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NOTE FROM THE EDITORS

This issue of the newsletter focuses on the sociology of accounting. It was Max Weber who first stated that the development of double-entry bookkeeping was of crucial importance for the development of modern rational capitalism. In more recent scholarship in economic sociology this concern has been taken up again and the topic of accounting has developed into an important realm of research.

Exactly how important accounting is for market development and organizational survival has become overly clear in the Enron debacle over the last couple of months. The first article by Peter Gourevitch looks at the Enron story, identifying an important collective action problem at the core of the misrepresentations of business figures that led to the downfall of what used to be the United States' sixth largest corporation. In the second article, Andrea Mennicken provides an overview over the different research approaches that can be found in the sociology of accounting. Her review provides a very clearly written and highly informative "entry" into the sociological literature on accounting. Herbert Kalthoff deals in his contribution with the problem of representation, using his work on risk assessment of banks in Eastern Europe as empirical background to his theoretical reflections. Drawing on an ongoing research project, Dieter Kerwer investigates the operation of rating agencies and their role for market development. Last but not least, Richard Swedberg takes us to a more general level by asking for an expanded role of the investigation of law as a crucial but widely neglected field for economic sociology. Again, it was in the writings of Max Weber—but also of Emile Durkheim—that law was analyzed as an important institution of the economy. This interest has largely been lost in sociology. The sociology of accounting and the plea to make law a more important subject in economic sociology also demonstrate how much economic sociology is still indebted to the works of the sociological classics.

This is the last issue of the newsletter we have edited. Frédéric LeBaron from the Collège de France (Paris) will take over as the new editor of the next volume. You can reach him at economicsociology@hotmail.com. After three years of publication the newsletter has become an important source for information in the field of economic sociology. What's more, it increasingly features substantive research articles. With each new team of editors new ideas will be realized. We wish Frédéric good luck as the next editor and are looking forward to the first issue under his editorship.

Jens Beckert

Dirk Zorn

COLLECTIVE ACTION PROBLEMS IN MONITORING MANAGERS THE ENRON CASE AS A SYSTEMIC PROBLEM

By

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At the core of the Enron disaster lies a problem of considerable conceptual interest and importance: the obstacles to collective action which arise when an agent (in this case the managers) is monitored by many principals (in this case the shareholders) rather than one principal (Lyne and Tierney, 2002). This occurs often in politics and other areas, and deserves some attention not only to understand the problems of corporate governance and the human suffering caused by the Enron failure but also to understand the type of problem more broadly (Shinn and Gourevitch, 2002). In the Enron case, stockholders were taken advantage of by managerial greed, reinforced by the collusion among “reputational intermediaries” who play an important part in the monitoring system.

The Enron case also informs the lively discussions that compare corporate governance systems—the shareholder model of the US and the UK in contrast with the stakeholder model associated with Germany and other countries in continental Europe (Aguilera and Jackson, 2002; Dore, 2000; Lazonick, 2000; Berger and Dore, 1996; La Porta, et. al.2000.) The US model is said to protect the rights of external shareholders from the abuses that can be carried out by “inside owners,” or blockholders common in the stakeholder model. And it appears to do so. But the US model has a vulnerability which arises out of its virtues: the laws that protect external investors create fragmented ownership, which in turn creates a collective action problem: no one has an incentive to pay the transactions costs required to monitor the managers. Fragmented ownership creates the need for external monitors, “reputational intermediaries,” who are essential to the functioning of the system. If these intermediaries (accountants, bond and stock analysts, banks, lawyers) collude, the shareholders are at risk.

These failures bring out the importance of politics in understanding corporate governance and the firm. The behavior of the managers and the reputational intermediaries in the Enron case was enabled by changes in the regulatory system in the US that allowed the erosion of boundaries and obligations in monitoring. Political lobbying played a very visible role in that regulatory development. This provides evidence in the debates about the relationship between politics and other causal arguments.

I. Two Systems: Shareholder vs. Stakeholder Models of Corporate Governance

From the perspective of agency theory, the core problem of the modern corporation lies in the relationship between managers and owners. In a small enterprise, the owner and manager are the same. As the firm becomes large, its tasks require differentiation and its capital needs require investors. The two tendencies create a need for specialization: professional managers, who run the firm, and the investors, who put their money into it. In the limited liability company as modeled by principal/agent theory, “the principals,” the owners, hire managers, “the agents,” to carry out the specialized function of managing the firm. The challenge for the investors is to establish a relationship with the managers that ensures the firm will be run to meet the goals of the owners, rather than be subverted to suit the managers at the expense of the owners—the problem of moral hazard (Coase, 1937; Jensen and Meckling, 1976).

Two models have evolved to solve the problem of linking shareholders to managers. They are generally called the shareholder model and the stakeholder model, though both involve shareholders. While different labels are used, there is convergence in the descriptions of the major features of each (Kester, 1992; Dore, 2001; Hall and Soskice 2001; Iversen and Soskice, 2001, Gourevitch 2001). The differences lie in rights and powers of shareholders, how the shares are held and voted, and in the role of other actors in the economic system of the firm. The shareholder system prevails in the US and the UK, as well as Canada, Australia, New Zealand. Versions of the stakeholder system exist in Japan, Germany, much of Europe, most of Latin America and Asia, with some mixed cases in places like France.

The two models differ in the way they distribute power within the firm and between the firm and its investors. Governance structures shape who can make decisions, who monitors the decision-makers and with what kinds of information and instruments. Discussions of governance often look only at the board of directors, but this is inadequate: the functions of the board are influenced by other elements of the system, many of them outside the firm itself. Shinn (2001) has identified the key features of a governance system as: *information institutions*: accounting rules, audit procedures, standards settings, and third-party analysis; *oversight institutions*: boards of directors and the rules governing their fiduciary responsibilities; *control institutions*: the degree of voice minority shareholders have in case of contested control and the rules which govern such contests, including the rules for hiring, compensating and firing senior managers.

These parameters of corporate control can vary, comprising alternative models of corporate governance. As Kester (1992) phrases it, shareholder systems see the core managerial problem as agency, as controlling moral hazard, to prevent agents from acting away from the goals of the principals, and solve it by stressing the monitoring powers of external shareholders; the stakeholder systems see the core managerial problem in terms of transaction costs, and solve it with strong internal linkages among the components of the firm and its major partners.

The Shareholder Model

The shareholder model’s solution to the moral hazard problem is a system of check and balances, separating out functions, and giving external shareholders a number of rights. The goal is to encourage investment by outsiders. Without protections, external investors are

vulnerable to exploitation by insiders, managers and blockholders alike. Insiders (managers, other shareholders) may not provide or use information that is not available to all. They are obligated to provide a regular flow of information (quarterly reports, annual audits, etc.). Armed with such information, the public shareholders evaluate the managerial performance via the market. Firms that under-perform face the loss of share value from sales (exit) or take-over; a vigorous market for corporate control is a key monitoring instrument.

Shareholder systems have strong anti-trust regulations and strict laws against insider information. Concentration of ownership is limited: pension funds, institutional investors cannot own above a certain percentage limit of a single firm nor have too many of their assets in one firm. Banks cannot own substantial chunks of firms nor name their representatives to firm boards. Cross-shareholding, rotation of managers, tight bonds to suppliers or sellers up and down the supply chain are limited to prevent collusion. (Individuals are not restricted in their percentage ownership; they can perform monitoring functions subject to insider trading rules.)

Managers are monitored by the stock market. Rising and falling share prices indicate performance. “Patient” capital may exist—shareholders that stress value over the long haul and are thus less responsive to short term fluctuations, but these shareholders interact with many whose preferences are more short term. If shareholders (principals) are dissatisfied with their agents, they can sell shares. When share prices fall, the firm becomes vulnerable to take over, friendly or hostile – the market for control, the take over via share purchase, is thus an important way managers are monitored by this system.

The problem in the system lies in the costs of monitoring and fragmentation of ownership. Since stockownership cannot be concentrated, shareholders own small percentages of the whole. Monitoring is costly: knowing what the managers are doing requires gathering and analyzing information: visiting factories, interviewing managers and employees, reading the footnotes of company reports, challenging company statements, in sum, evaluating very carefully what is produced. This is a costly activity. Monitoring thus encounters a collective action problem: no one owns enough of the firm to make it worth their while to pay the costs of monitoring. They face the vulnerability of free riding—other investors can use the information gathered by one or a few.

