scholars view markets structures in terms of the degree to which they are emergent or in equilibrium, while others argue that markets are always dynamic and changing. The definition of what we could mean by a sociological view of equilibrium is intriguing. Harrison White, for example, has defined a market as a “reproducible role structure” (1981). This idea implies that the social processes that occur when a market is formed are different than the social processes once a more stable set of social relationships appear. Population ecology has an implied theory of what could be called punctuated equilibrium. At the beginning of markets, there is often a period of turmoil and change followed by some stasis, and perhaps a second period of turmoil. The alternative view is the assertion that markets are always fluid with products, processes, and advantage in flux. Here, equilibrium solutions to the problem of what other market actors will do never forms (Nelson and Winter 1982). This is an important disagreement because it implies a very different way of looking at the social structuring of a market. If markets actors are seeking to find a place in the market and they collectively can produce equilibrium, then the goal of actors in such a market will be to preserve that order, while the goal of actors seeking such markets will be a search for ways to produce the order. If firms are resigned to live in a world where reproducing

one's position is not possible, then social relationships become more about temporary arrangements that allow one to get information or secure cutting edge technology. Since change is ubiquitous, one chooses one's friends for their usefulness and when that usefulness ends, one moves on.

Finally, sociologists generally have a complicated relationship to the problem of whether or not a given set of social arrangements is "efficient". One of the main responses economics has made to existence of so many kinds of social relationships in markets is to argue that social relationships exist between market actors to solve market problems like agency costs (Fama and Jensen 1983), transaction costs (Williamson 1985), and to promote trust between buyers and sellers. Some sociologists seem prepared to accept that social structures could be efficient (Baker 1984; Uzzi 1996). From this point of view, social structures in markets operate to reduce information costs, give firms access to knowledge about what the competition is doing, allow market actors to trust one another, and reduce resource dependencies. These social structures provide firms with information that allows them to learn and adapt and in doing so, allows them to compete effectively. But, others are more agnostic on this question (Fligstein 1990; Podolny 1993). For them, social structures can operate to mitigate the effects of competition. Here, firms try to control markets by using their size, technology, and access to governments to promote a status hierarchy of incumbents and challengers. Incumbent firms use their advantages to signal to their principal competitors what they will do to defend the existing market order. For these scholars, the social structure of markets exists to produce this order. These contrasting images constitute a frontier issue in the sociology of markets.

This essay will have the following structure. We discuss the intellectual roots of the sociology of markets, and how the field evolved from problems posed in nearby fields. Then we examine the crystallization of the major ideas in the sociology of markets and in doing so discuss "what we know". Finally, we consider what the real differences of opinion are and suggest avenues for future research.

### Contemporary Roots of the Sociology of Markets

There have been many good reviews written about the intellectual history of the "sociology of markets" as a field (Biggart and Beamish 2003; Fourcade-Gourinchas 2006; Krippner 2001; Lie 1997; Smelser and Swedberg 1994; Trigilia 2002). Our goal in this section is to put this literature together in a different way. Rather than focusing on the roots of the sociology of markets in classical theory, we focus on the contemporary fields of study that contributed to the intellectual ferment around the sociology of markets. In particular, we trace the influence of nearby fields on the different perspectives in the sociology of markets

New fields of social inquiry are built in relation to other fields of social inquiry. When scholars working within one field find themselves in a dialogue with scholars working on similar problems in other fields, sometimes, a new field of inquiry is created. At the outset, new fields involve scholars borrowing one another's perspectives and looking for mechanisms and models that might help explain new objects of inquiry. In this case, political economy, the sociology of labor markets, and organizational theory pioneered thinking about the sociology of markets, and the cross-pollination of ideas in

these fields formed the basic insights leading to the establishment of the sociology of markets as a field in its own right. Scholars in all of these fields doubted that economics could sufficiently make sense of what happens in markets. In essence, they discovered that the atomized, price taking actors, with perfect and symmetrical information assumed by neoclassical theory did not seem to exist empirically. Social relations seemed to be crucial to the functioning of markets and market actors in a myriad of ways. While all of these subfields began to criticize economics, they did so from different perspectives and for different reasons and it is the critiques internal to the logics of these fields that were the first moves towards the creation of a contemporary sociology of markets. It is useful to understand these debates in order to make sense of the different theoretical voices in the sociology of markets.

Political economy in the 1960's was dominated by modernization theory. This perspective sought to explain how economically underdeveloped countries might develop along the lines of industrialized nations. Generally, studies in this vein focused on how similar cultural and structural features in developing nations, characterized as 'traditional', could be overcome with the emulation of institutional models extant in developed countries in order to promote economic growth (Eisenstadt 1973; Kerr 1960; Lerner and Riesman 1963; Rostow 1961). Critiques of modernization theory in political economy led researchers to new perspectives on development and comparative capitalisms.

Scholars in this field looked back to Karl Polanyi's (1957) The Great Transformation for inspiration (see Block and Evans, 2005 for a review of the literature on the links between states and markets). Polanyi argued that not only did the creation of

markets require states, but that the formation of capitalist markets would produce social chaos. In response, he suggested that governments would have to intervene into markets to stabilize them and to provide social protection for workers and rules to guide the interactions between groups of capitalists. The ways in which they did this would necessarily be contingent and implied that historical institutional variation could help to explain cross national variation in market structures. The rejection of the teleological convergence of institutions towards Western models implied by the economic underpinnings in much of modernization theory led scholars to look into how the evolving institutions of capitalism (laws, regulations, and institutionalized practices), came to regulate the relationships between firms, owners, governments and workers in ways which produced fundamental differences in the market structures of these societies.

