

## **“Quality conventions as structuring principles in markets”**

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### Introduction

I want to present the economics of convention – in short: EC - and discuss its relevance for the sociology of markets and relate them to the prominent market model of Harrison White (1981; 2002). The EC-approach emerged in the Paris region as a transdisciplinary approach the 1980s.

At this time a group of economists, statisticians and sociologists picked up classical economic research topics - namely questions like:

- how do actors coordinate in economic situations under the condition of uncertainty?,
- how do they share a common form of evaluation of goods especially of their value?,
- how could one explain empirical forms of rationality in real economic situations?

This group of researchers became famous in France because they related questions like these to the notion of convention and they developed new answers to these classical questions. They also became famous because they contributed the most

to the renewal of modern French social sciences (Dosse 1999, Nachi 2006). Their contribution was to use pragmatist and socio-cognitive notions of action and rationality in the empirical studies of economic processes.

I will argue that the EC-approach can be regarded as a cultural version of a relational sociology. From the perspective of the EC-approach one can inspect the famous market model of Harrison White and discuss the relevance of cultural structures for markets and production out of networking processes.

### Conventions

The notion of convention is central for the EC, but the theoretical architecture of this approach relates a set of notions so that the notion of convention is embedded into a new theoretical culture.

Concerning sociology, this culture emerges in breaking with Bourdieus theory of field and habitus. Bourdieus concepts where criticized because from the pragmatist view Bourdieu's concepts of action is almost determined by the position in the field and the incorporated habitus as structure.

Concerning economics the EC is breaking with notions of pre-given goods, pre-given rationality and pre-given economic institutions for coordination.

For the EC-approach the notion of convention must be introduced at these breaking points to compensate the deficiencies of economists theorizing.

Conventions are schemata or ways of thinking, evaluating and acting in a social situation. It is important to recognize that these schemata are neither incorporated automatically exe-

cuted rules of coordination nor are they simple forms of rationality grounded on some logical principles like rational choice models and the homo oeconomicus model suggest.

Instead conventions are inventions of agents which are capable to evaluate different logics of action for problems in situations. Luc Boltanski and Laurent Thévenot were the first to sketch out the microphysics of convention-based action and to deliver a systematic theory of the convention-based action. In their book "On justification" they portray the ways actors reflect, criticize and justify the value of actors, actions and objects. From this perspective situations and the behavior of others must be interpreted in a coherent way by the involved actors so that coordination succeeds. Successful coordination is contingent because the ways of interpretation used by the involved actors could be different. The cultural resource to deal with this situation are shared conventions. *Uno actu* actors are able to agree about the appropriate convention for a given situation *and* to use it, it means to adapt it in a reflexive way so that the coordination reaches its collective goal. Robert Salais and Michael Storper explained the invention of conventions in situations and how conventions get stabilized.

"Conventions resemble 'hypotheses' formulated by persons with respect to the relationship between their actions and the actions of those on whom they must depend to realize a goal. When interactions are reproduced again and again in similar situations, and when particular courses of action have proved successful, they become incorporated in routines and we then tend to forget their initially hypothetical character. Conventions thus become an intimate part of the history incorporated in behaviors. [...] Thus convention re-

fers to the simultaneous presence of these three dimensions: (a) rules of spontaneous individual action, (b) constructing agreements between persons, and (c) institutions in situations of collective action; each has a different spatio-temporal extent, and they overlap in complex ways at a given moment in any given situation. In practice, it is only by initially assuming the existence of a common context and by formulating expectations with respect to the actions of others that it is possible to engage in coordinated collective action: these are the dimensions of inherited, *longue durée* conventions, some of which take the form of formal institutions and rules. But at any given moment, the context is evaluated and re-evaluated, reinterpreted, by the individual who must choose to practice or not practice according to a given convention." (Storper/Salais 1997: 16f, Herv. i. Orig.)

The pragmatist influence in EC can be seen in the postulated reality of conventions not as only external structures to action. Conventions are *regarded* by actors in given situations as viable forms of coordination. Actors introduce conventions into situations, because actors have to assume the existence of a shared convention and they have to be able to handle them and to reproduce or to change conventions. Conventions are real insofar as they are assumed as existing by actors and thereby performed. So one should be careful in concluding that conventions are only the etiology of action or that action is embedded in cultural structures. Of course, conventions can be seen as objectified structures, but their existence is their creative, reflexive performance, not their unconscious execution. It's important to emphasize that conventions don't emerge from actor-actor-relations but they emerge from actor-object-actor-constellations in situations.

