

Chapter 1

THE SOCIOLOGICAL VIEW OF THE ECONOMY

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AFTER SPENDING eighteen months among the Yanomamo of northern Brazil, Napoleon Chagnon (1968) described them as a fierce people respectful of quick tempers and casual violence. After spending a bit longer among the bond traders of Salomon Brothers, Michael Lewis (1987) described them as a guileful people respectful of quick wits and casual deception.

These peoples have different sorts of economies—systems for producing that with which they sustain life. They have different mechanisms for socializing the young. They have different cosmologies, or frameworks for making sense of the world. Both cosmologies tie social customs and physical objects to something bigger than society itself, in one case to a spirit world, in the other to a corpus of natural laws. The Yanomamo envision a world of departed ancestors that exists immediately above the visible sky and trace economic conventions (chest-beating contests) and physical objects (yams) to specific mythical ancestors. The bond traders envision a roster of social and physical laws that transcend time and space, and trace conventions (arbitrage) and objects (blowfish sushi) to specific laws. In each tribe, the average man on the street may not know everything about the ancestor spirits or scientific laws that govern the world, but he trusts that the experts know.

As a social scientist, what would you want to know to predict an episode of chest beating or bond trading? Chest beating and bond trading are economic behaviors, to be sure, for they determine how much of the group's resources one can claim. To predict an episode of either, it would help if you understood the basics of the local cosmology, embodied in customs and rituals. Is it broadly mystified, religious, philosophical, or rational? What are the established social roles—hunter, warrior, trader, investor? What is the meaning of the particular custom within the local cosmology? Is the chest beater or bond trader engaged in a show of plumage, of force, of business savvy? What is the wider role of the custom—to display a penchant for violence, to raise capital? The more you know, the better you will be at predicting episodes.

For the purpose of prediction, the concept of self-interest, which is at the center of most theories of economic behavior, does not get you very far. The Yanomamo and the bond trader may be self-interested, but their behavior is

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largely shaped by social institutions. Chest beating can only be understood in the context of the tribe's very particular cosmology. It is not that the Yanomamo warrior is a puppet of his culture. He reinterprets, challenges, and builds on his culture. He jokes about the ancestors who rule the earth and sky, rails at those ancestors when life treats him poorly, and devises new theories of fertility and weather. But the cosmology provides the lens through which he sees the world and the starting point for cultural change. The same goes for the bond trader. What the trader does makes sense only in the context of her special cosmology. She knows of no other way to interpret experience than through the lens of natural laws. She may chuck it all to join a Buddhist monastery, but she is not likely to question the laws of gravity or of supply and demand.

It is not just that the bond trader is rational and the Yanomamo belongs to a deluded cult that, incidentally, consumes a local hallucinogenic substance in large quantities. Economic practices also vary widely among modern, rationalized societies. Bond traders in Tokyo, Paris, and New York see the world through rationalized lenses, but through very different rationalized lenses. The same spirits do not rule the worlds of the Ndembu and the Yanomamo, and likewise the same laws of supply and demand do not obtain in Tokyo and New York. People in all of these places may be self-interested, but the concept of self-interest is of little use in explaining why people behave differently in different places.

SOCIOLOGY'S DISTINCT APPROACH TO ECONOMIC BEHAVIOR

Economic modernization can be seen as a series of societal projects. There was the project of developing intercontinental trade routes, spearheaded by Europe's East India trading companies and colonizing monarchs. There was the project of building large-scale factories with wage labor forces nearby, spearheaded by early industrialists in Massachusetts and Manchester. There was also the project of divorcing the economy from society and polity, spearheaded by capitalists and politicians but also by philosophers and social observers. As Karl Polanyi argued in *The Great Transformation* (1944), British industrialization depended on the *idea* that the economy could be wrenched free of society—that a free labor market could be constructed by breaking traditional links between lords and serfs—as well as on the concrete public policies and capitalist practices.

One manifestation of the intellectual side of the project of splitting economy from society was the division of economics and sociology into distinct disciplines. In the nineteenth century, the dividing line between economics and sociology was difficult to draw. Most of the people who are now part of sociology's heritage studied economic behavior, and called themselves economists. Karl Marx was interested in how capitalism emerged from feu-

dalism; Max Weber in how religious institutions hastened the development of capitalism; Émile Durkheim in the consequences of the division of labor. Empirical studies typically showed that the economy was not a distinct realm—that it was enmeshed in social life. In their struggle against this idea, economists increasingly turned to abstract theorizing in which they modeled behavior “as if” the economy could be treated as a world apart.

Sociologists continued to see economy and society as intertwined, but even sociologists came to accept the emerging division between the disciplines. Sociologists were inductive, deriving theories of social behavior by observing behavior. Economists were deductive, deriving theories of economic behavior from the axiom that self-interest drives individual behavior.

Economics thus came increasingly to resemble physics. As Paul Krugman (1994, xi) jokes, “An Indian-born economist once explained his personal theory of reincarnation to his graduate economics class. ‘If you are a good economist, a virtuous economist,’ he said, ‘you are reborn as a physicist. But if you are an evil, wicked economist, you are reborn as a sociologist.’” For the economist, the pinnacle of the academic pyramid had become the most pristine science with the most immutable laws. Economists spelled out how people would behave if they followed pure principles of self-interest. Like physicists, they thought they were identifying universal laws. Like philosophers, they imagined an ideal world and worked out the details of how people would behave in it. They came to play the role that prophets played in another age, conjuring up a perfect world and its rules of behavior.