Instead, shareholders monitor managerial activity through relatively “cheap” (low search cost) information. First, there is the board of directors. These are statutorily responsible. In theory they are elected by the shareholders. They hire and fire, set pay compensation, examine the audits, approve plans. Law requires the firms to have audits and make them public. Strict insider trading rules demand that all information available to the board and managers be made public to all shareholders. This generates a massive amount of information.

In theory, that information is then analyzed by a system of “reputational intermediaries outside the firm—not only external auditors, but stock analysts, investment banks, bond rating agencies, lawyers and others—all private and all with a financial incentive, presumably, to conduct close analyses and provide solid opinions. These players make recommendations and ratings: that the stock is worthy of a purchase or the bond deserves a particular grade of investment according to the risk. Auditors compile annual reports. Rating agencies (like Moody’s, Standard and Poor) evaluate bonds. Banks evaluate credit worthiness. Institutional investors and brokerage firms analyze the stocks and issue ratings of their own. Lawyers

inform what is permissible. The Securities and Exchange Commission (SEC) is the major regulatory body of this system, but it too relies heavily on the reputational intermediaries system. Other regulators are the stock exchange managers who make firms desiring to be listed observe listing requirements, and, in the US, a wide range of state authorities, legislatures, courts, attorneys-general. The system thus monitors managers on the basis of high volume, but relatively shallow information, and provides information in a constant flow of short-term snapshots.

This system does work much of the time. The US and the UK stock markets are the world's most heavily capitalized. Savers and investors in these countries and around the world feel relatively safe investing in stocks and bonds of companies listed on those exchanges because they feel the system protects the external, minority shareholder, while the other systems, the stakeholder model does not, for reasons we will explore below.

What has gone wrong recently? If all the pieces of this system were all completely independent actors, they would indeed be able to provide some kind of significant monitoring. What Enron *et al.* showed was that the independence of these intermediaries has eroded substantially. Instead of providing information to external investors, the intermediaries colluded with managers and each other at the expense of shareholders.

Managers largely pick the board and reward board members for compliance with managers' wishes. This has long been understood: stockholder democracy is a fiction. It is nearly impossible for stockholders to work together to challenge management seriously. Only a firm carrying out a hostile takeover attempt can afford the cost to do so. Consequently, the system turns to the reputational intermediaries. Investors base their buying and selling decisions on the information provided by these intermediaries. If the latter are comprised, the shareholders are vulnerable to abuse.

Audit committees of the board rely on auditing firms. The audit is paid by the firm, not the shareholders. It is thus designed to fit the strategy of the firm, not to provide investors and shareholders with independent information. In recent years, the auditing firms have increasingly derived income by providing consulting services for the very firms they also do the auditing for. This creates a conflict of interest as auditors become reluctant to challenge the firm through an audit when they earn more money from the same firm with consulting. The large institutional investors have developed a similar conflict of interest. Their analysts evaluate and recommend stocks; their investment banking arms make deals with firms, often the very ones the analysts are evaluating. Merrill Lynch has been charged by the state of New York with corruption of these analyses. While the bond rating agencies have a quasi-monopoly and little incentive to rock the boat; they are charged with bias as well. The rating agencies and some of the brokerage firms waited a long time before downgrading Enron. Banks seek business from firms, as do lawyers. Banks made deals with Enron executives that, it is argued, they should have challenged, and lawyers did the same.

Institutional investors own substantial sums, though no individual one has large percentage in order to diversify risk, but they behave as passive investors, they do not challenge management by voting their proxies. Furthermore, they get business from management (the pension funds), a fact which provides yet another reason not to challenge them. CALPIRS (the state of California retirement fund) is an unusual exception to this generalization, as is to some degree TIAA-CREF (the teachers' retirement fund). It is possible that these two

exceptions are linked to the clientele they serve, who are more sympathetic to challenge management.

Another instrument of monitoring managers, the market for corporate control, has also been greatly weakened by managers. These have been able to create defensive instruments like poison pills, special rules for mergers, separate board structures, all of which make hostile takeovers harder—and thus for managers to be monitored effectively.

The official regulator, the SEC, is a relatively small institution. It heavily relies on the reporting system for “fire alarm” monitoring (responding to complaints). It can do “police patrols” (preemptive investigations) when evidence of insider trading appears, but it cannot monitor the whole system of rules. The American system thus depends to a large extent on market mechanisms for enforcement.

The problem now evident to all is that the system has been compromised. All the major players have an interest in colluding at the expense of the external shareholder. During the 1990s, an incentive idea about compensating managers spread widely: providing managers with stock options would align their interests with shareholders, as both would have an interest in seeing share value rise. This turned out to have perverse effects: managers had an interest in driving the price up to realize their gains, invoking their options and then cashing out. They were allowed to count options as an expense in taxation but not as a cost in estimating profits, thereby distorting earnings. This also had the effect of diluting shares: the percentage of firm ownership by top management rose from 2% to over 10%.

The conditions that allowed the compromise of the system were tolerated, allowed and facilitated by regulatory policy. The general drive in the US toward de-regulation applied to this sector as well. The Glass Steagal Act on banking was repealed, interstate banking allowed, regulatory boundaries among activities loosened. The regulatory system has allowed an extensive blurring of boundaries and a set of overlapping and conflicting interests to develop.

To the fragmentation of ownership principals may be added the fragmentation of regulation. The American system is very decentralized. Regulatory functions are scattered among numerous agencies in the federal government. Corporate law is run largely by states, and companies hence do jurisdiction shopping: Delaware opinions shape national regulatory behavior. Supposedly state law could be overridden by federal law (as with the SEC) but that adds a layer to the political complexity of the process (see below).

There are many virtues to the US/UK system. By protecting the interests of external shareholders, it encourages the mobilization of savings through share ownership. The US has much higher stock market capitalization of its firms than do European countries. It is famous for venture capital, for flexibility in the allocation of capital, for getting into new ventures fast, and getting out of declining industries. This is not the place for a comparison of the US with other systems on performance grounds. My purpose rather has been to examine the institutional vulnerability of the US system. At the core of this vulnerability is the problem of collective action that arises in a system of a plural principal: the shareholders are numerous and thus have a collective action problem. This issue can be sharpened by comparing the shareholder model to its most well known alternative, and in turn, to look at its characteristic weakness.

The Stakeholder Model

The stakeholder model can be characterized as solving a different problem than the shareholder model. Rather than moral hazard from autonomous managerial agents, the stakeholder model stresses, as Kester (1996) puts it, the problem of transaction costs. The shareholder system requires arms length relationships among all the players in the production system—subcontractors, banks, labor, etc. It thus inhibits a certain kind of information sharing and cooperation. The stakeholder model lowers the transaction costs by allowing substantial interaction among all the players through shared ownership and control. The price it pays is higher agency costs for external shareholders and thus disincentives for maximizing shareholder value and the returns to investors.

The stakeholder system is characterized by “blockholders,” the owners of large blocks of shares, concentrated in a few hands that do not trade. Other stakeholders, workers, suppliers, sellers, the participants in a productive system have more voice than is the case with the shareholding system. The most notable example is the German system of codetermination with worker representatives on boards. Local and state governments are also big shareholders. Another distinct feature of this system is cross-shareholding where firms may own blocks of each others’ shares, or shares among its suppliers. These firms exchange personnel and share substantial information.

In many cases, these blockholders are families, sometimes cohesive ethnic groups (as in the hua-quia “bamboo networks” of Chinese family-owned conglomerates in East Asia), where bonds of blood and cultural affinity link the members of a network together. In some cases, such as Japan, blockholding systems are sufficiently complicated such that there is ultimately neither a controlling individual or family owner of many firms nor any control exercisable by outside shareholders resulting in firms that are effectively controlled by the managers themselves. But even in Europe, a very high percentage of firms are family owned or controlled.

These systems may reflect cultural values but these values are backed up quite strongly by rules, regulations and regulatory institutions. Laws allow concentration of ownership and cross shareholding and may even reward it. For example, in the past, German law taxed share sales by firms quite heavily, which deterred sales; yet in an attempt to break up the system of cross-shareholding by German corporations, the government has eliminated that tax recently. Anti trust is weak in law and/or poorly enforced. Securities regulation does not punish insider information. In the stakeholder system, manufacturing is buffered by over-investing in capital stock or other protections from disruption. This has been called buffered manufacturing, rather than “lean production.”

