Book reviews

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Chains of Finance – How Investment Management is Shaped

Oxford: Oxford University Press

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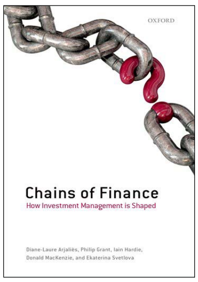

For some time, the activities of fund managers, buy- and sell-side analysts, risk managers, brokers, traders, and other financial market players were scarcely researched in the social sciences. This has changed significantly – at the latest since the collapse of Lehman Brothers Bank a decade ago and the associated crisis phenomena that still affect us to this day. In the meantime, the so-called „Social Studies of Finance“ has become firmly established as an area of research. New publications regularly appear that contribute to the deciphering of activities in this highly specific cultural sphere. The 193-page book *Chains of Finance* by a group of five authors is one of the latest outcomes of this type of research.

The book presents the findings of a project funded by the Seventh Framework Programme of the European Union on valuation practice in financial markets, and a project by one of the authors (Ekaterina Svetlova), funded by the German Research Foundation, which dealt with the analysis of economic calculations. In the projects, a comprehensive database was created. According to the information provided in the book, a total of 424 interviews were conducted with fund managers, analysts, traders, brokers, and employees of stock exchanges and over-the-counter trading venues, as well as other experts who were able to provide information on the investment chains of investment management. The interviews were conducted in the United Kingdom, France, Germany, Switzerland, and the United States. In addition to the interviews, material from two longer phases of participatory observation (two and a half years, three months) and expertise from previous work experience in investment management (two people with five and six years of professional experience, respectively) were included in the analyses. This impressive degree of field experience informs the discussions, which clearly demonstrate an in-depth understanding of the respective research subjects.

The central thesis of the book is that investments today are influenced by a large number of financial intermediaries, who can be understood as links in an investment chain. The individual intermediaries are related to each other in each case and thus mutually determine what opportunities and limitations arise in the process of investing. After an introductory chapter, the linkages of the intermediaries are analyzed in the chapters that follow. First, the internal investment chain within an investment management company is discussed (Chapter 2), and then the relationships between fund managers and investors (Chapter 3) and also those between quantitative asset management and other intermediaries (Chapter 4). Chapter 5 deals with over-the-counter trading venues (so-called “dark pools”) and attributes the significant increase in trading on “second-generation” platforms to changes in relations in the investment chain. Chapter 6 focuses on the irritations that can arise between the “responsible investment” and “fixed income management” departments of an investment management company as a result of considerable differences between their investment strategies. Chapter 7 gives a concrete example of how an attempt by a group of responsible investors from the trade union milieu to sanction a company failed because of the “logic” of the intermediary investment chain.

The linkages in the investment chain differ from chapter to chapter. In this respect, the cover design – showing a metal chain with a red question mark as a link – is an effective visualization of the book’s findings. Sometimes the intermediaries of the chain seem to complement each other, sometimes they appear to be in conflict; sometimes epistemically closed cultures seem to influence each other, sometimes there are indications of established translation paths or even attempts at joint interaction (especially in the case study in Chapter 7). The interaction of the various intermediaries in the investment chain is therefore portrayed as very complex. Accordingly, the authors distance themselves from the principal–agent theory (above all in Chapter 3), which describes proxy relationships between clients and investment management in a more schematic and less nuanced way. In the summarizing final part (Chapter 8), the difference from a network perspective is also addressed; the position taken is that it does not necessarily constitute a rival point of view. Investment chains in investment management are rather interpreted as part of an overarching financial market network. This tentative demarcation from network-analytical approaches is surprising. In fact, the findings and the distinctive methodological approach basically lead to the claim that, with regard to further theoretical development, the investment chain perspective could be much more than an indication of the relevance of the area between the dyadic relationship (for example, the principal–agent relationship) and an overarching network perspective.

The chain character of investment management is criticized in the final chapter of the book. On the basis of the chapters' individual findings, problems of the division of the investment process are identified, such as the short-term nature of investment horizons, the limitation of opportunities for socially responsible investment, and the far-reaching decoupling of investment activity from the investment preferences of investors. Possible solutions are also discussed, such as shortening the investment chain, regulations, or greater recourse to passive investment strategies.