Sociology became increasingly empirical, based on in-depth studies of communities and corporations and sectors of the economy. Robert and Helen Lynd’s *Middletown* (1929) depicted the changed economic institutions, changing network structure, and slowly changing culture of an average American city circa 1925. Philip Selznick’s in-depth study of the agency established to fight Appalachian poverty during the depression, *TVA and the Grass Roots* (1949), showed how officials and corporations could subvert public policy’s economic goals. C. Wright Mills’s *The Power Elite* (1956) showed that power was becoming increasingly concentrated in business, government, and the military and that links between the elites in those sectors were increasing. Meanwhile Digby Baltzell’s *The Protestant Establishment* (1964) showed the declining exclusivity of the Protestant elite and the rise of other groups in business and society. William H. Whyte’s *The Organization Man* (1956) showed that corporate customs made middle managers conformist and complacent, undermining the work ethic and entrepreneurialism that Max Weber had described among capitalists. In these and other studies, sociologists found economy and society inextricably enmeshed, but left it to economists to theorize economic behavior.

Since about 1980, both sociologists and economists have been challenging this division of intellectual labor, in which economists explain economic behavior using deductive models and sociologists explain all other kinds of

social behavior using inductive methods. Economists see economic behavior as shaped by society. Sociologists see family relations, religious systems, and political institutions as shaped by economics. And in particular, sociologists see social processes shaping economic behavior, not only at the margins, but at the center.

Sociologists began to explain economic behavior in terms of the same four social mechanisms they had observed shaping all sorts of social behavior. These mechanisms entered the common lexicon under the terms *institution*, *network*, *power*, and *cognition*.

Sociology's core insight is that individuals behave according to scripts that are tied to social roles. Those scripts are called conventions at the collective level and cognitive schemas at the individual level. Conventions and schemas make sense within a wider institutional framework, be it rational or religious or mystical. These conventions and schemas shape individual behavior, and so predicting economic behavior is a matter of comprehending conventions, schemas, and institutions. But prediction requires more than that, because conventions change. Understanding why they change is job one, and change can usually be traced to institutions, power, networks, and cognition. Economic *institutions* offer broad prescriptions for behavior. Institutions are sustained by occupational, industrial, and community *networks* that define social roles. *Power* shapes the evolution of new customs, when the powerful sanction the behavior of others and when they shape legal institutions. At the individual level, *cognition* is the carrier of conventions—it provides the schemas through which we make ongoing sense of conventions and through which we challenge them.

This anthology outlines the sociological view of economic behavior. It is divided into four parts, each focused on one of the social mechanisms that sociologists have discovered at the root of economic behavior. Each of the four groups of readings traces one social mechanism from its intellectual origins through studies that demonstrate its importance to studies that show how it meshes with the other mechanisms.

In this introductory chapter I endeavor to show that sociologists see these mechanisms as operating together to produce economic behavior patterns. I do so because it is easy to miss the forest for the trees. The economist Michael Piore describes economic sociology as “an enormous hodge-podge of ideas and insights, existing at all sorts of different levels of abstraction, possibly in contradiction with one another, possibly just incommensurate, without a basic theory or structure to sort them out, or order them” (1996, 742). This is a fair critique, to the extent that individual studies tend to focus on one of the four mechanisms, holding the others constant, and tend not to describe the big picture. Sociologists evaluate the effect of networks by artificially holding power constant just as physicists estimate the effect of gravity by holding atmospheric pressure constant. But sociologists have in fact been working toward an integrated theory of how economic customs

arise and change. All four of these mechanisms play roles in that theory. My goal is to shine some light on that integrated theory.

Institutions

In common parlance people use *institution* to refer to sectors of society—the *institution* of organized religion. Sociologists use the term when talking about particular conventions, some defined by law and some by tradition. Institutions range in complexity from simple customs of exchange to elaborate modern states. The American state is, in the end, a huge agglomeration of smaller conventions, some informal and others codified. Institutions, large and small, shape human behavior not only by providing behavioral scripts, but by representing the relationships among things in the world—between the local totem and the harvest, or between antitrust and progress. For sociologists as for anthropologists (Geertz 1983; Douglas 1986), conventions and routines influence behavior in rationalized societies much as they do in mystified and religious societies. While social life in modern settings may be organized around ideas of progress rather than around ancestor worship, the individual makes particular decisions based on convention, just as she did when it was frog totems and not mathematical formulas that ruled the world. Today we reenact most conventions with an understanding of their rational purposes, but this is not to say that we actually make rational calculations every time we act. Our conventions may revolve around rationality and self-interest, but they are conventions just the same.

Networks

We learn how to be warriors, bond traders, teachers, witch doctors through social networks. What do you do when a buyer fails to pay, or when a drought fails to succumb to incantations? The prescriptions come from networks of others. *Network* theory builds on early French sociologist Émile Durkheim's idea that social location shapes identity and behavior. Your network influences how you behave and your understanding of how people in other roles should behave. Role behavior is defined by conventions, which take the form of conditional prescriptions for behavior; to wit, *if* you are a chief information officer in a large automobile company, *then* you should advocate the transfer of the firm's purchasing function to a Web-based bidding system. Other actors in your network define how you should dress (Brooks Brothers or loincloth), talk, comport yourself, and respond to bids for bonds. Social networks are the carriers of new economic practices and new ideas of what it means to be rational and efficient. Social networks also reward role-appropriate behavior, such as making good on a promise to sell bonds at a certain price, and sanction behavior that breaks norms, such as larceny.