Indeed, insider information is the essence of the system. Its advantages lie with the incentive to share information. In the shareholder system, manufacturers and suppliers maneuver around their conflict of interest: being taken advantage of by paying too much or too little, they have every incentive to conceal information and not to invest too far in the specific assets of each other’s business. The stakeholder system encourages information sharing because the economic fates of the firms are tied together. Extensive cross-shareholding and other coordination mechanisms prevent the opportunism that sharing of information may otherwise provoke.

Creditors sit on the boards of firms in the stakeholder system. As major long-term shareholders they have incentives to pay the costs of substantial information, rather than to rely on cheap information indicators. Managers have incentives to share information fully with their blockholders. Fights for corporate control are rare, as are anti trust suits and insider trading cases. Stocks are held for very long periods. Firms are able to invest in long-term relationships and share extensive information.

These features of information sharing and long term relationships seem to produce distinctive economic features among the firms. The firms in such a system have an economic incentive to invest heavily in specific assets rather than general assets. Shareholder model firms invest in general assets, in machines and relationships that can be changed or abandoned in response to market pressures. The specific assets approach seems to encourage modernizing existing industries and improving on manufacturing systems. Germany and Japan are both famous for quality engineering and manufacturing. This appears to derive from their incentives to invest substantially in the specific assets that correlate with excellence in these activities. Conversely, shareholder systems may have more flexibility in globalizing production. American firms in the computer hard disk drive industry moved early to learn the techniques of disaggregating the components of a product, scattering their production to the most advantageous site, and making final assembly again in an appropriate location (Gourevitch et al, 2000; McKendrick et al., 2001). Stakeholder firms have had more difficulty doing this.

The disadvantage of the stakeholder system lies in over-investment in existing sectors and under-investing in radically new technologies and processes. Venture capital systems are weak. Capital is generated from within each network, but is then limited in its allocation to the interests of that network. The managers and their allies promote growth of firm size, not the value of the shares, or the paying of dividends. At times this generates productivity in quality processes; at other times, when technological change is rapid these systems pay a price for that advantage

II. Monitoring Issues—Correcting Incentives

The two systems thus handle differently the problem of principal-agent relations connecting shareholders to managers. The shareholder model leads to fragmented ownership but yields an aggregation of agents. A collective principal, the shareholders, have to monitor the manager. The American firm is fairly authoritarian – the chief executive officer (CEO) has a lot of power, especially if he is also chairman of the board, which many of them are (another blurring of interests). Fragmentation of ownership poses a collective action problem: how to mobilize the principals to monitor the agents? Mobilizing shareholders is costly, and thus quite rare. The recent proxy battle between the CEO of HP and one of its major shareholders (a member of the founding family) over the Compaq merger proves the point: it is a rare event, made possible in this case by private wealth. The principals here are a fragmented collective: the shareholders collectively are the principal (thus it is not a case of multiple principals, where the agent would have separate contracts with several principals) but of many members within a single principal (Lyme and Tierney, 2002).

For almost all such shareholders, “voice” is costly, “exit” far easier (Hirschman, 1970). For analyzing exit, the system of reputational intermediaries is vital. The accountant’s report is fundamental. It provides the information for all other actors—analysts, bond rating agencies,

individual investors—who make decisions on buying or selling. Flawed accounting compromises the base of this process. The reputational intermediaries could in theory probe the reports, read the footnotes, ask questions, investigate. If they in turn are compromised, external shareholders have little protection.

The stakeholder system solves the collective action problem among the principals by allowing concentrated ownership of shares. As substantial shareholders they have strong incentive to pay monitoring costs as they know they will be listened to and their risk is greater. They become insiders, and as such are able to share information with managers. They can communicate many things like long-range strategy, technology, whatever, without fear of having to make public what they see as proprietary information. The stakeholders can thus become patient capital, because they are not passive capital. . The insider model allows managers and owners to retain capital and use it for a steady flow of investment in the firm's core activities, somewhat free of business cycle fluctuations, with long-term perspectives. The stability of the system allows firms to invest in "specific assets", in technology and labor relations which favor manufacturing skills (Hall and Soskice, 2001). This advantage does not come without a cost, a cost paid by the external shareholder. They have no protection in this system. Managers don't worry about share prices. Many things can be done at the expense of the poorly protected external shareholder. External investors are thus cautious about entering these systems. Share capitalization is low. The retention of earnings and investment causes what has been termed "the agency costs of free cash flow" (Jensen, 1986), the ability of managers to resist market cues on rates of return. This leads to over-investment in declining sectors. Ten years ago, when Germany and Japan were doing well and the US showing problems in adjusting to trade pressures, that capacity for steady investment was seen as an advantage by some stakeholder proponents, who argued that it had lower transaction costs, rewarded long term relationships, and encouraged the sharing of information. The American model was criticized as too oriented to the short term and not able to sustain long-range product development and improvement (Porter, 1992).

Workers may well like this system, as do communities, because they have greater protection of jobs and location. On the other hand, to the extent employees become the owners of pension funds, their incentives become cross-pressured. In the US, the rise of corporate and individual retirement funds has been very pronounced. This has been a major source of the funds which are then being invested in the US and overseas. Employees and salaried people thus acquire an ever larger stake in the securities markets. This may make them more aware of issues concerning the way it is governed. This has also been a major issue in the Enron case for example, where employees were unable to sell their shares while managers could. Regulation is thus likely to increase as an issue across the political spectrum and to create more complex political evaluations.

Designing Corporate Governance Institutions

Can the US system design institutions to prevent further occurrences of cases like the Enron case? Several things can be done—whether they will be is another question, requiring a different analysis of the politics of it all, which I explore elsewhere (Gourevitch, 2002)

A. *Strengthen the system of reputational intermediaries.* An important change would be to prevent the kind of collusion that has taken place. This has attracted the most attention in

American discussions, where the criticism of Andersen has been more intense at times than even that toward the Enron managers. Many bills have been proposed in the US Congress which seeks to create greater separation among the components of the reputational system: prevent accounting firms from simultaneously offering accounting and consulting services; require boards to have the audit committee be truly independent; rules on brokerage firms and advice giving; rules on pension funds, etc. Separating functions, more disclosure: these can have some impact. To my knowledge, the most interesting idea has not become a target of legislation: someone proposed in the NY Times to obligate companies to buy insurance for their audits, and then to empower the insurance companies to do the audits. Insurance companies would build the price into the insurance premiums, and would have a strong incentive to do a good, and independent, job.

B. Restore the market for corporate control: Legislation and regulation could forbid poison pills and a lot of other moves to squash the market for control. The takeover code of the City of London for example is much more supportive of shareholder pressures on managers.

C. Separate the managers from their boards: It is widely understood that many if not most boards are dominated by the managers, so that the agents can manipulate the principals. To correct this, it has been suggested that boards be compelled to have more “outsiders”, that the audit and executive compensation committees in particular be separated from the managers, that the office of president (COO) and chairman of the board be separated.

D. Motivate monitoring: None of these measures (separating the reputational intermediaries, strengthening the market for corporate control, regulating the composition of boards) will get at the collective action problem caused by fragmented principals and fragmented reputational monitors. This could only be handled by identifying actors with a large enough stake to make it worth their while to undertake the costs of thorough monitoring. In the US system, this could only be the big pension funds and other institutional investors as they do own large blocks of stock. At present, they are passive in their use of this ownership, as they appear reluctant to create conflicts with management. Their incentives could be changed by regulation. They could, for example, be forced to report on how they have voted their shares, to provide criteria explaining how they judge governance, or how they have scrutinized information given by firms. Institutions should be obliged to publicly disclose their corporate governance policies for firms in which they invest and, more important, their proxy voting records on these firms, at home and abroad. Similar rules have been proposed by the Myners Commission in the United Kingdom. Indeed, currently the Department of Labor (DOL) and SEC require mutual and pension funds to disclose their asset risk profiles and other performance data. Why not require disclosure of their performance on corporate governance as well (Shinn and Gourevitch 2002)? Institutional investors do not seem very enthusiastic about being given this task. They themselves appear to worry about agency problems: how to define their obligations to be clear as to what standard of monitoring firms they are obligated to follow? Just what would their principals (the people that place their money with them) want them to do? Their concern is compounded by problems of measurement. There is no agreement on how to measure good governance. For instance, criteria about board composition would have rated Enron just fine in terms of its corporate governance performance standards. Another way to motivate supervision would be to allow institutional investors to own larger percentages of shares in any given firm, though this would undermine the concern for risk diversification.