As development projects took off, first in Japan, then later in Taiwan and Korea, scholars began to delve into how local arrangements between governments, economic elites, and workers provided for the conditions of economic growth in both developed and less developed societies (Amsden 1991; Aoki 1990; Dore 1973; 1987; 1997; Evans 1995; Johnson 1982; Wade 1990). Meanwhile, the study of comparative capitalisms, revealed that the relationships between these groups showed remarkable diversity and reflected very much a historical, cultural, and national trajectory (Campbell et al 1991; Fligstein and Choo 2005). This perspective suggested that governments, workers, and capitalists produced market structures that were different across countries (Albert 1993; Berger and Dore 1996; Boyer and Drache 1996; Hall and Soskice 2001; Hollingsworth et al 1994). Markets were not "given" by outsiders, but instead reflected the social and political construction of each society where the history and culture surrounding class

relations and the various kinds of interventions by governments produced unique institutional orders.

Organizational theory, much of which was centered in business schools, was concerned with understanding how the managers of firms read the demands of their environments, and adjust their organizational structures in line with those contingencies (Miles 1980). While managerial theory rejected some of the tenets of economics (March et al 1958; Simon 1957) such as perfect information and perfect rationality, the purpose of the firm was still to adjust to the world of competition as economics implied. The critique of management theory's focus on internal organizational processes led organizational theorists in two directions.

Hannan and Freeman (1977) began to argue that scholars had paid too much attention to adaptive processes in organizations. Instead, they argued for studying the emergence of organizational forms at the level of populations. They implied that market opportunity brought forward the birth of firms. But, the character of the market, i.e. the resources that could be exploited by firms would determine which forms of organization would survive. The main problem that competition created for firms, from Hannan and Freeman's perspective was resource dependence (Pfeffer and Salancik 1978). Many firms could not get the resources they needed to survive, and this led to high rates of failure at the beginning of market opening projects. Despite population ecology's focus on competition, scholars in this field came to realize that the formation of market boundaries was a social process and the formation of niches often reflected the ability of firms to segregate their markets (Carroll 1985; Hannan and Freeman 1988). Firms depend on legitimacy and external shocks to a niche, such as the introduction of a law, can have a

profound effect on the dynamics of a niche. (Banaszak-Holl et al 1991; Ingram and Rao, 2004; Haveman and Rao 1997). Recently, ecologists have begun to focus on how firms form identities and how these identities form markets (Carroll and Swaminathan 2003).

While population ecology viewed the environment of the firm as "hard" and thereby the main mechanism of selection was the availability of the scarcest resource, institutional theory posited that the environment was at least partially a social construction. Meyer and Scott (1982) called such environments "sectors" and came to describe the socially constructed environment of firms as a function of all of the other organizations that might impinge on a particular organization. They included governments, suppliers, workers and customers as part of such a social construction. We note that sectors that join all interested parties look quite similar to the set of actors that political economy focuses on; i.e. firms, governments, and workers. DiMaggio and Powell extended these arguments and came to call such environments "organizational fields", a term that has caught on (1983). The field metaphor implies that firms watch one another, engage in strategic behavior vis a vis one another, and look to one another for clues as to what constitutes successful behavior. The main focus in DiMaggio and Powell was on how firms in organizational fields came to resemble one another through what they describe as processes of mimetic, coercive, and normative isomorphism.

In 1981, White produced a sociological view of what he thought firms were doing in markets. His central argument was that firms in production markets were positioning their organizations vis a vis one another. They would signal to each other through the use of the price of their product and the relative quality of their product what kind of producer they wanted to be. This signaling would produce what White called a "market"

that he defined as a "reproducible role structure". White's view combines some insights from economics about how price can be used as a signal (Spence, 1974) with the organizational sociology focus on the construction of fields or niches.

While organizational scholars began to examine social processes structuring relationships between organizations, scholars in stratification and labor markets took a new look at the role of firms in resource distribution. During the 1960s and 1970s, the main approach sociologists used to examine labor markets was the status attainment model. This view focused on how individuals were sorted into a relatively fixed set of positions according to their personal characteristics, like family origins, education, gender and race (Blau and Duncan 1967; Hauser and Featherman 1977). Viewing the linkages between individuals and their socio-economic outcomes as mainly a function of their personal characteristics, the problem of the demand for labor, and thus the role of the firm, was outside of their purview.

During the 1970s, scholars became interested in two other questions: how does the structure of jobs affect individual mobility patterns and what is the actual process through which people are matched to jobs? Sociologists began to answer these questions by considering the role of firms in the hiring process and social relationships in the matching process. The "new structuralism" began to model how firms affected the distribution of rewards (Baron and Bielby 1980; Hodson 1983; Kalleberg and Griffin 1980). Harrison White's "Chains of Opportunity" elaborated the idea of how vacancy chains of jobs helped produce the distribution of workers and rewards (1970). Mark Granovetter's "Getting a Job"(1974) took on the question of how people got matched to jobs. He introduced the idea of how social networks mediated the links between



employers and employees. Both White and Granovetter championed the use of network analysis as a way to understand the social structure linking employers and employees.