Power

Karl Marx first defined *power* not merely as coercion, but as the ability to shape how others view the world and their own interests. From the dawn of capitalism, successful entrepreneurs and managers have defined economic conventions by proselytizing, telling the world that the best way to run a business is their way. Success itself gives these people the authority to define what rational behavior is. Economic power also goes hand in hand with the political power to determine public policies that shape how people see their interests and how they can behave. For instance, in chapter 16, William Roy finds that at the beginning of the twentieth century, a group of financiers who wanted to consolidate American manufacturing shaped the American view that oligopoly is natural and large firms are more efficient than small ones. In this way, power shaped the public policies that govern competition between firms and the pricing conventions of firms. This sort of power over economic institutions and economic norms operates through political networks, industry networks, and professional networks that serve as the conduits for new policy ideas and business strategies.

Cognition

Sociologists use the term *cognition* to refer to the psychological process of making sense of the world and its social conventions. Max Weber and Émile Durkheim articulated theories of social psychology as part of their theories of economic behavior. For them, the human mind is programmed to develop categories, causal frameworks, and maps of the world. Rather than looking for a single human cognitive archetype, Durkheim and Weber were interested in how “human nature” varies across social settings. Weber saw that many social systems produce individual psyches oriented to tradition rather than progress. He traced both the traditional and the modern psyche to the structure of religious institutions. In sociology, but also in cognitive psychology, behavioral economics, and cognitive science, the idea that core aspects of the psyche are situational rather than hard-wired has become commonplace. Economic sociologists are particularly interested in how ideas of rational self-interest vary with exposure to what Erving Goffman (1974) called different “frames” for understanding the world. For Goffman as for cognitive psychologists, cognitive frameworks are situated in individual consciousness, but they are shared among groups of people exposed to common institutions. Bond traders share a culture that shapes individual cognitive structures, and the same can be said for Yanomamo warriors. In modern social systems, people are exposed to different frameworks—market efficiency, economic justice, and so on (Boltanski and Thevenot 1991)—in different realms.

Why does economic sociology need a fourfold theory? A change in only one of these factors may result in a change in economic conventions, but the other factors matter along the way. Take the question of why America's largest companies reversed course in the 1970s and 1980s, abandoning a guiding business strategy of diversification for one of core competence. In 1970, big firms were buying companies in other industries to diversify their assets. General Electric bought NBC, and R. J. Reynolds bought Nabisco. By 1990, big firms were buying others in the same industry to take advantage of their core managerial competence—Daimler bought Chrysler. How did this shift happen? Neil Fligstein and Linda Markowitz (1993) and Gerald Davis, Kristina Diekmann, and Catherine Tinsley (1994) trace the changes. A change in legal *institutions* opened the way for the change in business conventions, when the Reagan administration relaxed antitrust enforcement to permit firms to buy related businesses. The spread of the core-competence strategy also depended on the rise of a *network* of institutional investors and securities analysts who came to define de-diversification as in their own interest, because it was easier to evaluate companies that were not diversified. They used their market *power* to reduce the value of diversified conglomerates, inviting hostile takeover artists and CEOs to restructure big corporations. Core competence hinged as well on the force of an existing *cognitive schema*, of managerialism, which gave managers and investors a shorthand for understanding the core-competence model and for challenging the corporation-as-portfolio schema behind the conglomerate. Managerialism defined executive expertise in an industry as key to a firm's success in that industry, providing a rationale for the core-competence firm. Take away any one of these factors and the American firm might still be structured much as it was in 1970. Can the change be explained by the superior efficiency of the new model? Perhaps it was more efficient in some cases, but it spread even to companies that had been very successful with the strategy of diversification, and thus efficiency alone did not drive the process. The social redefinition of corporate efficiency was at work.

What do we know about how these four mechanisms shape economic behavior? Next I trace the evolution of each idea since its inception by previewing the selections from this anthology and outlining their particular contributions. The anthology is organized around the four sociological camps that have focused on these mechanisms, but each section highlights work that brings in insights from the other schools.

INSTITUTIONS AND ECONOMIC ACTION

Human nature surely plays a role in determining behavior, as economic theory suggests, but it cannot easily explain variation across societies and over time in how people behave. Differences across societies, it goes without say-

ing, can only be explained by something about society itself—by customs, institutions, resources. Society shapes the behavior of the individual. A newborn placed in the fold of Ndembu warriors will become a Ndembu warrior, and the very same newborn will become a bond trader among bond traders, a Catalan merchant among Catalan merchants, and a Calvinist preacher among Calvinist preachers. We know this from common sense more than from research, because university regulations prevent us from randomly assigning newborns to different tribes.