Boltanski and Thévenot have insisted on the complex character of conventions. Conventions ground a way of world making. Here conventions are not ad hoc agreements between two persons, step by step they become cultural patterns, so one could speak of conventions as structuring principles in a field or a social space. Conventions bring in a world view and a social metaphysics. Because they imply a virtual and ideal kind of community in which a certain form of common humanity is achieved and a kind of morality is established. They also imply a generalized principle how to compare persons and objects, i.e. how to make them comparable by referring to concepts and especially to objects.

Convention-based acting relates persons and objects to a higher common principle in a special way, so that its worth (la grandeur) is constructed and can be proofed in the case this worth is questioned. Person-states and object-states are involved in networks where the relations are actions and the nodes are persons, concepts and objects. These kinds of nodes get their ontological reality within this network they are not pre-given or unchangeable. The way of networking is patterned by conventions as the pragmatic logic of coordination between actors. It is especially this postulate that points to the EC-approach as a relational sociology and it points also to the actor-network-theory which co-emerged in France at the same time as the EC-approach. The EC-approach brings in not substantial but relational concepts of economic goods.

Another relational view is the argument that many situations are patterned by a plurality of conventions. The pragmatic ra-

tionality of actors is not only interpretative, critical and reflexive. Actors are also able to combine conflicting conventions to combinations and compromises. Boltanski and Thévenot worked out a matrix where they paired six conventions and discussed their conflicts and possible compromises.

So for every field one can identify a set of relevant conventions and a belonging system of conflicting relations and compromises. In others words: a set of relevant conventions in a field can be viewed as a cultural network between conventions as nodes and conflicts or compromises as relations; these relations are worked out by competent actors in critical situations where these actors are forced to switch between convention-based perspectives and to innovate trade-offs between them.

#### Quality conventions

In the EC-approach it is François Eymard-Duvernay who uses the extended notion of "quality conventions". His argument is that actors in the sphere of production relate the whole production process to a convention as a blue print for organizing production. Eymard-Duvernay argues that in enterprises normally one convention becomes the main logic for coordination. Then the convention-based way machines and tools are combined with qualifications and other inputs generates a specific product quality which is recognized in this organization and the belonging market area. Quality conventions become models of enterprises and coordinating principles for the interlocking of enterprises in production chains. They can be regarded as production regimes in enterprises and production markets. Suppli-

ers and buyers have to share the underlying convention to form a coherent production along the production chain.

For example: in market areas which are coordinated by the so-called ecological or green convention (Thévenot) the suppliers have to respect the rules of ecological production in a way that their buyers can integrate this input into their own “eco-products” to produce a coherent quality.

Another example are market areas which are structured by the so called industrial convention. Here the technical norms and the timing of planned production are required criteria for the coordination along the production chain. Efficient planning based on technical and scientific expertise overarches the single enterprise and integrates industrial production on the basis of a shared cultural form.

Investment in forms

Eymard-Duvernay and Laurent Thévenot used the notion of investment in forms to analyze the cognitive formatting of informations in the production process. The convention-based way of coordination in organizations or markets requires accompanying styles how information is presented, transmitted and recorded. They speak of investment in forms because entrepreneurs and market builders do not only have to invest in the material equipment of organizations respectively markets, but also in the immaterial equipment.

For example: in big industrialized corporations, where the industrial convention is the production regime, highly standardized numerical information is required – often in form of charts

and tables. In contrast in the area of the green convention informations are presented and recorded in form of stories and examples.

In short: the quality signals in production areas of different conventions use different and conventions-based ways of formatting quality signals and different logics of signaling.

Conventions get a manifest cognitive infrastructure with these formattings and actors in tasks of evaluation and coordination can rely on them. In this way a convention becomes a socio-cognitive reality.

#### Conventions and markets

Without conventions no market would exist, because conventions ground the rules of the market game and convention-based actions construct the economic objects and quality definitions.

Without conventions enterprises and markets would not be reproduced, because conventions form the collective evaluation about future events as risks and expectable states.

One aspect is important in this context: almost every market can be characterized by a plurality of existing quality conventions. Coherent regions of production and distribution in markets will be organized mainly by one quality convention which herein is hegemonial. So conventions can be seen as differentiating principles for markets, different conventions separate regions where the logic of production differs.