### Agreements in the Sociology of Markets

At the core of the sociology of markets is the attempt to insert sociologists into the study of the economic realm by bringing social theory and the way social life works in general into firms, markets, and industries. As our review suggests, the theoretical pieces for the construction of the sociology of markets were in place by 1983. Firms, the social structures that defined their relationships to competitors, and the social structures that linked them to suppliers, customers, workers, and governments were already theorized to exist, to vary across markets, historical time periods, and countries. Granovetter's declaration that economic life was always embedded in social life has proven to be the intellectual frame that justified opening a floodgate of research and brought a massive set of scholars armed with sociological ideas into studying market activity and even more importantly, engaging one another in discourse.

What began next was an exploration of product and labor markets. Scholars studied concrete cases and attempted to apply these tools in order to account for what had emerged. The sociology of markets has been used to explain many aspects of markets. Some scholars have demonstrated how the social relationships in markets produce more stable prices (Baker 1984; Uzzi 1997; Uzzi 2004). Others have focused on how the social structuring of markets has affected the birth and death of small firms (Stuart et al 1999; Stuart and Sorenson 2003 ). Still others have observed the innovation and spread of new

market strategies such as new products, financial innovations, or changes in organizations such as the diversification of products, geographic expansion, vertical integration, and which subunit controlled the firm (Ahmadjian and Robinson 2001; Beckman 2002; Davis 1991; Davis et al 1994; Fiss and Zajac 2004; Fligstein 1985; 1991; Gulati and Westphal 1999; Haunschild 1993; Hirsch 1986; Ocasio and Kim 1999; Westphal and Zajac 1998; Zorn 2004; Zuckerman 1999; 2000).

The exploration of all of the possible linkages between firms, suppliers, customers, governments, and workers pushed scholars to postulate a plethora of mechanisms for embeddedness. The literature groped with trying to generalize these cases and began to elaborate different ways of thinking about the problem of the social embeddedness of markets. Krippner (2001) has argued that the term "embeddedness" has become vaguely defined. We argue that this was the case from the very beginning. Scholars who were coming at the problem from very different points of view examined different ways in which economic transactions were socially structured.

One of the difficulties with the variety of approaches has been to provide a sociological definition for markets. For neoclassical theory, markets simply imply exchange between actors for goods or services. These exchanges are usually thought to be fleeting, with price (i.e. the amount of a commodity that is exchanged for another through the use of a generalized medium of exchange, i.e. money) determined by the supply and demand for the commodity. The problem from the point of view of the sociology of markets is that this type of exchange already shows a great deal of social structure. First, market actors have to find one another. Second, money has to exist to allow market actors to get beyond bartering non-equivalent goods. Third, actors have to

know what the price is. Finally, underlying all exchange is the faith that both buyers and sellers have that they will not be cheated. Such faith often implies informal (i.e. personal knowledge of the buyer or seller) and formal mechanisms (i.e. law) that govern exchange. Furthermore, market actors are often organizations implying that organizational dynamics influence market structures. For sociologists, market exchange implies a whole backdrop of social arrangements that economics does not even begin to hint at.

But the sociology of markets goes farther than just questioning the institutional embeddedness of an anonymous market. It is prepared to unpack the "black boxes" of exchange, competition, and production. Sociologists begin by realizing that market actors are involved in day to day social relationships with one another, relationships based on trust, friendship, power, and dependence. For the modern sociology of markets (Durkheim 1964)<sup>3</sup>, unstructured, haphazard one shot anonymous social exchange is not a market. Instead, markets imply social spaces where repeated exchanges occur between buyers and sellers under a set of formal and informal rules governing relations between competitors, suppliers, and customers.<sup>4</sup> These fields operate according to local understandings and formal and informal rules and conventions that guide interaction, facilitate trade, define what products are produced, indeed are constitutive of products, and provide stability for buyers, sellers, and producers. These marketplaces are dependent on governments, laws, and larger cultural understandings supporting market activity. The first thing a sociology of markets would suggest is that market actors will develop social structures to mediate the problems they encounter in exchange, competition, and production. We will discuss each of these in turn and delineate the primary contributions

of each perspective with regards to how market actors solve these problems and in doing so, construct and navigate their worlds.

Many aspects of exchange relationships in markets have been examined by sociologists. Institutional theory suggests that not only does contractual market exchange depend upon the rule setting and sanction enforcement of states, but also that states may define what types of products are appropriate for exchange. Furthermore, the internal structure of the state as rule setter and regulator can influence the types of products states allow to be exchanged, and the rules supporting and surrounding exchange (Schneiberg and Soule 2005). Buyers and sellers are also generally known to one another and in many cases are involved in repeated exchange. Network theorists have emphasized the role that social networks play in generating trust between buyers and sellers making exchange possible (Granovetter 1985). Cultural sociologists have looked at how specific exchange relations are deeply constructed by the cultural meanings behind the products being bought and sold (Zelizer 1983). Finally, sociologists generally believe that power influences social relations, and thus market relations (Pfeffer and Salancik 1978). Relationships of exchange can be deeply influenced by the relative power of the actors over the supply and demand of what is being exchanged, and by their relative dependence upon what is being exchanged. This conception of power in markets is generally referred to as resource dependence and has been described and employed in a variety of ways by many sociologists.