The problem for the US is how to create motivated shareholders without encouraging insider trading at the same time. Conversely, the problem for the stakeholder model is how to protect external investors without destroying the advantages of shared information among the stakeholders. Can the systems be blended? Or are these really deeply different logics, so you are on one side or another, with no intermediate equilibrium? As the Americans now face debate over changing the rules, in Europe and Japan there have been some efforts to change. Germany repealed the tax on capital gains of firms' share sales, which observers predict would lead to unwinding of the cross-shareholding that has been a key buffer in the system. Those fearful of too much change then passed legislation making hostile takeovers more difficult. The equilibria in question are political.

III. Political Foundations of Change and Preservation

The systems of corporate governance rest on politics. Firms comply with rules and regulations set and enforced by governments. Law certainly has a strong influence on firms, as it is law which sets the rules and regulations (La Porta, Schleifer et al., 2000). But law is formed by politics (Roe, 2001). The rules on insider trading, accounting obligations, anti trust, the market for control, the obligations of directors, the status of labor in shared governance all come from authoritative decisions made by governments. In democracies that means they come from politics and political processes.

This was very evident in the Enron case. Accounting firms in the US lobbied via Congress to block the SEC from issuing regulations that would force the separation of consulting and accounting (*New Yorker*, April 2002). Lobbying over many years produced the loosening of the regulatory boundaries that separated various pieces of the reputational system from each other. Lobbying creates the fragmented regulatory system that governs American finance.

Roe (2001) stresses the role of politics in shaping divergence among governance systems. His major explanatory variable is social democracy: where labor is strong, the blockholder system prevails. Roe is correct on the importance of politics, but incomplete in his interpretation of the causal mechanisms. Labor has strong support in defending the system from other actors: existing blockholders, who are politically not social democratic, resist quite strongly any changes that would threaten their control of the firm and the privileged position of their ownership shares. (Shinn, 2001, Shinn and Gourevitch, 2002).

The embeddedness of governance systems in broader social processes (Aguilera and Jackson, 2002) also influences the politics of regulations in ways which do not fit a left /right dichotomy of strong vs. weak labor. Governance interacts with other subsystems (Hall and Soskice, 2001). These systems reinforce each other. Stakeholder corporate governance is associated with centralized labor markets, extensive firm centered apprenticed training, centralized price setting, extensive business associations, and extensive social welfare systems, in Germany centered on firms. These interact to encourage investment by firms in specific assets which in turn induces a broad coalition to defend the system. These interaction effects would have to be unbundled to alter the politics, and that would take quite a bit of structural change.

A stronger political argument focuses on two variables: political institutions and interest groups. Political institutions structure interest aggregation, the way in which the preferences

of individuals and groups in society are translated into policy outputs. The political systems of industrial democracies vary in ways that influence the rules and regulations concerning corporate governance. Majoritarian systems (single member districts with two party systems in a parliamentary or presidential system) magnify the consequences of a vote shift. A small shift of vote can thus produce substantial policy swings. The consensus systems have proportional representation, several political parties, and coalition governments. Small shifts in votes are not magnified in representation and all players have a say in whatever happens. Policy swings are modest. Majoritarian systems prevail in the UK, the US, Canada, Australia. Consensus systems prevail in Germany, Japan, Scandinavia (Gourevitch and Hawes 2001).

The variation in political institutions thus corresponds to the variation in governance structures. The shareholder systems predominate where there are majoritarian institutions, while the stakeholder systems prevail where there are consensus systems. There is a logic to this: actors in stakeholder systems seek stability of policy in order to preserve their heavy investment in specific assets. The coalition model is thus a form of insurance against a shift away from the market regulating policies in which these investments make sense. Conversely, actors in shareholder systems that have majoritarian institutions have the incentives to invest in general assets whose use can be shifted more easily; swings in policy discourage investment in specific assets.

In comparison to an institutionalist argument, an interest group interpretation stresses the preferences of social and economic actors for certain policy approaches. Roe's argument lies in this category: labor dislikes the shareholder model, he argues, therefore the stakeholder model prevails where Social Democracy is strong. The Hall/Soskice discussions present the cleavages differently: managers and investors may also prefer the stakeholder regulated system because they have invested so heavily in it. They find advantages in the system of worker training, labor market stability, price management and other features of the model in which they have a particular niche. Welfare systems help stabilize the market for skilled workers. Shinn (2001) notes that major investors in the stakeholder system do not want to change either; their privileged position and security of control provides benefits they do not wish to lose.

Arguments of both kinds, institutionalist and interest group, thus stress current politics. Both assume a historical evolution, a path dependence that brings the structure of incentives, both institutional and interest, to the present. An historical argument is also necessary in order to understand how systems emerge in the first place. The strongest version is that of Gerschenkron (1962): late developers tend toward the stakeholder model, early developers toward the shareholder type.

In the political debates over corporate governance, international factors add an important dimension. There is little formal control of international governance at an international level. There have been efforts to standardize: the OECD has a corporate governance code, the EU seeks to create uniform standards for many issues. These have had only limited success, as they are unable to overcome the strongly different preferences of the different countries. This remains an area of potential rather than realized importance.

The future evolution of corporate governance rules lies in the interaction of politics with institutions, interests and ideas largely within countries. Change is unusual: the US is one of the few cases which began in one category, the stakeholder, and shifted to the other. Many

observers think the march of history lies with the shareholder model and that European countries will be unable to resist. This is far from obvious. Convergence models assume that economic pressure is unidirectional: competition favors only one way of doing things. It is more likely that economic competition rewards differences. Corporate governance is one aspect of managerial and economic strategies. Different national production systems are a form of specialization. They reward some behaviors and punish others. So long as there is demand for the special products the stakeholder model seems to be good at, so long as it remains superior in this regard to the shareholder model, differences in corporate governance will persist (Gourevitch 2001).

Market forces are not the sole determinants of policy outcomes. Efficiency interacts with other variables like stability, equality, employment and tradition. Corporate governance regulation passes through politics. As political processes vary, we are likely to see important differences in corporate governance forms for some time to come. There will be changes, but it is not clear that these will result in convergence rather than in the modernization of alternative models.

Politics will matter not only at the national level but at the international level as well. International institutions are being drawn into the regulatory discussions, but so far without clear agreements. Thus the future remains fluid, and therefore interesting.

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BRINGING CALCULATION BACK IN: SOCIOLOGICAL STUDIES IN ACCOUNTING

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Introduction

Accounting systems have come to play a key role in the organisation of modern economies and societies. Today, in the economic sector as well as in the public sector, organisational activities are structured around cost-benefit analyses, balanced score cards, profit centres, discounted cash flow analyses, standard costing procedures, value added accounting, financial risk calculations and many other numerical forms of organisational representation and economic measurement. Against the background of these developments, it is surprising how little attention accounting techniques have received in contemporary sociological thinking. Although the founding fathers of economic sociology – Weber, Sombart and Marx¹ – pointed at the pivotal role of double-entry bookkeeping and capital accounting for the emergence of capitalist modes of production, more recent studies which appeared in connection with the formation of the so-called “new economic sociology” have largely remained silent on this topic.² Instead, since the 1980s, a vigorous branch of sociologically oriented accounting research emerged outside the discipline of sociology itself (see Hopwood and Miller, 1994).³

This article reviews a number of key articles which helped found and expand this research field. The paper starts out with a brief overview of the research programme that was initially formulated by Burchell et al. (1980) and Hopwood (1983). The second part considers recent research developments in more detail along the following four themes: accounting and neo-institutionalism; accounting and governmentality; the political economy of accounting; interactionist perspectives on accounting. The focus was laid on these themes to reflect the multiplicity of theoretical and methodological approaches that have been embraced by sociological accounting researchers over the past twenty years.⁴ The paper concludes with a

¹ Weber, for example, argues that the modern rational organisation of capitalism would not have been possible without rational book-keeping and capital accounting (Weber, 1981: 276). Sombart goes even further and proposes a causal link between double-entry bookkeeping and the rise of Western capitalism (Sombart, 1915). Marx places his analysis of bookkeeping in the context of a theory of value and views it as a mechanism which – alongside other modes of intervention – shapes the relations of productions. For more detailed discussions of Marx’, Sombart’s and Weber’s views on accounting see Miller (2000), Carruthers and Espeland (1991) and Roslender (1992).

