Understanding the ‘Economic’ in New Economic Sociology

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Since the 1970s, New Economic Sociology has constantly challenged economics by criticizing its conceptualizations, models, and explanations of economic phenomena. Subsequently, it has provided a plethora of sociological alternatives. The main controversial subject is the realism of the depiction of the economy: the protagonists of New Economic Sociology claim that neoclassical economics is unrealistic and propose sociology as the adequate instrument of inquiry into economic phenomena. What was a bold objective in the 1980s is an established and vivid field of research today, as a vast number of now “classic” studies bear witness. Following the self-description of its protagonists, the career of New Economic Sociology has been virtually unprecedented in “post-Fordist” sociology, rising from underdog status during the supremacy of structural functionalism to the forefront of the discipline.

Against this canonical background it is more than surprising that disputes about the differentia specifica of economic sociology in theoretical terms can be counted on the fingers of one hand. Instead, theoretical developments in New Economic Sociology primarily resemble the kind that Andrew Abbott (2001: 16) polemically mentions as “Bringing the Something-or-other Back In.” The few exceptions, such as Greta Krippner’s (2001) considerations, emphasize an insufficient understanding of the research object – the economy – in economic sociology. In what follows, I want to take a closer look at the categorical apparatus of New Economic Sociology and the understanding of its protagonists of what is “economic” from a sociological perspective. For this purpose, I will, in all possible brevity, delineate the conceptualizations of the emergence, order, and functioning of markets in three of the most prominent approaches in New Economic Sociology, those of Mark S. Granovetter, Harrison C. White, and Neil Fligstein. Following the description, these approaches will be challenged regarding the main objective of New Economic Sociology: to conceive of economic facts as social facts. I claim that the explanatory omission of the capitalist dynamics of modern economies in all three approaches inhibits an exhaustive understanding of economic facts as social facts.

From embeddedness to (non-)economic motives: Mark Granovetter

Granovetter’s oeuvre comprises three well-known major theoretical innovations: Getting a Job (1974) pioneered sociological analysis in the terrain of economics by uncovering the social mechanisms of job hunting and hiring; The Strength of Weak Ties (1973) showed how network analysis can reveal the pathways of information flows channeled through networks; and, finally, the concept of embeddedness (1985) became the founding metaphor for what is now called New Economic Sociology. In retrospect, the first two paved the way for the third, which was groundbreaking for the methodological and institutional development of economic sociology after Parsons. With his notion of embeddedness Granovetter intended to find the middle ground between “undersocialized” and “oversocialized” explanations of economic action (Granovetter 1985: 485) and thus explored sociological grounds beyond the isolated economic actors of neoclassical economics and the determined “cultural dopes” (Garfinkel 2011: 68) of structural functionalism.

But embeddedness is not the end of the road for Granovetter. In the overall context of his theoretical considerations embeddedness is just one element in explaining economic phenomena by sociological means. In the first place, the notion of embeddedness highlights the role of decision-making in social situations and is opposed to the idea of individual preferences found in (neoclassical) economics (Swedberg/Granovetter 1992: 9). This definition is intrinsically linked to the network approach: “personal relations” gain center stage for the explanation of economic decision-making (Granovetter 1985: 496). Despite its striking simplicity and the virtual indisputability of its empirical adequacy – no economic actor in modern societies resembles Robin Crusoe, obviously – the notion of embeddedness has not been unopposed. Relevant critiques range from constructive-minded suggestions to extend the notion of embeddedness from personal networks to culture, politics and cognition (Zukin/DiMaggio 1993) to sub-
substantial reservations about its implications. Greta Krippner, for example, argues: “The concept of embeddedness pos- its that the world of the market exists apart from society even as it attempts to overcome that divide” (2001: 798). This means that Granovetter’s understanding of embeddedness does not fulfill the goal of conceptualizing eco-

Because of these conceptual restrictions Granovetter ex-
tends his perspective, combining the idea of embed-
dedness with two other notions: the “social construction of economic institutions”4 and the distinction between “economic” and “non-economic motives” for economic action.5 Institutions demarcate the broader social and cultural context of empirical social networks, thus locating them at a more societal level (Granovetter 1990, 1991). One of his examples is the institution of ethnicity, which sets the normative boundaries for the possibility to partici-