The idea of resource dependence is a general construct used in the sociology of markets. The idea begins with the premise that in any social exchange, it is possible for one side of the exchange to be more dependent on what is being exchanged than the other

(Emerson 1962). To the degree that one party to the exchange was more dependent, they were either more likely to have to obey the dictates of the supplier/customer or else face extinction.<sup>5</sup> This idea has great generality when it comes to examining exchange. So, for example, firms must obtain finance, inputs for their products, labor, and establish relationships to their competitors, governments, and customers. One of the main results of the empirical literature has been to show that who might have the power in these relationships varies on the nature of the resource dependency and the particular market being studied.

While many of the scholars who have studied exchange interactions have focused on using network methods, they frequently posit mechanisms that involve resource dependence. For example, Lincoln, et. al, show how the ownership linkages between Japanese firms affect the ability of the owner firms to dictate actions to those firms that are owned. Forming relationships to one's principal suppliers can also be a way to co-opt such dependence. Burt (1980a) demonstrates how American corporations' boards of director interlocks are used strategically to bring representatives of firms onto a board on whom a particular firm is dependent for resources. Stuart, et al. (1999) demonstrate that getting money from the "right" venture capitalists affects the probability that a particular firm survives. They interpret such connections as not just about securing funding but also conferring legitimacy upon a particular start-up firm and thereby allowing it to be more able to secure workers and customers. In essence, one purpose of the ties between suppliers and customers is to control resource dependence and enhance the probability of a firm surviving. Here, network theorists are theoretically rooted in the more general

camp of both population ecology and institutional theory by worrying about how resource dependence affects the legitimacy and survival of firms.

Network theorists posit one additional mechanism that links buyers and sellers: trust (Granovetter 1985; 2005; Uzzi 1996). Granovetter's main argument about embeddedness is that if one has close ties to others over long periods of time, one can trust that in any particular transaction, people are less likely to try and cheat one another. While trust is not a major mechanism in either population ecology or institutional theory, it does connect back to those theories. Judging the trustworthiness of another actor is not just a matter of having a long term network tie to them. Trust is also about power and resource dependence. Firms work to reduce uncertainty and resource dependence by choosing partners who they either know to be reliable or who others think are reliable.

Scholars interested in culture and consumption have also focused on exchange in markets. The sociology of consumption (Bourdieu 1984; Csikszentmihalyi and Rochberg-Halton 1981; Slater 1997; Zelizer 1983; 1994; 1997) focuses on what products mean for people and how people use money and markets to establish meaning, status, and morality. For these scholars culture is deeply implicated in market exchange. Products are cultural objects imbued with meaning based upon shared understandings and are themselves symbols or representations of these meanings. Consumption reproduces the material lives of consumers, and provides them means to express their identities and affiliations with status groups, but most importantly for these scholars the meanings attached to products which are negotiated by consumers and producers shape the interpersonal relations of “embedded” market exchange, and in turn are shaped by them.

While exchange characterizes the relation between buyer and seller in markets, competition characterizes the relation between producers.<sup>6</sup> Sociologists posit that competitive markets confront producers as problems to be solved, and they do so using strategies of cooperation, combination and product differentiation. The degrees to which a market is competitive, to which producers are allowed to cooperate, and to which producers are allowed to combine, are all regulated by the government. While producers attempt to use a variety of strategies to control competition, government defines acceptable modes of relation between producers, and regulates competition through reacting to the strategies firms employ.

Population ecology, network theory, and institutional theory all recognize that the differentiation of products is one of the main mechanisms firms have to control competition. This works in two ways. If firms can choose in which part of the market they want to compete, then they can go where their competitors are not. Carroll (1985), calling this process "niche" partitioning, showed that micro breweries were able to create a fast growing niche for themselves even as the largest brewing companies were steadily increasing their hold over the brewing industry (Carroll and Swaminathan 2000). White (1981) has made a similar argument. Markets for him are reproducible role structures where firms decide between the prices they want to charge for a good and the quality of that good they produce. In making this decision, they decide which part of the market to be in. They signal to their competitors their intention and their competitors would then choose to move away from the other competitors.

White and Leifer (1987) demonstrate how this worked for the frozen pizza market. White (2002) later identified this mechanism as a way to produce entirely new markets. If

products became differentiated enough, then they would no longer be competing. White's perspective can easily be translated into the language of population ecology. White is arguing that markets would be differentiated by firms occupying different positions in the niche and to the degree that firms were in fact not competing could result in niche partitioning or in White's language the creation of new markets.

The differentiation of products can also help the stability of the firm through spreading competitive pressures across multiple product markets. If firms decide to produce multiple products, a downturn in a particular market will not threaten the firm's existence because it is not totally resource dependent on the exchange of one product. Population ecology noted this process describing the diversification tactic as a generalist strategy (Hannan and Freeman 1977). Fligstein (1990; 1991) comes at this process from the point of view of institutional theory. He shows that product differentiation in U.S. corporations began as a marketing strategy in the 1920s that was pioneered by large firms in order to stabilize their overall structure. During the Depression of the 1930s, the largest corporations produced as many different kind of products as they could in order to continue to be in existence in the dismal business conditions.