² As Vollmer (forthcoming) remarks, not a single entry on accounting can be found in the subject index of the 1994 “Handbook of Economic Sociology” (Smelser and Swedberg, 1994).

³ See for example Hopwood and Miller (1994). Of course, one has to be careful with generalisations. Some important contributions to the sociological study of accounting appeared also within the discipline of sociology itself, as for example the studies by Abbott (1988), Montagna (1974, 1990), Meyer (1986), Morgan (1988) and March (1987) show.

⁴ A similar categorisation is also used by Miller (2000).

discussion of future development perspectives and possible linkages of accounting with economic sociology.

The Formulation of an Initial Research Programme: “Studying Accounting in the Contexts in Which it Operates”⁵

After more than 40 years of behavioural, micro-oriented accounting studies, the 1980s witnessed an important change in the history of sociologically oriented accounting research. While in the 1960s and 1970s sociological accounting research was dominated by micro-oriented studies of budgeting processes (Argyris, 1952, 1960) and management control systems (Chandler, 1977; Chandler and Daems, 1979), in the 1980s first attempts were undertaken to move accounting research beyond organisational boundaries. Accounting began to be understood as a situated, context-dependent practice. The new research programme was initially outlined by Hopwood (1978, 1983) and Burchell et al. (1980).⁶ This new research programme was (and still is) aimed at the study of the wider social and political context of accounting practices. Hopwood and Burchell et al. argued for the need to link micro- and macro-research levels and thereby opened up accounting research agendas for questions related to the different economic, social and political roles that accounting plays in organisations *and* society. In this context, particular emphasis was placed on the positive – instead of mirroring – roles that accounting can play in economic life. As Hopwood (1983: 300-301) points out:

Although accounting plays a role in mapping into the organization [...] managerial, task and external environments, it also has the power to shape and influence organizational life on its own accord. [...] Modes or organizational decentralization are defined in terms of cost, profit and investment centres; organizational units have accounting as well as managerial boundaries; and accounting mechanisms for the monitoring of sub-unit performance help to make real the powerful potential that is reflected within the organization chart.

In other words, accounting practice actively creates, rather than merely reflects, economic realities. Hopwood (1983) and Burchell et al. (1980) problematised technical perspectives on accounting which take the rationality and functionality of accounting techniques for granted.⁷ According to them, accounting can no longer be seen as an assembly of neutral, calculative routines. As Miller and Napier (1993: 631) have put it: “There is no “essence” to accounting, and no invariant object to which the name “accounting” can be attached.” Hopwood’s and Burchell et al.’s major aim was to move away from normative research questions of how accounting systems can be improved to an analysis of how accounting systems actually work in practice. How does accounting get implicated in the creation of particular organisational conceptions? How and when do accountings of organisational performance provide an

⁵ In 1983, Hopwood published an article under the title “On Trying to Study Accounting in the Contexts in Which it Operates”. The article belongs to a series of seminal papers which contributed to the re-formation of an empirically oriented, sociological accounting research in the early 1980s.

⁶ But see also Burchell et al. (1985), Boland and Pondy (1983) and Cooper (1983).

⁷ In particular, Hopwood’s and Burchell et al.’s criticisms are aimed at so-called positive accounting research approaches which presume that accounting systems are a “good” thing, facilitating organisational action and enhancing economic efficiency (see e.g., Watts and Zimmerman, 1978 and 1986).

incentive for action? How does accounting achieve and maintain the position of organisational significance?⁸

Hopwood's and Burchell et al.'s agenda opened up a vast space for empirical research. An important platform for the new, "alternative" studies in accounting has been provided by the journal *Accounting, Organizations and Society* which was founded in 1976.⁹ The body of sociologically oriented accounting literature which emerged subsequent to Hopwood's and Burchell et al.'s articles was built on a multiplicity of different sociological theories and methodologies. In particular, emphasis was drawn on the following four theoretical approaches: organisational neo-institutionalism; Foucaultian studies of governmentality; political economy approaches and interactionist perspectives on accounting.¹⁰

Accounting and Neo-Institutionalism

A large number of sociologically oriented accounting studies draw on organisational neo-institutionalism (see e.g., Boland, 1982; Carruthers and Espeland, 1991; Covalleski and Dirsmith, 1988a, 1988b; McMillan, 1999; Richardson, 1987).¹¹ In accordance with the neo-institutional framework of analysis that was initially developed by Meyer and Rowan (1977) and DiMaggio and Powell (1991), here, both the rationalising and symbolic qualities of accounting systems are emphasised. It is assumed that organisations incorporate accounting structures not only to enhance organisational effectiveness, but also to ensure conformity with their institutional environments. Accounting systems are seen as symbolically codified institutions which serve as an important vehicle of organisational self-representation justifying and legitimising organisational action. Neo-institutionalist accounting researchers stress the importance of the wider environment in the determination and expansion of accounting work (see e.g. Meyer, 1986). The sources of formal accounting structures are seen as external to the organisations employing them. It is assumed that accounting elements are primarily incorporated into organisational structures on the basis of institutional pressures which, inter alia, are exercised by the accounting profession, the state, consultancy firms and other influential agencies. Important research themes around which neo-institutional accounting research developed are the ceremonial and symbolic functions of accounting and auditing (Carruthers and Espeland, 1991; Covalleski and Dirsmith, 1988a, 1988b; Montagna, 1990; Power, 1999); the organisational and regulatory fields surrounding accounting activities (Mezias, 1990; Young, 1994); the emergence, expansion and institutionalisation of new accounting techniques (Burchell et al., 1985; Power, 1992; Young, 1996); and histories of professionalisation (McMillan, 1999; Willmott, 1986). Montagna (1990) and Power (1999), for example, examined the ideological base of auditing practices. They showed that the legitimacy-providing function of auditing procedures is not grounded in the formal rationality of the procedures themselves, but rather in the generally accepted norms and standards which are part of an established community of specialists (Power, 1999: 80). Covalleski and Dirsmith

⁸ These questions were formulated by Hopwood in 1983 (p. 29).

⁹ Until today, the chief editor of the journal is Anthony Hopwood. Since 1990, sociologically informed accounting articles can also be found in the journal *Critical Perspectives on Accounting*.

¹⁰ Overviews about these different accounting research streams are also provided by Miller (2000: 18-25) and Roslender (1992: 134-151).

¹¹ For a discussion of the impact of organisational neo-institutionalism on accounting research see also Carruthers (1995) and Miller (1994).

(1988a, 1988b) investigated how societal expectations are mapped into the budgeting practices of a university. Burchell et al. (1985) traced the different institutional agencies and agendas which were involved in the establishment of value-added accounting in the UK. Mezas (1990) sought to explain financial reporting practices of large enterprises with reference to their institutional environments. And Young (1994) analysed the “regulatory space” of US-American accounting standard-setting.

Accounting and Studies of Governmentality

Another important line of thinking which influenced the sociologically oriented accounting research consists in Foucaultian studies of governmentality (see e.g., Burchell et al., 1991; Miller, 1991a; Miller and Rose, 1990; Rose, 1991). Here, accounting is understood as a disciplining technology which plays a central role in the governance of economic life (e.g., Miller, 1991a, 1991b; Miller and O’Leary, 1987; Robson, 1992, 1993). Accounting practices are seen as a technology producing calculability and allowing for “action at a distance” (Latour, 1987; Law, 1987).¹² In this view, accounting techniques help concretise abstract economic policies. As Miller (1991b) has put it, accounting technologies provide a “relay” between macro-economic programmatic statements and micro-economic action. They provide a mechanism for aligning economic, social and personal conduct with socio-political objectives. In his study on the emergence of discounted cash flow accounting in the U.K. in the 1960s, Miller (1991b), for example, showed that the development and spread of this accounting technique was closely linked to the neo-liberal re-orientation of the government’s economic policy. Through the promotion of discounted cash flow methods, the British government sought to expand its (indirect) influence on investment choices made within firms. In a similar vein, Miller and O’Leary (1994) analysed new forms of economic government which were made possible through the introduction of standard costing. According to Miller and O’Leary (1994: 99), standard costing provided “a new way of thinking and intervening” within the enterprise. With the help of prescribed performance standards, it made the activities of individuals visible and calculable and thereby fostered the expansion of “the calculated management of life” (Miller and O’Leary, 1994: 99).