What we do know from previous research is that human behavior is highly predictable on average. You cannot always predict whether a particular Yanomamo will dig for yams this afternoon, but you can say with some certainty that in general the Yanomamo will dig for yams, and bond traders will trade bonds. To understand when and where these things will happen, you must grasp the logic underlying economic conventions. Is yam digging linked, in practice and in the minds of the natives, to the weather, to the days of the week, to the mood of totemic spirits? And bond trading? James Duesenberry's famous quip—"Economics is all about how people make choices; sociology is all about how they don't have any choices to make" (1960, 233)—captures this quality of social context. In these cases, it is not that the Yanomamo and the bond trader do not choose, but that they choose within cosmologies rather than across them.

Peoples' understandings of social customs are shaped by how the institutions around them express social order generally. When European institutions were broadly religious, they expressed social customs as an imperfect reflection of God's will. Kings, for instance, were thought to be chosen by God's own hand. Rationalization led to institutions that express social customs as an imperfect reflection of natural physical and social laws. Presidents, for instance, are thought to be chosen by the will of the people, because political philosophy defines democracy as humankind's natural state.

In religious and rationalized societies alike, people trace customs to something bigger than society itself. Rationalized societies trace customs not to the will of God but to physical and social laws inscribed in mathematical formulas. In each kind of society, people seek to divine the character of these exogenous forces by observation and epiphany. Thus, people read reason into the social practices they experience and understand worldly phenomena in terms of broader frames offered up by culture. Those of us born into a rationalized world spontaneously understand a thunderstorm with natural laws (low-pressure fronts) and not with spirit forces (displeased frog spirits) or the will of God. Comparative studies of capitalist societies show that they vary almost as richly in terms of causal imagery as do religious societies. Among societies oriented to salvation, institutions can direct human behavior toward prayer, warfare, or fulfilling a God-given calling. Among societies oriented to progress, institutions can direct human behavior toward market competition, coordination by large business groups, or state industrial planning.

In 1776, Adam Smith suggested that economic laws dictate that there is one best way to organize economic life. Trial and error would, he argued, reveal the details to nations. This suggested that modern societies would converge on one optimal set of economic institutions and behavior patterns. That assumption is now part of modern common sense, but comparative studies of capitalism do not bear it out. Some (Guillén 2001; Whitley and Kristensen 1996) find that different industrial systems have different comparative advantages, and suggest that countries are probably best served by recognizing and building on those advantages. Others (Fligstein and Byrkjeflot 1996) suggest that alternative market forms rely on different logics—labor markets, for instance, may rely on the logic of vocationalism or on that of managerialism—and that differences across countries may represent functional alternatives rather than, as Adam Smith might have argued, different stages in the evolution of rationalization.

Many similarities in economic conventions among rationalized societies, students of comparative capitalism argue, can be traced to mimicry or to the need to exchange goods and services across borders on common terms rather than to economic laws that make only one sort of fiscal policy (Campbell 2000) or incorporation law (Roy 1997) effective.

If America's economic conventions represent but one among many possible ways of efficiently organizing things, then understanding what shapes those conventions becomes an important sociological problem. Game theorists in economics explain differences in economic conventions across nations and over time with the idea of multiple Nash equilibria. How can economic systems generate different economic conventions, either over time or across space, even when all participants are behaving rationally? In a set of transactions that is repeated, the behavior of individuals may change from one round to the next (see Gibbons 1992). In consequence, given the parameters of the game and the stage of the game, different economic conventions may emerge.

Economic sociologists take a different view of why economic institutions differ across nations, why particular institutions persist, and what causes institutions to change. On the issue of why different kinds of economic systems arose in the first place, institutional analysts from political science and sociology argue that history has given different societies different material to begin with (Campbell 1998; Hall and Taylor 1996). For instance, in the late nineteenth century the French state planned and sponsored a network of railroads that linked Paris with all of the outlying regions, while the American state subsidized a handful of transcontinental railroads but left it to states and towns to subsidize various local and regional lines. Today the French state has a nationalized network of state-of-the-art high-speed trains that mirrors the network it planned in the nineteenth century, and the American state reluctantly subsidizes a semiprivate rail system with but one, slow, "high-speed" route. Why these persistent differences in the ways railways

are planned and run in the two countries? They stem in part from the fact that with the threat of invasion from all sides, France had by the 1700s established an absolutist military regime and a corps of engineers to build roads, canals, and then railroads to its perimeter. The descendants of that corps still plan railroads. The United States had little in the way of a central state, and no pressing military need for a similar transport system in the 1700s (Dobbin 1994). Thus early institutional differences in nations shaped economic patterns.

On the issue of why different kinds of economic institutions persist, economic sociologists argue that institutions such as laws governing property typically survive until someone directly challenges them. “Path dependence” has been the most recent shorthand among sociologists and political scientists for describing how systems retain essential characteristics over time (Campbell 1998; Hall and Taylor 1996; Stark 1992). Once a group or nation goes down one path, toward antitrust or state industrial planning, for instance, future paths will necessarily lead off from that first choice. Different ways of organizing economies tend to be sticky, or resistant to change, and many different approaches may prove sufficiently efficient to persist. The institutional economist Douglass North, who won the Nobel Prize in economics in 1993, adopted the idea in his book on institutions and institutional change (North 1990). Social institutions that arise for reasons of chance survive to shape future economic behavior. The idea is not incompatible with game-theorists’ idea of multiple equilibria, but the focus is on how institutions shape basic forms of rational behavior.