In short: economic production and exchange can be organized in different ways, where the market convention itself is only one such way.

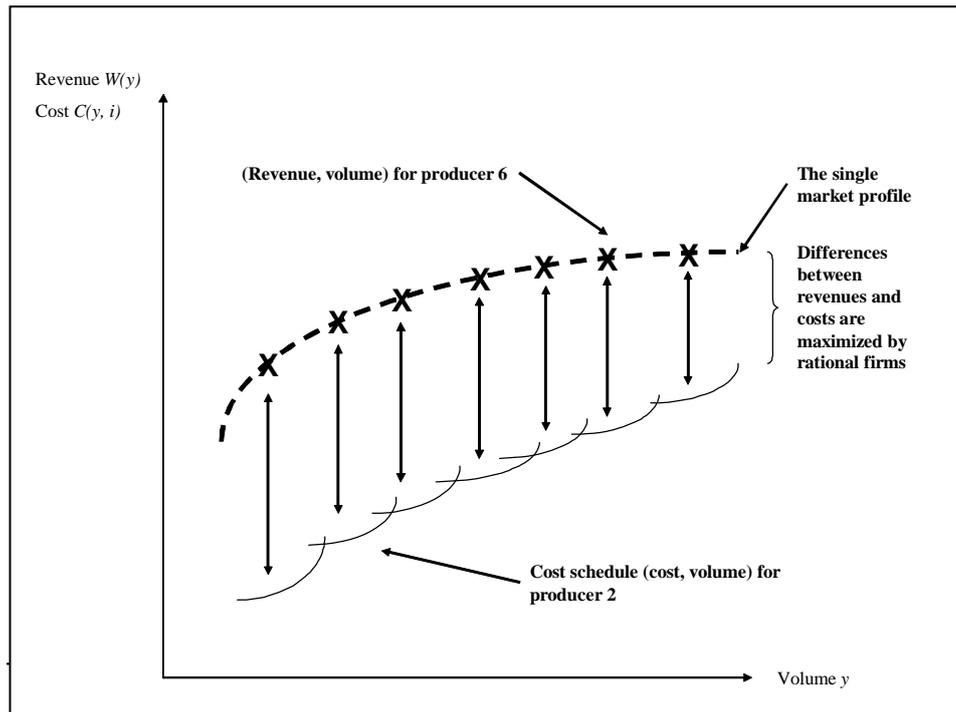
And: conventions can be seen as overarching principles, which integrate chains of markets.

#### Discussing market types

In 2002 appeared two influential books in the area of economic sociology: Harrison C. White's „Markets from networks“ (2002) and „Conventions and structures in economic organization“ from Olivier Favereau and Emmanuel Lazega (eds.)(2002). These books can also be regarded as the result of a discussion between White and some of the representatives of the “economics of convention“-approach in the 1990s.

In 1981 Harrison C. White has asked first the question “Where do markets come from?” and then developed an original and genuin sociological approach to model types of markets.

In this article White introduced the process of market building from a network perspective: markets are sets of producers, watching each other and which try to array themselves in quality niches so that they are on one side perceived as *unique* concerning their quality and production volume but to array themselves on the other side so that they are regarded as *similar* concerning the kind of product. The result is the famous market profile that White introduced.



To reproduce the market profile (i. e. the market), producers must seek quality niches and the aggregated buyers (consumers) must agree about the evaluation of the quality-ordering of producers in relation to their produced volume.

Here the problem of coordination of evaluations comes in! If buyers (consumers) and producers evaluate quality-positions in the market schedule in *different* ways, the market will not be stable, therefore not reproducible.

On the buyer side the question is:

“How to evaluate the (aggregated) satisfaction  $S$  as a function of production volume and quality position?”

On the producer side the question is:

“What are the (aggregated) costs  $C$  as a function of production volume and quality position?”