But Foucaultian accounting studies draw our attention not only to the entrenchment of calculative practices in politics; they also deliver important insights into the multiplicity of activities, actors and instruments which are involved in the formation of certain “accounting constellations” (Burchell et al., 1980). Drawing on actor-network approaches which were primarily developed within the context of science and technology studies (see e.g., Callon et al., 1986; Latour, 1987), Foucaultian accounting research focuses on the network of social relations, practices and technical devices through which particular types of accounting practice and other calculative regimes emerge (Miller, 1991b). Accounting is seen as a historically contingent phenomenon (Miller and Napier, 1993: 631): “Accounting changes in both content and form over time; it is neither solid nor immutable.” And it has become one of the central tasks of Foucaultian accounting research to analyse the different rationales and events on the basis of which accounting change occurs.¹³

¹² “Action at a distance”, in this context, refers to “the possibility of one entity becoming a centre capable of exerting influence over others” (Miller, 1991b: 733).

¹³ See e.g. Hoskin and Maevé (1986, 1988, 1994), Loft (1986), Miller (1991b), Miller and Napier (1993).

The Political Economy of Accounting

Parallel to neo-institutionalist and Foucaultian research frameworks, since the 1980s, political economy approaches also began to influence sociologically oriented accounting research (see e.g., Bryer, 2000a, 2000b; Cooper and Sherer, 1984; Hopper et al., 1986; Tinker, 1980, 1985). Political economy approaches focus on the impact that accounting practices have on the constitution of historically specific societal relations of power (Miller, 2000: 21). Here, emphasis is drawn on the role that class and other sectional interests play in the development and employment of accounting techniques. Accounting systems are seen as a means of capitalist control and suppression. Their working is analysed with reference to the general order of the forces of production. How is accounting able to exercise control over industrial relations? In what way does accounting provide a mechanism for the reinforcement of class interests? How are accounting systems embedded in structures of social stratification? These and other questions are frequently posed by critical accounting researchers (see e.g., Cooper and Hopper, 1990).

Political economy perspectives on accounting draw on a variety of different theoretical traditions which, in the context of this review article, cannot be discussed in great detail.¹⁴ Major reference points constitute the labour process debate (see e.g., Braverman, 1974), the writings of Marx and critical theory, i.e. the Frankfurt School (Roslender, 1992: pp. 143). Bryer (2000a, 2000b), for example, points to the relevance of historical materialism for the investigation of accounting practices. According to him, accounting is “an algorithm for calculating the rate of return on capital” which played an important role in the spreading of the calculative mentality specific to capitalism (Bryer, 1993; cited in Vollmer, forthcoming). A labour process perspective on accounting was adopted by Hopper et al. (1986). In their study of the National Coal Board, Hopper et al. pointed at the importance of class relationships for an understanding of the organisation of financial control in the declining British coal mining industry. Wardell and Weisenfeld (1988; cited in Roslender, 1992) examined the role of management accounting in the control of labour for the case of the U.S. And Puxty et al. (1987) employed a critical theory perspective on accounting to understand various modes of accounting regulation. They analysed the impact of “inequalities in power and resources” on different forms of accounting regulation (Puxty et al., 1987: 274).

Interactionist Perspectives on Accounting

A fourth and rather different sociological perspective on accounting is provided by so-called interactionist (Roslender, 1992) or ethnographic (Miller, 2000) studies of accounting.¹⁵ Ethnographic studies of accounting are concerned with the analysis of calculative practices within *localised* settings. Emphasis is drawn on particular situations of interaction and the experience of individual actors. Ethnographic studies of accounting examine how formalised mechanisms of calculation actually work. How do management control systems function in practice? How are accounting systems embedded in the day-to-day activities of financial managers? What meanings do accounting techniques unfold in a certain context?

¹⁴ For a more detailed discussion of the role of political economy approaches in accounting research see Roslender, 1992: pp. 143, Miller 2000: pp.21 and Vollmer (forthcoming).

¹⁵ See also Jönsson and Macintosh (1997).

Ethnographic accounting research accounts are centred around detailed, rich case studies (Ahrens and Dent, 1998). The major aim is to describe and understand the different cultures, activities and people shaping and constituting calculative action. Ahrens (1996, 1997), for example, used an ethnographic approach in his study of management accounting practices in English and German beer brewers. Preston et al. (1992) and Peters (2001) analysed the micro-structures of budgeting processes. Pentland (1993) examined interaction rituals in audit practice in order to understand how conceptions of auditor independence, professionalism and institutional trust are reproduced.¹⁶ And Chua's (1995) ethnographic study of three hospitals investigated in what ways interpersonal relations are involved in processes of accounting change.¹⁷ Ethnographic accounting research adds to our understanding of the relationship between actual calculative practice and often idealised, formalised systems of financial control. It provides important insight into how economic representations are produced, reproduced and enacted and helps us thereby understand how different economic orders are achieved.

Concluding Remarks

The research perspectives presented here provide only a small insight into the multiple research agendas that have been embraced by sociological accounting researchers over the past twenty years. Sociological accounting research poses many interesting and challenging questions which economic sociologists could use as a starting point for entering into a dialogue with a discipline which they have neglected for so many years. Although accounting studies have accumulated a great deal of knowledge about the history, functioning and change of systems of formalised calculation, there are still many open questions which are in need of further exploration. And here, economic sociologists might have something to contribute. For example, there is need for more research about how systems of calculation/computation are related to different forms of formal organisation. What impact have accounting systems on the way(s) in which economic life is organised? There is also the need to link studies in accounting more systematically to study topics which are more typical for economic sociology, such as the study of money or markets. One could also imagine interesting comparative research into the role that accounting plays in the constitution of different economic systems. For example, what role does accounting play in phases of economic development and transition? In what ways are accounting systems involved in the creation of new economic orders? Sociologically oriented accounting research has set the scene for the exploration of such questions; economic sociology can contribute to the expansion and deepening of this research field.

¹⁶ For a review of Pentland's (1993) and other ethnographic studies in auditing see Power (2002).

¹⁷ The studies cited above do only represent a small selection of the ethnographic accounting and auditing studies which have been published over the past 20 years. Further important qualitative accounting research, for example, has been carried out by Berry et al. (1985), Birkett and Chua (1988), Dent (1991), Jonsson and Gronlund (1988) and Roberts and Scapens (1985).

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FIGURES, WRITING AND CALCULATION THOUGHTS ON THE REPRESENTATION OF ECONOMIC PRACTICES

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1. Introduction

In the business reports of large enterprises and in the economy sections of daily newspapers they leap to our, the readers', eyes: columns and more columns of numbers which are, in tables or lists, meticulously assigned to business administration categories, commercial products and periods of time. The table form of assigning numbers and categories evokes an ability in the reader to simultaneously see and compare, while for the makers the table arrangement requires a long process of translation that involves homogenizing, simplifying and leaving out elements. In the work on the vertical and horizontal dimensions of the table the entirely mundane character of the economic practice is brought to disappear; in the sense of Jacques Derrida (1983) the economic mundanity dies in the table's written form and rhetoric. The sociologically interesting core of the double production of economic reality—mundane practice on the one hand, work on the representation on the other hand (cf. on this Knorr-Cetina 1990)—consists of the peculiar, but systematic alternating of “showing something by bringing it into existence” and at the same time “making something else disappear.” It is sociologically interesting because this game of making emerge raises the question about the point of reference of economic representations.

Economic and financial theory approaches do not see a big problem in the representation and calculation of economic activities and things; nothing appears as self-evident to them as the calculability of economic practice. The central assumptions this is based upon reads: firstly, social facts can without further ado be calculated and represented through mathematical procedures, that is, processed through socio-technologies of calculation and, secondly, as an important element of economic practice the media of calculation (numerals or figures, formulas etc.) cannot distort the economic representation. How, one could ask rhetorically, could the medium that is used to perform the daily economic practice depict this practice wrongly in the representation? In the economic or financial theory perspective distortions in the neutral picture appear only if interventions motivated by balance sheet politics are performed. In this sense business management view speaks of “rights to choose approach and assessment” or of “fact shaping” (Baetge 1998: 143; my translation). It is these specific management interests that dodge the in itself neutral depiction of the economic. The contamination of economic representation is usually attributed to interests and intentions internal to the enterprise aimed at producing specific (external) effects by the depiction of the enterprise (i.e. by shareholders or credit institutions). The external effects refer to the

interpretation of numbers, of which it is assumed that as “hard facts” they evoke a specific interpretation, that is, that they define the space of interpretation (cf. Czarniawska 2000).