Max Weber suggested that institutions persist not only because they develop structural inertia but because they come to make sense to people, and that understanding what kind of sense they make is the key to understanding why they persist. Weber insisted that sociologists take what anthropologist Clifford Geertz later called the “native’s point of view”—that they explore the meaning of social conventions to the people practicing them. Understandings of particular behaviors, it turns out, vary widely even across rationalized societies. Take cartels. In late-nineteenth-century Britain they were understood to be an efficient mechanism for coordinating industries. The government backed cartels as the wave of the future. Yet in the United States they were labeled an evil private invention that threatened both economic growth and democracy (Dobbin 1994). Joining a cartel meant something very different in Britain than it did in America.

Most customs have an implicit meaning, and enacting them in context reinforces that meaning. The Ndembu circumcision custom signifies the tribe’s belief that the local totem increases fertility when invoked at the onset of adolescence. The custom of antitrust enforcement signifies the tribe’s belief that price competition begets progress. These customs are usually enacted without much explanation, because everyone understands their meaning. Even anthropologists catch on pretty quickly. Both customs build on

wider cosmologies, representing specific causal relationships between the tribal totem and fertility or between “market mechanisms” and progress. Weber insisted that we try to understand the meaning of customs to the groups who practice them, for people only practice customs that make sense to them. This is not to say that customs necessarily have the intended effects, and they may in fact serve functions that are invisible to those who enact them (Weber 1978, 4).

On the issue of why economic institutions change, Weber argued that change could originate in politics, in the law, in religious ideals. The model of change that most sociologists embrace is built on the idea of punctuated equilibrium that Stephen Jay Gould (1989) sketches for the biological world and Stephen Krasner (1984) adapts for the social world (and see Fligstein 2001). Customs tend to persist until something shakes up the social system, opening up the possibility of change. New customs are often worked out in power struggles, and they may or may not be more efficient than those they replace. The jury is still out, for instance, on whether the core-competence firm is ultimately more efficient than the diversified firm it replaced. Institutionalists from the field of economics (e.g., Williamson 1975) initially argued that institutions evolve toward increasingly efficient forms—that history is efficient when it comes to institutions. But even economic institutionalists (North 1990) have increasingly argued that change may be shaped by power and happenstance as well as by efficiency. Change in economic customs may more closely resemble random mutation than teleological progress.

Sociological thinking about institutions has evolved significantly since the time of Weber, particularly with the realization that different sorts of rationalized institutions have prospered alongside one another. Chapters 2 through 7 explore that evolution. In *The Protestant Ethic*, Weber traces the new spirit of capitalism among Calvinists, and the conventions of hard work and saving, to a new religious ethic—showing how a religious movement could produce rational economic conventions. In chapter 3, John Meyer and Brian Rowan discuss how new management conventions diffuse across fields of organizations, along with supporting rationales of efficiency. In chapter 4, Paul DiMaggio and Walter Powell build on this idea to show how three important mechanisms of diffusion operate, among networks of professionals, of business executives, or of organizations and the government agencies that regulate them. In chapter 5, Viviana Zelizer explores how the convention of child factory labor was put to an end by a social movement, which offered a new definition of the role of childhood in industrial society. In chapter 6, Richard Whitley explores the origins of different national “business systems” in East Asia, and the public policy institutions and private economic conventions that go along with them. Finally, in chapter 7, Gerald Davis, Kristina Diekmann, and Catherine Tinsley trace how a change in business conventions came about in large American firms, as the portfolio/conglomerate model was replaced by the core-competence model.

Where New Institutions and Customs Come From

Chapter 2 is an excerpt from Max Weber's *The Protestant Ethic and the Spirit of Capitalism*. Weber was a professor of economics in Germany, but with the publication of *The Protestant Ethic* he became one of the founders of modern sociology. Weber wondered how capitalism could arise in Europe out of the conservative economic traditions of feudalism and Catholicism, which did little to encourage people to work hard or to save. He found that those customs originated in early Calvinism, which taught predestination, or the idea that one's destiny in the afterlife was fixed prior to birth. What you did in life could not win you salvation, but it could signal your fate. God gave everyone an earthly calling—work to be done in His name—and demanded self-denial and asceticism. Commitment to these ideals might signal that one was destined for heaven. The idea of God's calling led Protestants to devote themselves to their work, whatever it was. Asceticism led them to save, for they were not to squander money on trinkets or religious icons. Devotion to work and saving became enduring customs—they became institutionalized. The customs spread even beyond the boundaries of Protestantism, and endured even when Protestantism took a new course that placed less emphasis on the calling and on asceticism.

In *The Protestant Ethic*, in his various studies of the world religions (1951, 1952, 1958, 1963), and in his opus on capitalism, *Economy and Society* (1978), Weber tried to understand the customs found in different social systems, the thinking behind those customs, and the forces that lead to changes in customs. Some (e.g. Novak 1993) argue that Catholicism was not so different from Protestantism and promoted the same kinds of behavior, but what was novel about Weber's ideas was not so much his particular argument as his vision of society. For Weber, the beliefs that underlie customs sustain them. In Calvinism, the belief in predestination—the belief that one is destined for heaven or hell at birth—sustains the custom of asceticism, because asceticism is thought to be a sign that one is bound for heaven. Weber argued, extending the concept, that in modern firms the belief in professional expertise sustains the custom of hierarchical authority. In *The Protestant Ethic* Weber explained how well-entrenched economic customs could change, as related parts of the social system change. In this case, a shift in religious beliefs was key, but Weber argued that changes in other parts of the social system—beliefs, political power, scientific knowledge—could lead to changes in economic conventions.