Non-economic motives – the second notion Granovetter adds to his approach – denote the social reasons for eco-

The crucial point now is Granovetter’s engagement with economic motives. These motives are all such that have to do with economic goals. His examples are “profit maximiza-
tion,” “accumulation of economic resources” (1992b: 26), and “economic investment activity” (1992c: 257).6 Regarding the goal of New Economic Sociology – the con-

Harrison White, teacher of the Harvard pioneers of net-

Markets as networks in the production economy: Harrison White

According to his numerous efforts to define the role of economic sociology, his ambition to draft “general princi-

5) has, in his eyes, not been successful (Granovetter 1990: 106).7 This certainly has something to do with the missing explanation of substantive economic goals in the architec-

See appendix, Figure 1

6) The extensively reworked sec-

8) The extensively reworked sec-

9) Nevertheless, it is regarded as a milestone for New Economic Sociology.
By asking the question Where do markets come from? (1981a), White introduced the notion of production markets. This notion designates the infusion of sociological terms such as “mutual observation” and “interaction” into the abstract markets of neoclassical economics. Production markets are inhomogeneous oligopolies in which firms with substitutable but qualitatively differentiable products monitor the actions of their competitors. Decisions on production and market supply are ruled by a process of “signaling,” which means that firms competing in a market make their decisions on production volume in relation to their peers. According to White, this notion is more accurate for markets in industrial economies than the neoclassical exchange market comprising two individuals engaged in barter (White 1981b: 5).

Production markets bear on a quality-ranking, which makes it possible for buyers to distinguish the products and therefore the producers. While the producers’ decision-making aims at “optimal volume” in respect of revenue (White 1981a: 518), the production market as a whole edges them into a “niche” (White 1981b: 15) of the quality-ranking which is reproduced by the decisions on the buyers’ side (White 2002: 32; 2008: 83–84). The separate production functions of the firms participating in a production market align with the quality ordering in the respective market, which pushes the producers into a role that matches their market position. Production markets thus function as self-reproducing emergent social orders for producers and buyers with a market mechanism that is explicitly not rooted in supply and demand: “The existence and nature of a viable market schedule (terms of trade) depend on trade-offs between cost and valuation across variations in volume […] and quality […]” (White 1981b: 43).

White’s plain model has been criticized as a mere variation of economic models. Knorr Cetina rates it as “efficient market theory adapted to sociological concerns” (2004: 141). While the math is developed very neatly, the sociological aspects are introduced quite casually at times. White/Eccles, for example, establish mutual observation in production markets with a truism: “Everyone […] knows that buyers do discriminate among producers in ways summed up in quality” (1987: 984, emphasis added). Deductive decision-making entirely from observing their opponents is also a very stylized assumption that can be considered inadequate to the real-life complexity of the decision-making processes in firms. White merely gives a hint that the parameters of his model are selected “in conformity with perceptions and practices of participants in the business world” (White 2002: 236), but this claim is not backed up by any sort of empirical evidence. Summed up, White’s market model seems to be a partially “sociologized” version of the market model in neoclassical economics. Presumably, it fits more the needs of economics than of sociology. At least, it does not transcend the scope of inquiry economics exhibits.

But there is more to White’s market sociology than this model. As a part of his social theory, production markets are conceived as an instance of a “discipline” – a social form of coordination – namely as an “interface”. Disciplines can be understood as “valuation orders” or “status orders,” with interfaces being based on the valuation of quality (White 2008: 63–64). Production markets as interfaces, however, are part of a larger societal system comprising a plethora of coordination forms and kinds of networks, interwoven with institutions, “stories”, and “styles.” According to the culturally reframed variant of White’s network approach, the entanglements of social structure and culture play a major part in delivering explanations for the occurrences on markets.