Within the (new) economic sociology the analysis of economic representation, too, plays only a minor role. In general, representation is quite often conceived of in the same way as it is by economic theory. This realistic approach that does not see any problem in the social activities of representing something is questioned by recent studies in economic sociology (e.g., Kalthoff et al. 2000). In this paper I will raise anew the question of the relation between economic representation and practices referring to semiotic concepts of representation and writing developed within the sociology of scientific knowledge and also philosophy. I show that the representation of economic practice through practices and techniques of representation is not equivalent to an identical copy of economic activities. Here, my emphasis is on the following point: the perception of the representation of economic facts by an audience is influenced by the practice of representation proper. In this respect, representation practices function as a frame of interpretation for what they are supposed to portray. The empirical material my study is based on my ethnographic fieldwork in the risk analysis department of an international bank operating in Poland.

2. Economic Practices and Representation

If one looks at financial theory from the venture point of sociology of knowledge, two aspects can be noted: firstly, it operates with a clear-cut “»enemy image« of the social” (Knorr-Cetina 1988: 85; my translation), according to which subjective interests of firm-internal constituents may have a distorting effect on the representation of economic practices; secondly, it detaches representation work from its local contexts. This decontextualization is based upon the assumption that the methods of bookkeeping and accounting are measurement procedures within which both the instruments of measurement and the individuals employing them (bookkeepers, accountants and risk analysts) are interchangeable because they simply portray the results of economic activities. The central assumption is that social facts can without further ado be processed through a type of writing that makes possible observations of different orders, immanent referring activities and technologies of calculation

In accounting research there exist different approaches; I will briefly describe two of them:

(1) Accounting as a technique: This model of explanation assumes that the techniques of economic calculation are neutral and objective in their essence and therefore have an objectifying power that allows management to recognize tendencies and make decisions that are geared to them. From a measurement theory point of view, in this model the object of measurement remains untouched by the measuring performance. This assumption is based upon the conviction that the transformation of the object of measurement into an alpha-numerical symbol does not add anything to the object’s essence, but that it also does not take away or change anything because there are only certain movements or characteristics being measured. The assumption that the objects of measurement remain identical is the prerequisite for the result of the measurement to refer to an external referent. The model of explanation “accounting as a technique” can be understood as a narration of an objective economic representation (cf. Weber 1980).

(2) *Accounting as a means to control and discipline*: In this model of explanation accounting techniques are not regarded as rational and neutral procedures of the calculatory assessment of economic activities, but as mechanisms which obtain effects in the areas of political and social power. According to this, calculations allow the observation of (economic) practice and, linked to this, control and intervention (in the sense of correction). Thus, the effects of accounting lie in the area of controlling enterprises and disciplining individuals. The calculation of the production and therefore of the practice institutionalizes an order of discipline which makes action on other peoples' action "visible" and intersperses it.¹⁸ In these analyses, inspired by the work of Michel Foucault, there is a central thesis that the methods of accounting make social processes visible and thus social knowledge of power accessible (cf. Miller 1992; Miller/O'Leary 1994; Loft 1986). According to this view, something previously imperceptible is brought to light and thus rendered accessible.

It is evident that these modes of explanation do not fully exhaust the variety and differentiation currently present in accounting research.¹⁹ Besides that, the two models of explanation—the rationality model and the power/knowledge model—differ from each other in many respects, for example according to their realistic or relativistic point of view: while in one case a direct relation between number and reality is assumed, in the other case it is a representational relationship of number and object. While in the first case the number represents those events that really happen "out there", in the second case it depicts a certain procedure ("translation") of manufacturing representations, which does not necessarily imply a correspondence theory perspective, but looks at the social effects.

The notion of representation - or inscription, following Latour (1990)—is key to accounting research and economic sociology—and with it the relation between economic practices ("reality out there") and its economic description. In philosophy three meanings of the notion of representation become relevant: firstly, representation is seen as imagination in the sense of cognitive practices or mental attitudes (such as memories), secondly, representation is seen as description in the form of a picture produced by images, symbols or signs, and thirdly, representation is understood as substitution in the sense of an authority something possesses to stand or act for something else (cf. Behnke 1992). The sociology of scientific knowledge has also intensely dealt with the concept of representation and its practices (e.g., Lynch/Woolgar 1990; Latour 1990). Rheinberger (1997; 2001) distinguishes three connotations: representation as vicarship, as embodiment and as realization. So how does the representation relate to the represented object?

If something is conceived as representation with a substitutional character we have to deal with a representation "of" something. In the case of representation as embodiment the representing object does not only hold the place of another object, but tends to completely replace it for good. In this case the representing element stands "for" the represented element in a double manner: it secures its spot *and* replaces it. Representation as physical realization goes beyond this status: what is represented comes to existence only through the process of molding. Representation in this sense means "*manufacture* [...] within which the represented element only then takes shape at all" (Rheinberger 1992: 73, footnote 22; my translation; emphasis in the original). In other words: holding the place, embodying and making emerge are modulations of the relationship of absence and presence, of presence and representation—

¹⁸ In this context cf. Miller/Napier (1993) for the notions of "calculation selves" and "calculation spaces".

¹⁹ Recall, for example, those contributions analyzing accounting methods as "institutionalized practices" (cf. Peters 2001).

modulations which are determined by the representing object's representational performance and the techniques of representation.²⁰

So what does this mean for a discussion of economic representations? Conventionally, it could be assumed that accounting figures depict the financial circumstances in a specific way; that they stand for, i.e., mirror economic activities. The referent in this connection is a real practice which precedes the economic representation and which the figures and economic categories (e.g., ratios) continually refer to. If we understand economic representations as portraying a practice, then this assumption further implies the possibility to trace the numeric symbol back to the practice. In this view, banking risk analysis renders the symbol's origin (i.e. the practice) visible. From the point of view that understands representation as a mode of manufacture, on the other hand, economic representations would be perceived as sequences of symbols that are detached from economic practices and that owe the fact that they resemble the practice they are supposed to refer to to the very transformation of this practice. From this perspective it hardly makes any sense to intend tracing anything back to the origin, quite in the sense of Jacques Derrida's position (1983). The practice of representation is then not a mirroring activity anymore, but works on a non-identical replication—a replica which does not know an origin, but no final point, either, and which - entirely incomplete—only refers to itself. In this sense one representation succeeds another, one representation becomes legible through another. The reference to an external (economic) reality (“reality out there”) is not possible; only as reference to another representation, which, in turn, was technically produced itself.

3. The Economic Writing Game

Let us now turn to an empirical example for the processes discussed above by looking at the risk department of a bank. The “risk analysis” department of a bank can be described as a kind of ring laboratory (“Ringlabor”, Knorr-Cetina 1988). The central characteristics of a ring laboratory are the networked computers on the risk analysts' desks. From the risk analysts' point of view the computers and programs are merely tools which make applications possible. They have neither constructed the computers nor programmed the software; they are the computers' users, that is, they are users of software programs, namely of those software programs that the group's department in charge has developed and installed for risk calculation. While the risk analysts themselves are tied to their desks, it is the data that are mobile, which are moved and transformed by the analysts. The risk analysts' activity is individualized, there are only few direct personal connections with other risk analysts on the horizontal level, but ties exist predominantly with the “business side” equivalent, that is, with the relationship managers. In the observed bank this was due to the division of labor according to branches: the segmentation of the economic field was taken into the bank, so that there were only partial overlaps. Thus, risk analysts are sealed off by the division of labor and at the same time integrated into the data network.

The computer-assisted data to which the risk analyst has access are data on enterprises and branches as well as on the economic development of regions and countries. But the computer

²⁰ With Hacking (1983) it can also be assumed that reality comes only after representation so that a sharp separation of facts and artifacts does not make sense any more; see also Latour (1999). It should be noted that these three forms of representations form a continuum of meaning.

does not only provide data for the analysts to observe or calculate economic developments or an enterprise, it also provides the formats in which these activities can be performed. Thus, the cashflow sheet, for example, is a formatted table with different types of fields which - defined by the program - may save numerical values or perform arithmetic operations corresponding to financial models (such as the DuPont formula). Thus, the risk analyst is not working on a neutral basis, but on a basis of standardized forms that embody financial knowledge (cf. Law 2000). These forms (such as software programs) or instruments are “materialized theories” (Bachelard 1988: 18; my translation); they “embody and [...] carry the tremendous weight of the knowledge regarded as secure at a given moment” (Rheinberger 2001: 115; my translation). This also means that the *investment in the form of calculation* is completed in the instant of its application. In the risk department, one will look in vain for negotiations about the implications of calculation models or the implementation of different calculation possibilities. In this constellation, one cannot find the fact that things can/could also always be calculated differently and thus that results reached and represented differently. In this sense risk analysts do not use a “neutral” calculation program. Rather, they bring theoretical assumptions to a representationally accessible existence.