One can find the following formalization in White’s article.

$$S(y, n) = r \cdot y^a \cdot n^b \quad (\text{buyer side})$$

$$C(y, n) = q \cdot y^c \cdot n^d \quad (\text{producer side})$$

$n$  – quality level/quality position

$y$  – production volume

$s$  – satisfaction (aggregated)

$c$  – costs (aggregated)

( $r, q$  are arbitrary parameters)

I don't want to discuss the technicalities in detail. The point here is, that the parameters  $a$ ,  $b$ ,  $c$  and  $d$  do matter for the questions:

(1) how to explore and model a variety of types of markets and

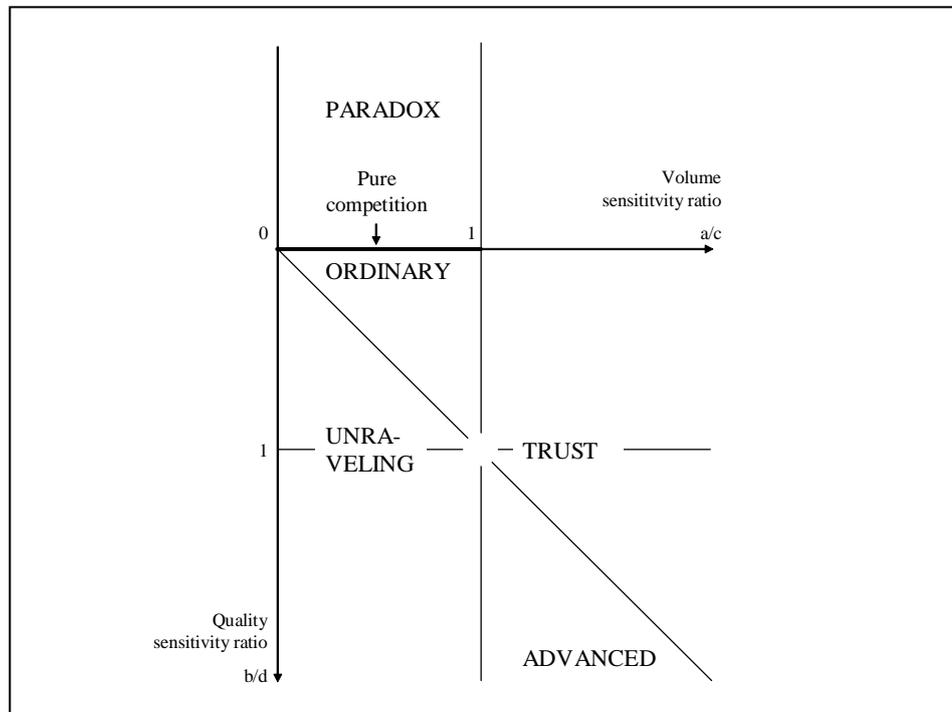
(2) how to differentiate between reproducible and not reproducible markets.

The parameters  $a$  and  $c$  (related to the  $S$  curve) represent the sensitivity of customers and producers to variations in production volume  $y$ .

The parameters  $b$  and  $d$  (related to the  $C$  curve) represent the sensitivity of customers and producers to variations in the level of quality  $n$ .

The main problem for an empirical market lies in the trade-off between volume sensitivity and quality sensitivity. There are various possible combinations of values for these four parame-

ters, it means different pairings of sensitivities leading to different market types, which can be located in the *market plane*.



These formulas reflect two sides: one the one side the way how producers explain quality on the other side the way buyers or consumers reflect quality.

In 1996 Olivier Favereau and his colleagues discussed with White topics of product quality, of quality differentiation in markets and how to model them. This discussion between the network approach and the economics of convention-approach “materialized” in the mentioned publications of 2002.<sup>1</sup> The EC picked up the White-question, “Where do markets com from?”

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<sup>1</sup> This discussion was the inspiration for White to work out his market sociology in the book of 2002 (White 2002:xvi).

and they delivered an alternative answer: "From quality conventions!" Again the issue was how to explain the different market types – now from the convention-perspective. From the viewpoint of EC the different market type are only fully understood, when the market mechanism is embedded in conventions as cultural contexts. Because the sensitivities of different markets types are grounded in corresponding conventions.

Now let me conclude with the proposition that conventional foundations of markets from networks are necessary, because conventions introduce orientation and collective intentionality to market in a way, that the actors know how to play the game in possible ways. As far as I can see, network theory must be completed with own standing cultural notions introducing semantic forms, which can't be deduced ex post from network structures.

I have three propositions left for discussion:

- conventions are deeper cultural schemata so as networks have deeper structural principles (blocks, role structures);  
each one is not reducible to the other
- White's model of markets needs conventions as defining cultural context; because the sensitivities have to be coordinated between producers and consumers
- conventions are cultural forms that „inform“ actors about the appropriate ways to built (construct, justify, reflect, perceive) network ties and stories.

Thank you for your attention.

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