In addition to product differentiation, producers often seek to cooperate, and combine with one another in order to reduce competitive pressure. In the old industrial organization literature in economics, a small number of firms dominating a market act to reduce competition in that market. Challenger firms cannot undercut the prices of their larger core brethren because the large firms can outlast any competitor in a price war. Podolny(1993; 1998) a network theorist, terms this kind of structure a status hierarchy. He studies how investment banks form such a hierarchy that is primarily held in place by



the large size and prestige of the biggest banks. These banks get the largest deals and they reproduce their place in that structure by being able to undercut their competitors if necessary. Fligstein (1996), who has a more institutionalist focus on controlling competition and thereby securing a stable world calls this kind of structure an incumbent-challenger structure. He argues that such structures get reproduced as incumbents use their market power to sustain their advantage in a given market over time.

While producers may attempt to exert market power through the creation of hierarchies, this strategy has its limits. Governments regulate competition (Banaszak-Holl et al 1991; Dobbin and Dowd 2000; Fligstein 1990; Haveman and Rao 1997; Ingram and Rao 2004; Ingram et al 2005) in turn affecting the opportunities for firms to expand and survive. The role of government and law in the production of markets has been acknowledged by the population ecology, institutionalist, and of course, political economy camps. These theory groups understand that governments can both open up opportunities and set up constraints for markets. For example, Hannan and Freeman (1987) show how the legalization of union activities affected the founding and survival of those organizations. Ranger-Moore, et. al.(1991) show how the insurance industry in the 19<sup>th</sup> century expanded and contracted as regulators shifted their roles over time. Haveman and Rao (1997) demonstrate similar processes operating in the savings and loan industries. Fligstein (1990) presents evidence that the U.S. government played a major role in preventing the cartelization and monopolization of American business at the end of the 19<sup>th</sup> century by using antitrust laws. He also demonstrates that the federal government played a role in closing down the 1960s merger movement by aggressively pursuing conglomerate mergers. Dobbin (1994) shows how government policies towards

railroads early on affected their organization in different countries. Dobbin and Dowd (2000) have documented how government played an important role in railroads in the U.S.

The sociological view of the relations between producers begs the question of who these producers are and how they make production decisions. From the point of view of neoclassical economics, whether producers are individuals or organizations matters little; what's important is the production function and the combination of capital and labor used in the productive process (Shepard 1970). Conversely, sociologists have long examined organizations as social structures. Some take the unitary organization of the firm as a starting point, but most would agree that organizations have complex internal dynamics that are important for organizational form, and the strategies they use to solve the problems of competition and exchange. They have pointed to competition within the firm, culture, and power struggles, in addition to environmental influence, as important to understanding a firm's strategy and thus the structure of markets (Fligstein 1990; Ocasio and Kim 1999; Pfeffer 1981; Pfeffer and Salancik 1978).

The study of the internal dynamics of firms and how firms relate to their environments is rooted in organization theory. While much of the empirical work in the sociology of markets treat firms as unitary, sociologists are generally committed, at least theoretically, to viewing the internal dynamics of the firm as important (Bourdieu 2005). The two key aspects of firms that organizational scholars have been most concerned with are strategy and structure (Miles and Snow 1978). The design of the organization is its structure. This includes lines of authority and the formal and informal relationships between positions in the firm. Meanwhile, strategy refers to the means the organization

employs to achieve its goals. The central questions surrounding these aspects of organizations have been where they come from, and how they are related to market structures.

While economic explanations for various strategies and structures generally center on transaction costs, agency costs, or aspects of the technology the firm uses in production (Chandler 1962; Fama and Jensen 1983; Williamson 1985), sociologists have emphasized the contingent nature of the goals of the firm and how culture, and the background of managers influence the firm's strategy and structure. This makes the existing divisions within the firm, and the career paths of managers important. The way the firm divides up functions, how the firm promotes from within, and political struggle determine who manages the firm and thus the perspective that will dominate firm strategy. For example, Fligstein (1990) has emphasized how the rise to prominence of managers with sales and marketing or finance backgrounds preceded the adoption of multidivisional structures, and strategies of product diversification. Processes of managerial succession, the distribution of resources, and promotion are subject to internal competition. Perhaps the most promising aspect of the sociology of markets is the potential to theorize as well as empirically examine the connections between intra-organizational dynamics, and inter-organizational competition and exchange.

Probably the most studied mechanism theorized to pass strategies and structures from one firm to another is the board interlock (Mizruchi 1996). Board interlocks have been shown to influence the spread of different kinds of structural and strategic innovations (Davis, 1991; Burt, 1980; Gulati and Westphal, 1999). Sociologists tend to see board interlocks as mechanisms for co-opting various kinds of resource dependencies,

for generating trust, sharing information, mediating competition, and forming political alliances (here, the link back to political economy can be made).

The social structuring of markets is generally in response to the problems of competition and exchange. The sociology of markets does not posit that these problems will always be solved. But it does imply that where stable markets emerge, such structures will appear as firms figure out how to resolve their problems. By establishing social relationships to not just competitors, but also customers, suppliers, and employees, firms can establish trust and guarantee access to scarce resources. This makes it possible for them to juggle their resource dependencies and survive. One can conclude, that in spite of the varying theoretical perspectives and differing language and data analysis techniques, the empirical literature on the sociology of markets converges on a few main mechanisms by which the social structuring of markets may be understood.