But to take a step back to the notion of interface, the valuation of quality is introduced as an in-built feature of the coordination form itself, not as an aspect of larger structural formations or culture. Explaining the elementary modes of action of producers and buyers in production markets is done by defining the form of the interface. Culture enters these markets as “stories” after the fact (White 2008: 230). Stories just ensure that signaling can be processed. The content of stories is not germane for the inner workings of production markets themselves. The whole formation of market interaction is assigned to its shape as interface, a priori. So, where do markets come from? Apparently, they emerge as incarnations of a universal structure of human coordination. From a critical perspective, this explanation can be seen as rather reifying and tautological. Even the aspect of profit-making is established as self-evident, but astonishingly in an individualistic manner: “W [worth] must be greater than C [costs], since each producer separately insists on its revenue exceeding its costs” (White 2002: 67, emphasis added). But why this insistence on profit that is so central for producers in modern economies if it is not nascent in the form of coordination? This matter remains untouched. White simply explains the momentum of modern economies – capitalist accumulation in market competition – as a mixture of...
social universals and personalized matters with cultural aspects of economic formations as epiphenomena.15

This reification is pushed even further regarding White’s notion of markets as “integral actors” (2002: 206) or as a “new level of actor” (2008: 74). According to White, every market develops a “life of its own” (2002: 200). Production markets thus have the ability to “transmute” individual valuations into quantities measurable in money (White 2002: 205). In other words, White supposes that the production markets establish the general commensurability of the value of commodities. Using a notion of Simmel (2011: 84), production markets as actors have the power to perform “real abstractions”.16 They unify subjective – and hardly measurable – valuations into prices and hereby create both the quantitative order of modern economies and economic courses of action. But how does White explain the emergence of production markets as autonomous actors in the first place? He simply assumes their mode of existence as a kind of congruence of experience and ontology: “The point is that the patterns of action, in some contexts, come to be interpretable as, and taken as, emanating from actors on a second level” (White 2002: 204, emphasis added). This statement invokes the understanding that if economic actors experience markets as self-generated entities with supra-individual characteristics – simply put: the systemic features of modern economies – it must be their nature. Accordingly, the commensurability of commodities that already exists in the form of prices in modern markets must be established by these markets as integral actors. But White gives no sociological account of how this is possible.17 In his conceptualization the production market thus becomes the deus ex machina of market economies. Like automatons, they facilitate the contingencies of social life into (ac)countable economic worlds. It is challengeable whether White’s theory of production markets can sufficiently explain the emergence of modern economies, because economic facts are captured in purely functional – actually mechanical – terms and objectified as a universal property of the forms of human existence.18

Markets as fields: Neil Fligstein

The sociological branch of new institutionalism in New Economic Sociology is best represented by the work of Neil Fligstein. Recently he co-developed a distinctive version of a theory of fields on a more general level with Doug McAdam (Fligstein/McAdam 2012). Concerning empirical economic sociology, he is famous mainly for his historical contributions to the analysis of management under the shareholder value regime (Fligstein/Shin 2007), as well as for his analyses of changing management paradigms in American economic history (Fligstein 1993). But Fligstein also made a “systematic attempt to characterize the social relations within markets generally” (2002: 14), which will be examined here. This attempt is mainly fleshed out in his book The Architecture of Markets (Fligstein 2002), which succeeded his earlier, more historical work on the development of US markets in the post-war era (Fligstein 1993). Most intriguingly, Fligstein’s market sociology embarks on the elaboration of an action theory.19 His starting point is that profit maximization as the main goal of economic actors is unrealistic, because social phenomena such as institutions and cooperation cannot be explained as the outcomes of atomistic profit maximization (Fligstein 2001: 106; 1993: 299–300). Therefore, Fligstein proposes “effectiveness” as the goal of economic actions, which means that firms aim to secure their survival in markets (2002: 11). By analogy to maximizing man in rational choice theory, we are, in this instance, dealing with a safeguarding man instead: “the central goal of managers in the past hundred years has been to make sure their firms survived” (Fligstein 1993: 5). From this perspective, efficiency appears to be the contingent result of effectiveness, not the other way around.20