Overall, the book is to be highly recommended. It provides interesting insights into the limitations and interfaces of investment management. The focus on the investment chain links the individual chapters, which highlight the details of the respective linkages. The chapters, however, can also be read independently of each other. For instance, the fourth chapter is recommended as an alternative jumping-off point for readers who do not read books cover to cover. Here, the relationship between "quantitative investment management" and "fundamental portfolio management," which fluctuates between friendship and hostility, is persuasively elucidated. The fifth chapter is the most innovative: From a social-science perspective, never has so much light been thrown on the "dark pools" of over-the-counter trading. The only major criticism of the book might pertain to its modest size. Given the book's considerable empirical footing, it would certainly have been possible to provide more detailed reports. This would in particular have provided readers with greater transparency as to the evaluation steps that were taken, as well as more insight into the data. The sheer amount of material available offers reason to hope, however, that other publications will follow that expound more fully on the research projects' findings.

Klaus Kraemer and Florian Brugger (eds) 2017

Schlüsselwerke der Wirtschaftssoziologie

Wiesbaden: Springer VS

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In the past forty years or so, economic sociology has flourished as a field of study in its own right. Stimulated by the birth of "the new economic sociology" in the United States in the 1980s, the rise of the "economy of conventions" approach in France, and various returns to classical German economic sociological approaches (Marx, Weber, Sombart, Simmel), economic sociology has matured into a vibrant, internationally established sub-discipline with its own sections, study programmes, journals, and newsletters (see also the Economic Sociology European Electronic Newsletter founded in 1999). "Parsons' Pact" (as coined by Beunza & Stark, 2004, but see also McFall and Ossandón, 2014) – the division of labour between economists and sociologists whereby "sociologists were to study institutions, social integration, and values, in plural—but not markets—while economists were to focus on economic growth and competitive market arrangements coordinated by prices, information, and value, in singular—but not religion, crime, or families" (McFall & Ossandón, 2014, p. 510) has long been overcome, or at least so it seems.

The German-language volume *Schlüsselwerke der Wirtschaftssoziologie* (Key works of economic sociology) edited by Klaus Kraemer and Florian Brugger reflects the field's institutional maturity. It is a comprehensive handbook of economic sociology that introduces readers to both foundations and more recent currents in the field. The book is divided into two main parts. The first part covers classical works, many of which inspired more recent strands of economic sociological thinking. Here, we find essays on selected key works by Marx, Durkheim, Veblen, Simmel, Sombart, Weber, Mauss, Schumpeter, Polanyi, Merton, Hirschman, DiMaggio and Powell, Luhmann, Coleman, and Hall and Soskice. The second part is devoted to "newer works" in the field, from the 1970s onwards. Here, among other things, readers are introduced to strands within the North-American based "new economic sociology," as represented, for example, by works on social embeddedness and networks (for example, Granovetter, Burt, Uzzi, Podolny); studies on morals and markets, the making of markets, and the institutional make-up of markets (White, Garcia-Parpet, Zelizer, Abolafia, Dobbin, Fligstein); an essay on Gambetta's study of the Sicilian mafia; Ingham's work on the nature of money; Trumbull's study of consumer capitalism; Fourcade's and Lebaron's analyses of the rising influence of economics and economists; as well as discussions of more recent works in the sociology of finance, including studies of financial markets and financial market capitalism (Knorr Cetina and Brügger, Windolf), the performativity of finance (MacKenzie and Millo), the framing of finance (Preda), processes of financialization (Froud, Johal, Leaver and Williams), and the political origins of the rise of finance (Krippner).

The handbook also contains essays on the French regulation school (Boyer and Saillard), Bourdieu's study of the social structure of the economy, Boltanski and Chiapello's "New Spirit of Capitalism," and overviews of key works from the "economy of conventions" research programme (Storper and Salais, Boltanski and Thévenot, Orléans, Eymard-Duvernay). The volume also covers more recent studies of valuation (Aspers, Stark, Karpik). Finally, it engages with a number of seminal German works, including Streeck's *Buying Time*, Deutschmann's analysis of "capitalist dynamics," Ganßmann's work on "money and labour," Dörre's book on land grabbing, *Landnahme*, Neckel's study of cultures of success (*Erfolgskultur*), or Beckert's essay on the role and relevance of uncertainty (*Ungewissheit*) for the development of a genuinely sociological perspective on economic life.

The different works are introduced by means of short essays, authored by scholars in or adjacent to the field. Each essay provides a brief overview of the core ideas, theoretical context, and core contributions of the key work in question. Of course, such overviews cannot replace reading the originals. And, to be clear, that is also not the stated aim of the book. Rather, the essays should be seen as useful orientation devices that help navigate a field that has grown enormously in the past forty years.