### Divergent Arguments

We would like to explore some of what we consider to be some of the main "real" controversies in the sociology of markets, i.e. those that do not turn on the differing use of terms to describe similar concepts or simply the fact that scholars in some theory group ignore the ideas of the others. One of the most important critiques of the general perspectives outlined above has come from the performativist school of thought. Performativists have criticized the extant sociological work on markets for neglecting the ways in which markets are structured by the interaction of economic activity with scientific discovery and the creation of new technology. From this perspective, Callon

(2002) has argued that the sociology of markets has been worried too much about critiquing the neoclassical view that markets are anonymous, one shot exchanges and not enough about the role of economists (and others) in the creation of cultural tools that actually create the market in fields like finance (Guala 2001; Knorr Cetina and Bruegger 2002; MacKenzie and Milo 2003; MacKenzie, 2004). To demonstrate this point, scholars have studied the dialectic between financial theories, the implementation of new financial products, and how the growth of these markets reflects the ways those theories are used and applied.

This perspective introduces a kind of cultural dynamism into market processes and heightens the role of technological innovation in this process. Actors in current markets invent new products in a self aware fashion and this works to transform existing markets. Here, we think that fruitful dialogue could occur. In spite of Callon's assertion to the contrary, scholars using population ecology, institutional theory, and network theory have been interested in the linkage between the new cultural forms of products and the deployment of firm resources (for example, Granovetter and McGuire 1998; Powell 2005, et. al; Carroll and Swandinathan, 2003; Lounsbury and Rao, 2004; Haveman and Rao, 1997). Of course, much of the research has focused more on questions of legitimacy, resource dependence, and trust, something in which Callon seems uninterested. But, given that scholars have been interested in the co-evolution of industry technologies and organizational forms, Callon's focus on the way in which actors creating technology produces new markets, seem less to contradict more production oriented models than complement them. Linking the process of discovery and implementation in technology

new markets to the problems of resource dependence, competition, exchange, and legitimacy seems like a fruitful avenue of research.

One aspect that undermines Callon's argument is that new markets often are founded for one purpose and they end up serving an entirely different purpose. So, the telephone was thought to be only useful for business and early on, telephone companies discouraged casual use of the phone (Fischer 1992). But, once consumers discovered the phone as a way to keep in touch with each other, the phone companies were driven to expand their services dramatically. These more accidental discoveries of uses for technology imply much less agency and intention and much more a process of discovery about what things are good for.

A second arena of disagreement concerns the fact that studies focus on either competitors or suppliers and customers. Many studies in the sociology of markets focus on communities of producers. These producer focused studies often only present consumers to the degree that the machinations of firms eventually produce a stable social structure that effectively mitigates competition or reduces the resource dependence of competitor firms. When scholars focus on suppliers and customers, their discussions focus on different relationships. Most frequently, these relationships are thought to be about trust indexed through direct network ties that reflect ongoing social relationships between buyers and sellers (Baker et. al., 1998; Uzzi 1996; 1997).

None of these perspectives seem to capture what goes on in big consumer markets where the buyers are individuals and their preferences are expressed in more roundabout ways. Scholars who have been most interested in the cultural construction of products have criticized the focus in the sociology of markets on production. To some degree, the

use of products to make moral judgments or claim social status can be analytically separated from the problem of producing a stable production market. After all, how people use automobiles and what they mean to them and others may not affect which firms survive at the high or low end of the market or how many firms there are and how they are organized. Still, this disjuncture between producers and consumers is one of the interesting frontiers in the sociology of markets.

Zelizer argues that the focus on production misses the fact that consumers have to become convinced about the value and legitimacy of products (1983; Zelizer 1994; 1997). She argues that moral issues abound in the creation of new markets. The life insurance industry, for example, had to overcome the obvious moral ambiguity of people buying insurance that put a price on their deaths. Moreover, firms were put in the position of gambling on other people's deaths. Many people resisted buying life insurance because of these ghoulish qualities. It was only when consumers became convinced through marketing efforts that life insurance was a way to provide for one's loved ones after death that the market took off. By not focusing on consumers and convincing consumers of the need for their products, the production focused sociology of markets would seem to be missing something important about where markets come from.

The case of the life insurance industry actually presents us with an empirical puzzle and thus, an opportunity for scholars to explore the relative role of consumers, governments, and firms in the production of a new product. We know that the problems of the life insurance industry were not just convincing people to buy insurance. At the beginning of the market, firms frequently sold policies at too low a cost in order to make some money. Then when people came to collect, many of the smaller firms would go

bankrupt and their owners would disappear. Eventually, government regulation became more extensive in order to protect consumers. These interventions appear to have been as important in generating trust (between firms and customers) as the problem of the morality of the market (Heimer 1985).

A fruitful dialogue between those who think a more cultural approach to consumers which focuses on the moral and social uses of products and an approach which stressed solving the problems of competition for producers would allow us to understand if these views were contradictory or complementary. Considering all sides of the problem would help us get a clearer picture as to how the production of new products, their legitimation, and the structuring of stable markets are related.