Fligstein’s action theory is the starting point for his conceptualization of markets as fields. The basic mechanisms of these fields can be outlined as follows: Markets are characterized as “structured exchange” (Fligstein 2002: 30), a stable relationship between a limited number of participants in the same market. Similar to White’s conception, Fligstein assumes that competing firms watch each other very closely. But the crucial point in his approach is that they “choose a course of action depending on what their competitors do” (Fligstein 1993: 33). The reference point usually is the most powerful firm in the respective market which is believed to have the greatest leverage to force its strategy through. If a certain set of strategies can be established social order is secured in the respective market. As Fligstein suggests, this is a process that is not nearly harmonious, but dominated by acts of power and politics (Fligstein 2002: 69). The next crucial point is that Fligstein understands the setting of entrepreneurial strategies as a process of institutionalization. In his view, the establishment of institutions as “cultural constructions” in markets denotes the “coexist[ence] under a set of understandings about what makes one set of organizations dominant” (Fligstein 2002: 68). The most important levers for deploy-
Fligstein’s market sociology has also evoked some criticisms. Their main point is that it is not yet clear if profit can really be ruled out as the goal of entrepreneurial action. Fligstein later clarified that in his view it can be taken for granted “that the actors who control corporations are all interested in generating profits” (Fligstein 2002: 124). Moreover, he does not challenge that entrepreneurial activity generally aims at “what works to make money” (Fligstein 2002: 119). As such, Fligstein’s notion of profit maximization is defined in the strict sense of neoclassical economics: the regime of supply and demand leading to market equilibrium. This does not rule out profit orientation as the main goal of entrepreneurial action at all. In Fligstein’s opinion, sharpened by his historical studies of stabilization attempts in US markets in the previous century (1993), direct and unregulated competition just has not been the best strategy for the survival of firms. Firms thus could not rely on the price mechanism and have sought more stable forms of profit-making. Therefore, stabilizing the market as a profitable management strategy is the outcome of the path-dependency of market regulation in the past hundred years. But, after all, stabilizing economic action is accomplished for the purpose of generating profits: “Efficiency can be defined as the conception of control that produces the relatively higher likelihood of growth and profits for firms given the existing set of social, political, and economic circumstances” (Fligstein 1993: 295).

Seen from this angle, we are, however, confronted with an unexplained and untheorized meta-goal of effective action in markets as fields: profit-making. Fligstein’s whole elaboration on effective action through conceptions of control in markets is eventually derived from capitalist firms accumulating capital. Therefore, profit-making is simply presupposed as an exogenous condition of economic action in modern economies, but not as the objective of sociological analysis. It simply appears as an end in itself. How this end in itself has – despite specific features of certain markets and nationally and historically diversified conceptions of control – evolved as a market-spanning characteristic of modern economies and main driver of effective market action remains unacknowledged. Regarding the conceptualization of economic facts as social facts this appears to be a major omission.

See appendix, Figure 2

One could argue that this simply is outside the scope of Fligstein’s market sociology but the omission of profit-making also shows up problematically in his explanations of the reasons why market participants devote themselves to conceptions of control. This renders his whole concept challengeable. After all, isn’t superiority in the market and not the evasion of competition the actual goal of firms (Huffschmid 1992: 192)? Admittedly, this becomes apparent only if competition is not reduced to market action (supply and demand) alone but revealed in production as well. From the angle of production, the adaption of conceptions of control can be thought of as “coercive isomorphism” (DiMaggio/Powell 1991: 67–69): the survival of firms in markets is possible (and not even guaranteed) only if they can keep up with the profit rates of their competitors. But the conceptual problems of Fligstein’s approach run even deeper. One might even ask, in the first place, whether there is a hidden tautology in his conceptualization of economic action: markets are stable if profit can be realized in the long run, which in return has a stabilizing effect on markets. This tautology is just not visible if profitable action is strictly redefined as a strategy for survival. Eventually, profit is accepted as the primordial aspect of entrepreneurial action and simultaneously as a byproduct of stabilization attempts. Subsequently, profit just vanishes from Fligstein’s approach as an explanatory factor. This is paradigmatically visible in his discussion of price. In Fligstein’s perspective, the survival of firms is possible only if they obtain prices “at which their organization survives” (2002: 18). He does not inform the reader about the assessment basis of such prices. Therefore, this notion conceals the composition of entrepreneurial profit in modern economies: cost coverage and average profit (Fiehler 2000: 154). Prices at which the firm can survive must – at least in the long run – contain average profit. Capitalist firms cannot live from cost coverage alone. The origin of profit simply cannot be addressed by Fligstein’s market sociology because he does not give any hints how and to what extent – if at all – profit is realized at prices at which firms survive.
Conclusion