The Institutionalization of Rational Myths

Chapter 3 is John Meyer and Brian Rowan's seminal 1977 article sketching an approach to organizational sociology rooted in Weberian ideas. Weber

argued that concrete economic customs made sense to people within the framework of a wider cosmology. Meyer and Rowan's "Institutionalized Organizations: Formal Structure as Myth and Ceremony" depicts how modern organizations adopt structures and practices that symbolize rationality and fairness. Their question: How do new ideas and practices spread among organizations to shape our understandings of progress?

When Meyer and Rowan's piece was first published, the prevailing view of the firm followed Adam Smith's thinking about national economies—that economic laws determined "best practices" for business and that those best practices would evolve everywhere eventually. If organizations looked alike, it was because they were subject to the same economic laws. If they had accounting departments and strategic planning teams and performance evaluations, it was because each organization had found each practice to be efficient. Meyer and Rowan described the rationalized practices found in organizations in terms of "myth and ceremony." Organizations adopt practices that embody myths of rationality with the goal of symbolizing their commitment to efficiency to the world. Organizational entrepreneurs who invent new practices often promote them directly to those in their networks and more widely in management magazines, through cover stories on quality teams or empowerment. New practices became "institutionalized"—taken for granted—as this process proceeds. New practices must conform to the wider understanding of what is rational, and so it is easier to sell certain kinds of practices in Osaka than in Omaha. In Meyer and Rowan's world, firms come to look alike because they jump on the same bandwagons, not because each discerns the (same) optimal way to organize itself.

How Fields Spread Rational Myths

In 1983, Paul DiMaggio and Walter Powell built on this idea, sketching the networks through which new rational customs diffuse among organizations—political networks, professional networks, and networks of firms. Schools were coming to look more like one another, and so were hospitals, auto factories, and charities. A growing body of standard practices could be found in each field. Like Meyer and Rowan, DiMaggio and Powell described the driving force behind institutionalization as social—managers of auto factories did not independently invent the same business practices; they copied those practices from leading firms.

Copying of organizational practices usually follows one of three patterns. Sometimes public policy encourages organizations to adopt new conventions ("coercive isomorphism"). For instance, federal regulations dictate that schools must meet certain standards, or give certain tests (Meyer and Scott 1983). Sometimes professional networks that span organizations promote new conventions ("normative isomorphism"). For instance, finance managers promoted the portfolio approach to corporate diversification in which

the firm held a portfolio of different businesses (Fligstein 1990). Sometimes managers cannot figure out how to best proceed to achieve their goals, so they copy practices of successful organizations (“mimetic isomorphism”). For instance, American automakers copied Japanese production techniques after Japan made inroads into America’s auto market. Mimetic isomorphism can have the character of a cargo cult, in which the tribe builds a wooden replica of a cargo plane in the hope that the replica will bear forth the same goods the real plane bore. Through these three processes, organizations within a sector come to look more and more alike.

Key business strategies often spread through mimetic isomorphism, and as Heather Haveman (1993) shows in a paper titled “Follow the Leader,” firms that are defined as industry leaders due to high growth or sheer size are more likely than others to be copied by their peers. Among savings and loans, when industry leaders diversify into real estate or into commercial loans, other firms follow their lead. The very definition of what a savings and loan is is changed in the process.

The sectoral differences in management that DiMaggio and Powell describe have declined over the last few decades, with the rise of a more generic model of organizing (Meyer 1994). Social service agencies increasingly have CEOs, and hospitals increasingly have mission statements. But DiMaggio and Powell would surely see this as the natural extension of the process they document, as isomorphism increases across sectors as well as within them.

Meyer and Rowan and DiMaggio and Powell have charted how rational conventions spread through the forest of organizations to alter notions of rationality. The quality management movement, for example, turned the tide against the earlier movements of Taylorism and Fordism to encourage production workers to help design the production process (Cole 1989). The movement helped spread the idea that worker participation in job design could be more efficient than a strict division of labor between those who design assembly lines and those who work on them. To call the underlying idea of empowerment a rational myth is not to say that there is nothing to it, but rather, to suggest that such ideas diffuse much as customs diffuse in religious or mystical social systems.

For DiMaggio and Powell, as for Meyer and Rowan, new customs diffuse only when they accord with existing cognitive schemas. If the idea of school vouchers succeeds in the United States, it will be because Americans are inclined to think that public bureaucracies breed inefficiency and that the corrective is private competition.

Revolutions in Rational Customs

Chapter 5 excerpts one of Viviana Zelizer’s rich Weberian analyses of how modern economic conventions came to be—in this case the convention of banishing child labor from factories. Zelizer’s study shows how rationalized

roles can be altered. Under early capitalism, children sold their labor by the hour, just as adults did. They had no special role in the factory, and they had no special role in the family, in that every able member contributed his or her labor. Social institutions of all sorts supported this view of the role of children. Life insurance for children was designed to replace children's income. Foster parents favored older boys because of their earning potential. The courts compensated parents of children killed in accidents for the child's lost wages. Early capitalism had rationalized the role of children in parallel to that of adults.