The question of the dynamics of markets leads to a more general disagreement in the literature surrounding stability and change. Population ecology, institutional theory, and some versions of network theory (i.e. White) have an explicit argument that market opening projects are going to be very different than market stabilizing projects. For population ecology, the liability of newness and smallness are particularly acute at the formation of new markets. It is in these moments when people either do not know what their key resource dependencies are or are not able to deliver products that people want reliably. Thus, they are more vulnerable to competition. Once markets have settled, the existing firms can remain stable incumbent players for a long period of time. Such firms have to continuously face challengers, but these moments are qualitatively different from market formation moments. Institutional theory (Fligstein 1996) also begins with the idea that producing a market as a field is a social and political project that begins without



stable relationships. White's basic argument is that if firms cannot find a reproducible role structure, stable markets will not emerge and firms will go out of business.

There are several alternative views of these processes. Inspired by Nelson and Winter's view of population ecology, many scholars have argued that some industries are in a constant state of flux. Firms must be nimble, change technologies, and innovate or risk dying (Powell, et. al. 2005; Stark and Vedrez 2006). Some scholars have come to argue that network organizations produce continuous transformation and see modern markets as so dynamic that they rarely settle into anything like equilibrium for very long (Stark and Vedrez 2006). The performativity perspective would also seem to be compatible with this view.

In order to resolve such arguments, scholars need to be clearer about how they might measure and interpret stability or equilibrium. Put another way, when is a change in a market a change? The general view of a market as a niche, role, status, or hierarchical structure of incumbents and challengers would seem to imply that a market change would involve a change in the identities and positions of the main actors. It would also involve a change in the underlying definition of the market (i.e. its principal activities, ways of organizing, etc.). But this definition of change has several problems. First, shifts in the identities of either challenger or incumbent firms occur all of the time. One would not want to be left arguing that any such changes deinstitutionalized the market. Second, changes in products and production also evolve over time (often in piecemeal forms). Here, again, one is left wondering at which point such changes represent underlying transformations of existing markets. Many of the disagreement

about stability and change in the literature rest on how one thinks about what exactly is a change.

Finally, one of the problems that haunt all of the discussions in the sociology of markets is the problem of efficiency. The economic idea of efficiency is that scarce resources become allocated in a way as to maximize their returns. Neoclassical economic theory assumes that there is only one way for such an allocation to occur when a market is in equilibrium and that constant updating of information means that firms are always shifting their activities to maintain efficiency. The sociology of markets has an ambiguous relationship to this assertion that goes all the way from basically accepting economic logic to basically denying it. So, for example, population ecology argues that the resource dependence of organizations is going to mean that those that do not "fit" their environments will perish. Hannan and Freeman (1977), of course, are constructing a general argument here about all forms of organization. Their assumption is that whatever resource dependence characterizes the niche, (and here they include nonprofit organizations and states) will operate to select winners and losers. If the niche is a market, then one can infer that the population ecology argument seems hard to separate from the economics view propounded by Milton Friedman (1957) that suggests that market forces determines efficiency and winners and losers are selected. What separates population ecology from economics is that the price mechanism is only one potential source of resource dependence.

Many of our studies of the social structuring of markets do end up arguing that the social relationships underlying markets have efficiency effects. If firms have the "right" social connections, they can solve their resource dependence problems, and this will

produce their survival (Baker 1998; Stuart et al 1999; Stuart and Sorenson 2003 ; Uzzi 1997). But some authors also recognize that social relationships might produce stable outcomes for participants, but might actually undermine market efficiency (Podolny 2001). Long term social relationships do not just produce trust, but they can allow for cartels, price stability, and in some cases make firms more vulnerable because their suppliers can take advantage of them by charging higher prices. Granovetter (1985) is ambivalent about this, sometimes appearing to view social networks as ways for people to solve their problems of trust and therefore to produce efficient outcomes and other times to view these networks as possible mechanisms for rent seeking (and even illegal behavior). In his more recent review of the literature of business groups, for example, appears to extol their virtues as efficiency generating (Granovetter 1994).

The political economy literature has also displayed this ambivalence. Scholars who have documented that different national systems of capitalism exist swing between viewing those systems as protectionist and efficient. So, for example, a whole series of books have begun with the premise that the differences between national capitalist systems are about to disappear because of the spread of global capitalism which is forcing firms to select the most efficient forms of organizations (Berger and Dore 1996). The assumption is that the various national models must be hiding some kinds of inefficiencies that protect workers and the world market will simply force them to change. Then, these books document that in fact Japanese, Korean, German, and French capitalism appear to be resilient. They frequently are left concluding that these national models must each be efficient in some way and that in the face of international competition, firms adapt to new circumstances without changing their ways completely.

Hall and Soskice (2001) make the argument that the national systems must have some efficiency properties as well as the ability to adapt to internationally changed circumstances most forcefully. The debate over the role of states, law, and class struggle in development projects suggests how difficult it is to understand market efficiency.

Some scholars are even more skeptical about the efficiency of social relationships. Fligstein (1990) views the emergence of the large corporation in the U.S. at the turn of the 20<sup>th</sup> century as principally a function of the attempt to control competition within particular industries, thereby denying the efficiency interpretations of Chandler (1977) and Williamson (1985). Dobbin (1994) views that different ways in which state-firms relationships shaped the railroad industries as more a reflection of differences in culture and politics than a difference in efficiency. The literature on comparative capitalisms frequently demonstrates that the main factors that effect firms organization in a nation state have to do with history, culture, class struggle, and the role of the state (Roe 2003).