Does New Economic Sociology fulfill its goal of conceiving of economic facts as social facts? Against the background of the reconstruction of three of its main advocates, who have developed distinctive theoretical approaches, it is hard to answer this question positively. How can we boil the individual problems of the approaches down to the essence? Instead of proclaiming the addition of missing contextual conditions of the social world that have to be “brought back in,” the critique has to be accentuated differently. It is rather the disregard of market-spanning— or in the words of the three economic sociologists dealt with in this article, the network-, interface-, or field-spanning—economic conditions that give rise to explanatory deficits, analytical blank spots, and the eventual failure of the approaches to accomplish their mission. This is also what renders them inadequate regarding the explanation of the causes of economic action and the modes of operation of modern economies. More precisely, there is no engagement with those causes that induce economic actors to behave as is generally the case in capitalist economies: as buyers, producers, laborer, investor and so on. Furthermore, the modes of operation that form the non-intentional substructure of these dispositions of economic action are untheorized: profit orientation, (re-)investment, money (as the incarnation of wealth), property relations, and competition. After all, all these aspects, which must be mentioned if one wants to make sense of economic action in modern societies, are simply presumed. Subsequently, they are not directly addressed as research objects for economic sociology. Summing up, it seems that the failure to conceive economic facts as social facts in New Economic Sociology is ultimately grounded in the fact that it is currently analytically unprepared for inquiry into the specifics of capitalist economies. How can economic sociology face this deficit?

In my opinion, part of the problem is the detachment of subjects in New Economic Sociology in combination with the centrality of market sociology. Conducting economic sociology as “the economic sociology of x” — with x being convertible into markets, money, consumption, finance and so on — proliferates the conceptual isolation of topics and leads to a cognitive fragmentation of the subject area. This fragmentation is governed by the treatment of the market as pars pro toto for the inner workings of the economy. In a quite puzzling way, even the notion of production markets in White’s and Fligstein’s approaches contains no specification of production at all. As far as I can see, market sociology still applies as the domain in which generalizations about the economy and methodological standards for the sociological treatment of economic phenomena are authored. These generalizations and standards subsequently are seized on in the other branches of economic sociology. This is not unlike the significance of “the market” and microeconomics in neoclassical economics: In a first step, the main analytical object is determined as “market” (the circulation of goods and services) which, in economic reality, is only a segment of economic life in modern societies. Nevertheless, this segment is absolutized: economic interaction is identified as market interaction and the economy is conflated to a system of interconnecting markets. This general understanding of the economy subsequently underlies every specific inquiry — with all the problems that its analytically limited object range entails.

Overcoming this fragmentation and the reification of “the market” that sociologists still seem to have internalized due to the dominance of neoclassical economics, which provides the basic framework for our worldview of the economy, should be the first step towards an economic sociology that is sensitive to capitalist dynamics. This does not entail the abandonment of New Economic Sociology and its plethora of insights at all. Two of its strong points can be built upon: the ability to identify economic phenomena in the first place and analytical integration. It should not be a problem to display the same analytical sensibility for identifying general market-spanning economic phenomena as it does with the local social, cultural, and political aspects. After all, voices demanding a focus not only on the varieties, but also the commonalities of capitalism are getting louder (Streeck 2011). Empirical considerations of general dynamics in capitalist societies, for example, have tentatively been delivered by Sewell (2008), who identifies accumulation and expansion as their main characteristics. A further attempt has been made by Beckert (2013), who claims that the management of expectations is the main driver of economic action in the face of the systemic conditions of the need to be creative, credit financing, commodification, and competition. A third conceptualization is offered by Deutschmann (2001), who suggests that we understand the permanent re-institutionalization of economic strategies as a process driven by the promise of “absolute wealth” incorporated in modern money. Nevertheless, these are only occasional contributions. But similar inquiries have the potential to be integrated with the ones generated by New Economic Sociology. For example, a paramount question for an eco-
nomic sociology that is sensitive to capitalist dynamics should be the following: How can we bring together the many (inter-)subjective meanings of money (Zelizer 1995) with its general synthesizing virtue in modern societies? Another topic would be how different kinds of embeddedness and local strategies of economic action, notwithstanding its varieties, contribute to the constitution and reproduction of the global systemic aspects of capitalism. These and further questions guiding an economic sociology of capitalism still have to be cultivated in the first place.

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Endnotes

1This narrative was recently refuted by Daoud/Kohl (2016) who show that economic topics in sociological journals archived by JSTOR have been incrementally in decline relative to other topics since the classical period of sociology.