Between 1870 and 1930, children's advocates sought to remove children from industry, changing the meaning of childhood. They described childhood as a sacred category, defining children's value to parents as primarily emotional rather than economic. This crusade succeeded, altering the treatment of children across realms. Most forms of child labor were outlawed. Life insurance for children was redefined to provide parents with compensation for their grief over the loss of a child. Adoptive parents came to favor baby girls, who were inferior earners but superior objects of emotional attachment. The courts awarded grieving parents compensation for their emotional loss rather than for the loss of their child's income. Weber had argued that change in economic institutions can come from many different corners. Zelizer shows that a new rational myth of childhood emerged out of a social movement. The agents of this change were social reformers with a new interpretation of childhood, just as the agents of change in Meyer and Rowan's depiction of organizational life are management consultants with new rational myths of management. In the new myth, children are an asset we invest in for the future rather than a source of labor for the present. In Zelizer's study, rationalized economic conventions can change form entirely, and if those changes persist, we attach rationalized significance to the new form just as we had attached rationalized significance to the old form. The abolition of child factory labor has the feel, in retrospect, of something that was natural and historically inevitable. But child factory labor represented a natural and efficient economic convention at the time, and the redefinition of childhood simply represented another rational interpretation of the role of the child, as worker-in-training through schooling rather than apprenticeship.

National Institutions and Business Recipes

In chapter 6 Richard Whitley's "national business system" approach does for the world's different forms of capitalism what Max Weber did for the world religions, sketching the principles underlying each form. Weber had shown that under Protestantism, Catholicism, Hinduism, Buddhism, and Judaism, different religious logics of salvation corresponded to different prescriptions for how to behave. Whitley finds that there are many different

sorts of capitalist economic systems, each with its own conventions and its own logic of rationality.

Whitley begins with national economic and political institutions that affect the firm. National institutions offer a particular social construction of the economy—a particular understanding of the relationships between state and industry, buyer and supplier, finance and industry. They also offer concrete conventions for raising capital, buying components, offering goods for sale, and so on. Within each nation, every industry faces a unique kind of business environment, and successful “business recipes” are those that are best suited to the environment. A winning business recipe for telecommunications may fail miserably in a year or two as the environment changes.

Each industry faces unique circumstances, but general patterns can be seen within each nation. Japan, Hong Kong, Korea, and Taiwan illustrate. Because they operate on very different principles, these economies favor different sorts of business recipes (see also Hamilton and Biggart 1988; Johnson 1982; Cumings 1987; Westney 1987). For instance, the principal economic actors are quite different in these countries, for historical reasons, and the different sorts of actors correspond to different recipes for the pricing of parts. The primary economic actors have been the *kaisha*, or large corporation, in Japan; the *chaebol*, or family-controlled conglomerate, in Korea; and the Chinese Family Business (CFB) in Taiwan and Hong Kong. Cross-shareholding in Japan means that there is typically little competition among parts suppliers, each of whom is formally connected to a buyer. Suppliers are more likely to compete in Taiwan and in Hong Kong, where firms are smaller and where connections between them are weaker. In the end, these business systems depend on different logics, and they create efficiency in different ways. Whitley focuses on the logics underlying these different business systems, but others focus on how new business conventions come about and alter those logics (Gao 1977; Stark 1992).

Each national business system embodies a different conception of how capitalism operates—of the different collective actors involved (family-owned businesses versus monolithic firms) and the relationships among them. For Whitley, each system has a logic that comes to shape how individuals think about their own behavior; in consequence individuals have different cognitive maps of the economic world, and groups have different customs that accord with those maps.

How Rational Myths Emerge

In chapter 7, Davis, Diekmann, and Tinsley (1994) build on the insights of Meyer and Rowan and of DiMaggio and Powell about the role of fads in popularizing new business practices. They explain the shift from the conglomerate to the focused firm that came about in the 1980s as corresponding

to a new myth of corporate rationality. The old prescription for how a firm should be run, based in portfolio theory, suggested that huge firms should spread risk through diversification. The challenger model, based in classical managerialism, suggested that huge firms should instead focus on the activities that their management teams are best equipped to manage—on the core industry and kindred industries. This chapter exemplifies the theoretical integration of the new economic sociology, because it uses ideas from institutional, network, power, and cognitive theories.

When the Reagan administration relaxed antitrust law, a change in *institutions* made it possible for firms to switch from diversifying acquisitions to same-industry acquisitions. The new core-competence model of the firm depended on the growing *power* of institutional investors, who control large blocks of stock and who dislike conglomerates because their prospects are difficult to assess. A *network* of hostile takeover specialists developed the model of buying and breaking up the large conglomerates that institutional investors had undervalued. The new strategy was compelling to business because it came along with a familiar *cognitive* framing—that firms should specialize in industries that made the best use of management expertise. Davis and colleagues thus build an explanation of this shift in corporate strategy that depends on all four of the core insights of economic sociology.