One interpretation that comes from both organizational theory and institutional theory is to worry less about efficiency and more about organizational effectiveness. Organizational theory realized long ago that organizations survival could come from many sources (Thompson 1967): if they existed in resource rich environments, if they could defend themselves from competitors, or if they could co-opt their resource dependencies. Thus, solving the problem of class struggle, obtaining finance, and getting state intervention to enforce solutions to the problems of cutthroat competition would all be tactics we should expect firms to use to survive. The efficient allocation of internal resources from this point of view is only one tactic.

The problem with this perspective (even though it helps fill out our view of relevant firm behavior!), is that we know that markets rise and fall, come and go, and the firms that exist today may disappear tomorrow. Sociologists do not want to say that firms in markets do not worry about prices, costs, and pleasing customers but care only about controlling their resource dependencies or getting the government to intervene to protect their market shares. One way out of this dilemma is to realize that in capitalist markets, there is always an incentive for someone to either find new products and to undercut a particular market order if they can.

It is useful to understand that competition in new markets is likely to be different than competition in stable markets. Firms will in both cases try and do what they can to survive. In new markets, firms have many resource dependencies that make it difficult for them to survive. But, even here, their social relationships with larger corporate entities, suppliers, customers, and governments can be used to build coalitions that can produce stability. Relations with competitors can evolve as firms realize which part of the market they want to be in and the market segments become defined. In stable markets, incumbents have more tools to fight off competitors either by undercutting their prices, using various tools to resist their entry into the market, or co-opting them by copying them or buying them out. Markets are always rising and falling and this means that attempts to control are always potentially under assault. So, for example, the U.S. automobile industry was stable from roughly the mid 1930s until the 1970s (and even into the 1990s). The main U.S. participants in that market are firms that now are approaching 100 years old. But, the current challenges to that industry exist and nothing

guarantees that the main U.S. producers will either survive or maintain their separate corporate existence.

## Conclusion

It is fair to say that the sociology of markets is now a mature field of study. Scholars have developed a set of concepts to describe and understand how social relationships structure all forms of markets. Along with the many interesting and fascinating questions remaining to be explored, there are still a cacophony of voices espousing different strategies and perspectives with which to explore them. We have argued that in many respect scholars have talked past one another and that this has been detrimental to the focused growth of the field. There are many points of agreement in the sociology of markets and we have attempted to draw them out. That being said, as in any field there are key disagreements. We hope our essay helps contribute to the intellectual ferment and encouraged continued research and debate.

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<sup>1</sup> We want to distinguish the sociology of markets from the broader project of economic sociology (Fligstein, 2001). Following Polyani (1957), economic sociology is the general study of the conditions of the production and reproduction of social life. Such a study would include studies of consumption, the family, and the links between states and households, schooling, and economic life more broadly (Smelser and Swedberg, 2005: 3). The sociology of markets refers more narrowly to the study of one kind of social exchange, that of markets and the structuring of that kind of social exchange, under the conditions we call capitalist. This focus includes the study of firms, product markets, labor markets, and their broader linkages to suppliers, workers, and states and the role of local cultures (i.e. local in the sense of belonging to a particular market), systems of meanings insofar as they effect what products are and the role of morality in the generation of particular kinds of markets.

<sup>2</sup> Recently Jerry Jacobs (2005) calculated the most cited papers in the American Sociological Review in the post war era. The paper with the most cites was P. DiMaggio and W. Powell (1981) "Institutional Isomorphism" paper with 1700 cites. Granovetter's paper appeared in the American Journal of Sociology and as far as we know no one has created a similar list for that journal. But, with almost 2500 cites, it would be hard to believe that there were very many papers that outdid Granovetter's. It should also be noted that the DiMaggio and Powell paper has greatly influenced the Sociology of Markets as well. We argue that this paper has greatly influenced at least one strain of thought in the Sociology of Markets (i.e. institutional theory). If one takes both of these papers as part of the foundation of the field, arguably the two most cited papers in the postwar era are at the core of the sociology of markets.

<sup>3</sup> Ironically, scholars who do the sociology of markets almost never cite Durkheim. But a good case can be made that almost all of the important ideas in the sociology of markets have Durkheimian roots. Durkheim recognized the pivotal role of the state and law in capitalist exchange prefiguring the political economy concern with these issues. He also recognized that there was a "noncontractual" basis to contract that implied that personal relationships were necessary in order for people to honor contracts. Finally, in the division of labor the major mechanism that drove modern society was competition. Durkheim's argument was that people divided up tasks in order to lessen their competition with other people. This mechanism is arguably at the core of the population ecology view that market niches become partitioned by competition and Harrison White's arguments about how firms avoid competition by signaling which part of the market they will produce for.

<sup>4</sup> Of course, some of the identities of the buyers and sellers change over time. It is also the case that more peripheral buyers and sellers come into the market, leave, and do not return. But, the core players in the market, the largest producers and consumers create a social structure.

<sup>5</sup> Note that in neoclassical economics, exchange is assumed to be equal. If buyers and sellers have perfect information about prices, then buyers will not pay more than they need to and sellers cannot ask more.

<sup>6</sup> Relationships to competitors can be characterized in terms of resource dependence as well. In White's model, when firm's signal their intentions to enter a different part of the market, they are trying to control their interdependency.