2The following remarks are based on a thorough reconstruction I developed in my book Wirtschaft in der New Economic Sociology [The Economic in New Economic Sociology] (2015a), in which German-speaking readers can get a more detailed impression of the argument. A synopsis (also in German) can be found in Sparsam (2015c). My reconstruction is limited to strictly sociological approaches labeled “new economic sociology” or “market sociology” in US discourse, namely Social Network Analysis and New Institutionalism in Organizational Sociology. Both approaches are the common denominator when it comes to identifying the historical core-theories of new economic sociology (cf. Swedberg 2003; Fourcade 2007, and recently Fligstein/Dioun 2015). Within these core theories, Granovetter, White and Fligstein have provided the most elaborated and systematically developed theories of economic phenomena. My critique is strictly immanent, I only review whether the theories live up to their own ambitions and do not demand that they fulfill any goal they do not posit themselves. Since economic sociology has opened up to other sociological theories in the past decade, especially by embracing European sociology, further examination of this problem is necessary. For a discussion of Callon’s performativity thesis in comparison with White’s approach see Sparsam (2015b).

3Unfortunately, Granovetter has still not finished his long-planned book Society and Economy (https://sociology.stanford.edu/people/mark-granovetter ) and his thoughts remain scattered over a large number of articles.


6It is of vital importance to emphasize the substantive character of these goals. This substantive notion is contrasted with the formal definition of economic action that can be found in Granovetter (1992b: 32–33): drawing on Robbins (1945) and Weber (1978), Granovetter defines economic action as formal rational action not unlike rational choice theory. In this sense, both economic and non-economic goals can be pursued economically (read: “rationally”; Granovetter 1992c: 234).

7Contrary to Maurer’s/Mikl-Horke’s assumption that Granovetter does not want to develop a general theory, there are many passages in his papers in which he emphasizes exactly this intention; see especially Granovetter (1990: 106, 1991: 77)

8Because of his unconventional way of writing, reading White can feel like learning sociology from the bottom up again, especially for the non-native speaker.

9See especially the work of Mützel (2009) and White’s insightful communication with the proponents of Économie des conventions (Favereau/Lazega 2002).

10Originating from the work of the economist A. Michael Spence (1973) honored with the Nobel Memorial Prize.

11Hence, White discards the expression “supply equals demand” as an “aggregate tautology” (White 1981b: 45).

12See also Rojas (2006).

13I will concentrate on White’s social-theoretical deliberations; for the extensive technical unfolding of the model see White (2002).

14For a full assessment of these categories see White (2008) and for a recommended overview White/Godart (2007).

15This is true even though White identifies a possible match of quality orderings in production markets and modern “business discourse” entailing an “invidious idiom of quality” (2002: 300–301) because, logically, business discourse enters ready-made production markets from the outside. Therefore, Erikson’s (2013) assumption that White’s relationalism is diametrically opposed to formalist network theory is questionable, too. In my opinion it is a proto-functionalist amalgamation of formalist and cultural aspects.
16 Simmel originally assigned the power of real abstraction to money.
17 He solely draws tentative analogies to the linguistics of Michael Silverstein (White 2002: 309–310).
18 This is mirrored by the science-orientated and technical metaphors White uses to describe production markets, such as markets as “molecules” (2002: 7), “transducer mechanisms” (1993: 224) or “aggregators” (1982: 12). Stories are even described as “gears” (White 2008: 83).
19 A sociological alternative to action theory in economics has been called one of the most pressing desiderata in new economic sociology (Beckert 2006: 162).
20 For an anthropological foundation of this action theory see Fligstein/McAdam (2012).
22 To put it in perspective: Fligstein only mentions profit-making as a side-issue; it is by no means part of his action- or field-theoretical deliberations: “[T]he issue is not that managers seek out profit, but how they do so” (Fligstein 2002: 227).
23 That markets are empirically very diverse arrangements that cannot be reduced to rational action alone (Dobbin 1999) is not at issue here.
24 In my opinion, Beckert’s approach suffers from similar problems to the ones discussed above. For a critical assessment of his conceptualization of capitalism see Sparsam (2015a: 259–261).

References

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Appendix

Figure 1: The explanatory scope of Mark Granovetter’s approach

Source: Author’s chart, translated from Sparsam (2015c: 191)
Figure 2: The explanatory scope of Neil Fligstein’s approach

Source: Author's chart, translated from Sparsam (2015c: 200).