It would be beyond the scope and aim of this review to introduce any of the chapters in more detail. As one can see from the lists presented above, the handbook covers a vast number of different studies and approaches. As the editors highlight in their introduction, economic sociology has come to comprise a wide range of theoretical approaches, research paradigms, methods, and empirical foci. It is this plurality that makes economic sociology such a vibrant area of study. The handbook reflects this diversity. And in doing so, it also cuts across geographical divides, bringing together North American, British, French, and German works, which is a particularly welcome feature of the book that sets it apart from its more narrowly focused North American counterparts.

Notwithstanding such multiplicity, the editors Kraemer and Brugger are also clear what keeps their volume – and the field of economic sociology more generally – together: Namely, a shared interest in exploring what contribution different sociological concepts and theories can make to understanding economic life (economic action, structures, and processes). What are the social and cultural conditions and consequences of markets? How are enterprises and markets shaped by social relations, conflict, and status hierarchies? How should we conceptualise, problematize, and study relations between economy and society? These are some of the key questions the book sets out to explore.

Overall, the book is a very welcome European addition to current North American handbooks on economic sociology. The book is not only useful in taking stock of a vastly expanding field, it also helps to stimulate and formulate new avenues for research. In their introduction, Kraemer and Brugger sketch out some of these. Criticising economic sociology's preoccupation with the study of markets, they underscore for instance the importance of devoting renewed attention to the role and constitution of households in the economy (as both consumers and participants in processes of production). Kraemer and Brugger further suggest that economic sociology should engage more with the classical foundations of the field (for example Weber's, Simmel's, and Durkheim's works) and revisit the relevance of economic sociology for social and societal theory-building and our understanding of broader processes of societal differentiation. The editors further emphasise economic sociology's relevance for the study of social inequality (revisiting Weber's classical work on social stratification and unequally distributed opportunities and Simmel's conceptualisation of property as critical in the production of class positions). How is economic success dependent on, or influenced by, social inequality? How, and to what extent, is social inequality economically produced? This volume makes a useful start in bringing together a range of different contributions that can help address such questions.

The book covers a vast number of different studies and, understandably, the editors had to be selective. Nevertheless, I would want to highlight two themes that deserved a bit more attention. One concerns the role and relevance of failure, as both a category and an empirical phenomenon (see here e.g. Halliday & Carruthers, 2009). Economic sociologists, with a few notable exceptions (Halliday & Carruthers, 1996, 2009; Hirschman, 1970), have paid remarkably little attention to the phenomenon of failure (notions and workings of market failure, market exit, bankruptcy regimes), and this applies also to the volume reviewed here. Given the centrality of failure in the governing of economic life, particularly markets, this is surprising and more work ought to be undertaken in the future by economic sociologists to understand, as Kurunmäki and Miller have put it, the moment of economic failure, the moments that precede it, and the calculative infrastructure and related processes through which both failing and failure are made operable and with what consequences (Kurunmäki & Miller, 2013; but see also Miller & Power, 1995).

The second topical area concerns the sociological study of economic calculation. Also here the book is remarkably silent. Weber and Sombart put accounting (in particular, capital accounting, "*die Kapitalrechnung*") at the heart of their studies of capitalism. But over time, economic sociology seems to have forgotten accounting and its roles and relevance for the governing of economic life (also this handbook does not contain any contributions devoted to the examination of accounting). Rather, sociologically oriented studies of economic calculation emerged outside of economic sociology, within Departments of Accounting, particularly in the United Kingdom (Hopwood & Miller, 1994). Moving forward, I would welcome more engagement on the part of economic sociology with social studies of accounting, and vice versa. Such engagement cannot only offer valuable insights into the workings of accountability and performance regimes, for example within economic organisations. It can also contribute to enhancing understanding of the intricate relationship and interplays between economy and society. For calculative techniques, including accounting, are in many ways driving institutional and societal change. Hence, it is important to follow the contingent ways in which certain calculative tools become "world models" (Meyer, Boli, Thomas, & Ramirez, 1997) of rational economic decision-making and control. Or, put differently, it is important to appreciate how accounting concepts and techniques are mobilised in specific societies, within certain discursive frameworks, and with unique consequences, so as to trace the institutional and discursive configurations within which new economic regimes become possible and old ones are redefined (see also Mennicken, Miller, & Samiolo, 2008, in an earlier issue of this newsletter).

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