

Markets and Stories

Sophie Mützel, Humboldt-University Berlin
sophie.muetzel@sowi.hu-berlin.de
September 2008

The presentation focuses on markets as social formations and highlights the principal role of stories for such formations.

Over the last two decades, the phenomenon of “the market” has received renewed sociological attention. Setting off with “Where do markets come from?” (White 1981), sociologists have been seeking to specify the *noneconomic* factors which constitute markets. From its inception, the “new economic sociology” was closely tied to social network analysis in its theoretical grounding: it assumes – and has been able to show – that all market actors are embedded in a network of relations. However, type and effect of such network of relations differ across the field.

- One approach focuses on the exchange of resources, such as information, money, or personnel (e.g. Baker 1990; Burt 1992; Granovetter 1985; Uzzi 1996, 1997). Networks here are viewed as channels linking actors together, very much in line with classic network analytic approaches.
- There is a growing focus on markets as “explicitly organized in the form of networks which allow the coordination of a large number of heterogeneous actors who define one another through the circulation of intermediaries” (Callon 2007: 150).
- A third approach focuses on networks as cognitive tools. The general idea is that the presence (or absence) of a tie between two actors is always an informational cue on which *others* rely to make inferences about the patterning of market relations (e.g. Podolny 2001).

The third approach follows Harrison White’s idea on markets (1981), who shows that the key variable in the construction of markets is that participants “watch each other within a market” to obtain cues from others’ action as guidance for their own action. Because information needed to pursue the quest for maximization and efficiency is not readily available to economic actors, they seek guidance in the observable patterns and outcomes that become apparent from competitors’ actions and relations. Participants in a market know who their rivals are: they perceive them as similar and comparable (White and Eccles 1987). Once competitors have been monitored for guidance and an action has been taken, a new signal available to others emerges (Leifer and White 1987). It is thus through the review of perceived peers that market actors are able to sort themselves into a ranking order by prestige and to establish a market niche.

Not all traces for guidance may turn out equally successful for all observers. The two guiding principles are imitation and differentiation: market actors observe their competitors and then, according to their present position, select strategies of action that at once imitate perceived

successes and differentiate in order to find unique market niches. The market structure itself becomes thus the guidance for involved actors and, in turn, decisions made under certain conditions reproduce the prior market structure. To be sure, the decision acted upon can only be a guess about the future: it fits the present (Abbott 2007). This model of markets suggests that it is not atomized producers paying attention to price signals from buyers but rather an entangled self-identified clique of producers, which by a relational logic decides on quality, quantity, and prices of the market's products.

Yet, as recent work has pointed out, markets do not form by observation only. Just like for the constitution of other social formations, it is discursive interactions or *stories* that play a pivotal role in market constitution (White 2000, 2002b). On the basis of verbal or written stories told by competitors, economic actors are able to establish the necessary comparability of who are venerable competitors and establish their niche in the market. Through narration they also provide informational cues to their competitors in turn. In telling stories about themselves and others, market actors attribute meaning to their own actions, to their relations and their position within these relations. In turn, relations get shaped by the stories told. Stories thus provide for the relational glue and turn networks of relations into networks of meaning (Godart and White 2008; White 1992, 2000, 2002a, 2008; White and Godart 2007). After highlighting different approaches to stories in economic and organizational analyses (and a bit in sociology in general), the presentation concludes with an emphasis on relational logics for the study of social formations.

References

- Abbott, Andrew. 2007. "Mechanisms and Relations." *Sociologica*, <http://www.sociologica.mulino.it/doi/10.2383/24750>.
- Baker, Wayne E. 1990. "Market networks and corporate behavior." *American Journal of Sociology* 96:589-625.
- Burt, Ronald S. 1992. *Structural holes: the social structure of competition*. Cambridge, MA: Harvard University Press.
- Callon, Michel. 2007. "An Essay on the Growing Contribution of Economic Markets to the Proliferation of the Social." *Theory Culture Society* 24:139-163.
- Godart, Frédéric, and Harrison C. White. 2008. "Switchings under Uncertainty: The Coming and Becoming of Meanings."
- Granovetter, Mark. 1985. "Economic action and social structure. The problem of embeddedness." *American Journal of Sociology* 91:481-510.
- Leifer, Eric, and Harrison White. 1987. "A structural approach to markets." Pp. 85-108 in *Intercorporate Relations*, edited by Mark Mizruchi and Michael Schwartz. Cambridge: Cambridge University Press.
- Podolny, Joel M. 2001. "Networks as the pipes and prisms of the market." *American Journal of Sociology* 107:33-60.
- Uzzi, Brian. 1996. "The sources and consequences of embeddedness for the economic performance of organizations: the network effect." *American Sociological Review* 61:674-698.

- Uzzi, Brian. 1997. "Social structure and competition in interfirm networks: the paradox of embeddedness." *Administrative Science Quarterly* 42:35-67.
- White, Harrison C. 1981. "Where do markets come from?" *American Journal of Sociology* 87:517-547.
- White, Harrison C. 1992. *Identity and Control: A Structural Theory of Social Action*. Princeton, NJ: Princeton University Press.
- White, Harrison C. 2000. "Modeling discourse in and around markets." *Poetics* 27:117-133.
- White, Harrison C. 2002a. "Cognition in social constructions: market rivalry profile versus cost schedule." Pp. 101-109 in *Culture in mind*, edited by Karen A. Cerulo. New York, NY: Routledge.
- White, Harrison C. 2002b. *Markets from Networks: Socioeconomic Models of Production*. Princeton, NJ: Princeton University Press.
- White, Harrison C. 2008. *Identity and Control: How Social Formations Emerge*. Princeton, NJ: Princeton University Press.
- White, Harrison C., and Robert Eccles. 1987. "Producers' markets." Pp. 984-986 in *The New Palgrave Dictionary of Economic Theory and Doctrine*, edited by John Eatwell. London: Macmillan.
- White, Harrison C., and Frédéric Godart. 2007. "Stories from Identity and Control." *Sociologica*, <http://www.sociologica.mulino.it/doi/10.2383/25960>.