The chapters in the institutional section focus on how economic conventions come to be and on what makes them change, emphasizing how our understandings of conventions support them. Economic institutions and conventions provide broad frameworks for understanding the world, and this can be seen in the differences between Catholicism and Protestantism as Weber depicts them in chapter 2. They also provide concrete scripts for how to behave, and this can be seen in the work of John Meyer and Brian Rowan, who describe how new conventions spread across organizations that hope to appear rational and to be rational. For DiMaggio and Powell, dominant firms, professional groups, and nation-states promote new management conventions, contributing to the evolution of conventions. Zelizer shows how one rational convention—child factory labor—was altered forever, when a social movement succeeded in redefining the role of childhood in capitalism.

Whitley carries Weber's ideas in another direction, exploring the logics underlying different forms of capitalism just as Weber had explored the logics underlying the different world religions. For Whitley, each national business system depends on a peculiar set of economic customs, which reinforce one another and which thereby produce a sort of self-sustaining system. Finally, Davis and colleagues show how a change in business conventions can depend on the confluence of *powerful* actors introducing a new strategy, a *network* promoting the strategy, regulatory *institutions* that permit the change, and a *cognitive* framework that legitimates the new strategy.

NETWORKS AND ECONOMIC CONVENTIONS

Max Weber documented the daily customs, and wider institutions, found in different societies. He asked how economic conventions differed between feudal Catholicism and urban Protestantism, and how people's understandings of the world sustained those different conventions. For Weber, conventions survive only because people attach meaning to them—because they make some sort of sense to people. So to understand a society, he sought to grasp the logic running through its conventions and institutions. For Weber, conventions, institutions, and their meanings drive social behavior.

Émile Durkheim tackled society from another angle, trying to understand different sorts of societies through their networks and roles. For Durkheim, social and economic conventions were held in place by social networks. Social networks varied dramatically among the societies Durkheim studied, from the tribes of the South Pacific to the industrial societies of early-twentieth-century Europe. These differences were rooted in the division of labor. In tribal societies, gathering food, making clothing, and building shelters were common tasks. Men and women typically performed different tasks, but that is as far as the dividing up of tasks went. Shared experience was the glue of social life. Tribesmen identified with fellow tribesmen.

In industrial societies the tasks of everyday life were divided up, among ranchers, farmers, factory workers, railwaymen. People who shared an occupation shared common experiences. They learned the everyday routines of the job from the occupational network, and came to identify with that network and its routines. Occupation became a primary role. Interdependence was the glue of social life—ranchers and railwaymen may have had little in common, but they depended upon one another.

Network theorists build on Durkheim's core ideas about the importance of social milieu and of role. Interpersonal networks provide behavioral scripts, or conventions, suggesting, for instance, that managers should "empower" workers by giving them more autonomy. Those networks convey cultural frameworks—chunks of tribal cosmology—so that the new convention of "empowerment" arrives complete with a new theory of human motivation.

The five chapters that follow Durkheim's develop two themes. The first three explore how networks generate and reinforce the very economic conventions that the institutional studies in the first section document. In chapter 9, Mark Granovetter builds on Durkheim's insight that networks establish economic conventions and sanctions. The norm against price gouging is enforced informally by members of an industry network; a seller who is known for price gouging in times of scarcity will lose customers in times of plenty. Alejandro Portes and Julia Sensenbrenner, in chapter 10, build on Granovetter's idea that social networks enforce economic norms via informal sanctions, and show how those norms can have positive effects for the

community. In chapter 11, Eric Leifer and Harrison White argue that producers choose from a set of socially defined market roles—price leader, luxury brand, volume discounter—each with a set of off-the-shelf conventions.

The final two chapters explore the structural effects of networks. They explore how networks produce concrete economic advantages that most economic theories ignore. In chapter 12, Ronald Burt's *Structural Holes* shows how missing links in networks create patterns of information asymmetry. People with ties that span these gaps have economic advantages. In chapter 13, Brian Uzzi shows that both intimate and arms-length ties to banks shape the interest rates that small businesses receive on loans. Taken together, these studies provide a striking picture of the role of networks in establishing business customs, in sanctioning firms that do not abide by accepted business practices, and in creating economic advantages for firms.

How Social Milieu Shapes Economic Roles and Behavior

Émile Durkheim pioneered the study of modern occupational networks. Durkheim's *The Division of Labor in Society*, excerpted in chapter 8, charts the origins of the division of labor and explores how social attachment was restructured with industrialization, as individuals developed primary attachments to their occupational groups rather than simply to their local communities. For Durkheim, the glue that held society together was now people's interdependence rather than their common situation. Identification with a group of peers remained important, but those peers now consisted of an occupational group at large.

Durkheim understood social attachment to differ between primitive societies without differentiated roles and modern societies where roles were highly differentiated. Under feudalism virtually everyone was a peasant and the basis of social attachment, and of identity, was the fact that serfs' lives and livelihoods were shared. In complex societies with elaborate divisions of labor an individual's identity was connected to an occupational community of others, many of whom the individual never met. Benedict Anderson (1983) would later call the modern nation an "imagined community," comprising people who identify with others they have never met.

Durkheim saw that in modern societies, identity was formed by religious affiliation and by nationality but also increasingly by occupation. Managers and workers, professionals and bureaucrats thus behave according to occupational scripts. Durkheim documented the increasingly fine-grained economic conventions that emerged in modern societies. He showed that occupational networks were becoming the source of the economic conventions and meanings that Weber saw at the heart of modern economic behavior. The division of labor generated a complex web of overlapping occupational networks, each with elaborate socialization processes that conveyed particular customs of work.

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