If we ask now “what does a risk analyst do?”, the answer is: he reads, he compiles data, and, above all, he writes – and of course it is also the computer and the software that perform the writing and the calculation. At this point the debate about the concept of writing and the relationship of orality and writing cannot be discussed at length. According to the conventional theorem there exists an ontological superiority of the oral versus the written, speech versus writing, phoné versus graphé. This understanding that makes writing a derivative of spoken language appears in two versions. On the one hand, as a mirror version which states that writing represents spoken language; on the other hand, as a compensation version. Writing serves as a depot of spoken language and thus preserves it from being forgotten. Jacques Derrida (1983) criticizes two aspects: firstly, a phonocentrism, which he considers to be deeply rooted in occidental philosophical tradition, and secondly, the unreflected notion that writing cancels the spatio-temporal limitation of orality, leaving it untouched in the process (cf. Derrida 1988: 293).²¹

This criticism of phonocentrism and of the “secondary nature” theorem is taken up by Krämer (1996): following Nelson Goodman’s symbol theory of notation as a disjunctive and potentially differentiated symbol scheme she suggests an extended notion of writing which allows to conceive other forms of written symbols as equally included in the writing concept. According to Krämer (1996) it hardly makes any sense to restrict writing to the written form of language; conceptually, writing should include other modes of notation as well. Her predominant concerns are operative modes of writing (“operative Schrift”). Operative modes of writing “do not emerge from writing down phonetic language, but are graphic systems *sui generis* which might at best then be rendered spoken form. What is specific to this mode of writing is that it does not refer to spoken sounds, but to *cognitive objects*” (Krämer 1997: 115; my translation and emphasis). Operative modes of writing then assume a double function as *symbolic machines*: they represent objects (such as economic figures) and at the same time allow operating with these objects, while they are also indifferent towards the symbols’

²¹ Historical and archaeological studies have underpinned this criticism and shown that the origin of writing is precisely not oral language, but number symbols and thus economic calculations (cf. Schmandt-Besserat 1992). So in the beginning there were not words, but numbers.

meanings. Characteristics of this operation are, firstly, a decoupling of construction and interpretation, of access and understanding - understanding and interpretation which only set in later, and secondly, a shift from truth to correctness: for a symbolic operation all that is relevant is a procedure according to the rules and thus internal plausibility. This is due to the fact that number symbols do not simply represent an object, but an operation which is performed on them or whose result they are.²²

This means that a financial calculation (e.g. “return on equity”) as a formal calculation technique configures symbolic artifacts and thus perennially forms and re-forms symbol sequences. So the operative use of symbols becomes a central prerequisite and consequence of the *re-constitution of the enterprise in the banking laboratory of risk analysis*. But this connection also renders the banking business relatively independent of the mundane activities of economic practice. Specifically, this means the procedure and the technical equipment of the banking business fabricate the enterprise, give it a calculable contour which can then be processed in the bank; in this sense enterprises are constituted anew in the banking business - and confront the enterprises as a strong heterorepresentation (Fremdrepräsentation). So does this reconstitution use the enterprise’s economic practice as its point of reference? No, the concrete observation of economic practice, as it is undertaken by the relationship manager during her visits with clients, is rather felt to be disturbing or incompatible. This sealing off can be traced back to the fact that to banking risk analysis “the symbolic [is] [...] the immediate” (Derrida 1983: 268; my translation) and that it has therefore shifted the focus to *activities on the paper document* which is to be viewed as a supplement. These activities on the document produce more documents mutually referring to each other “[b]ecause a representation can only be worked off on another representation” (Rheinberger 1997: 272; my translation).

So if we look at the practice of financial calculation there appears a repetition phenomenon: financial calculations in operative business are not—even though the number basis is generally considered a hard fact—carried out just once, but frequently repeated, with the same or with altered figures, with the same or with slightly altered results. On the one hand, this is due to the fact that not all numbers prove to be “hard”, on the other hand it is due to updated figures the bank receives from the enterprise, and finally it is also due to the fact that the risk analysts’ assumptions enter the calculations. In the calculations the standard risk costs or the provision, for example, can be altered. These frequently repeated simulated calculations follow the “provided that” scheme: An enterprise does not simply possess something like a “return on equity” which could, as one might assume, be calculated simply and unequivocally on the basis of “hard facts”. Rather, during the credit process the enterprise is assigned many repeated returns on equity, these calculations always remain incomplete. In doing this, no one calculation is more correct than another one, but they all have their essential function until the next calculation.

The repeated calculations do not reveal discretionary or arbitrary proceedings, but the provisional character of the calculation, a missing harmony with other representations, an assimilation to new conditions and objectives as well as the fact that they are the first probing attempts. At the same time they refer beyond these matters to a central problem of risk

²² Historically speaking, this has to do with the fact that, through the introduction of Indian-Arabian digits and the decimal place system, there is a shift from an ontological to an operative use of symbols which is reflected in the number concept (cf. Krämer 1997).

analysis, the problem of representation. Risk analysts ask themselves again and again how a credit risk is presented to the bank or how an enterprise can be portrayed: Two examples:²³

Example 1: Market development

RA1: ... well, market is developing a little differently from what NBP says, yes. Yes, but I have actually shown that this risk exists, but have such -

RA2: I'm just thinking whether or not we put something - whether we put something additional in there, something - we can use to - we can use to show that this risk is indeed there, but, I mean, after all there is a speculative component in it...

Example 2: Accounting rules

RA1: ... Yes, of course, US-GAAP shows the higher and Polish the lower one, but it naturally shows the higher cashflows, doing this, of course, by way of a quite different approach, quite a different system, but after all we have shown this.

RA2: Yes, we have. ...

When risk analysts are talking about whether or not a risk can indeed be *shown* or be *represented*, they do not mean another reproduction or a mental idea, but working the risk into the operative mode of writing of financial calculations, because by way of being calculated it has been recorded on paper and thus brought to existence.

4. Economic Imagination

Balance sheet figures and performance ratios are signs derived from signs. They express economic practices only through other signs. And because the numerals are transmitted over a multitude of intervals (steps) they rather appear to be a metaphor that has to be interpreted by the risk analyst. The order of the risk calculation is performed by the "hand of the writer" (Derrida 1983: 168; my translation), be it human or non-human. In this writing process actors are using operative writings because it is possible to complete arithmetic operations within the medium of representation. In this context, devices of representation are used as cognitive means of knowing or cognitive instruments (cf. Carruthers/Espeland 1991). But until now, nothing has been said about the representations which are performed by risk analysts as mental images. What is going on when risk analyst are looking at figures and perform interpretations of these figures? I will discuss this point in more detail taking into consideration a statement of a senior risk analyst of an international bank.²⁴

A risk analyst about figures and imagined economic scenarios:

"... One can say that figures do speak, that they provoke images. This means that we aren't like robots. Every time I see figures, they provoke images and a certain behavior. I will give

²³ Note on the transcription: RA = Risk Analyst; NBP = National Bank of Poland; US-GAAP = United States Generally Accepted Accounting Principles.

²⁴ Cf. Michael Power (1996: 20) who describes accounting as a hermeneutic enterprise, e.g., a form of economic interpretation; see also the notions of eco-graphy and eco-hermeneutic (cf. Kalthoff 2000; 2002).

you an example. Let's say we have an enterprise: The margins are not particularly good, the cashflow is not very good, we also have liabilities. I see that immediately, I immediately imagine the workers doing their jobs. I also imagine the problems with the stock, which is very important. I imagine the clients who are not paying their debts in time. All this. I simply have a mechanism, a logic, which starts moving inside my head. What happens is that the figures are a pretext with which you can go further. Therefore, figures do speak. But the figures speak because they make other things speak. It is not a transmission of naked figures. It is a transmission of images. The image is communicated in a written note. This is to say that we deliver a note and we legitimate what we are thinking. We explain ourselves. This note is never very long, only two pages..."

The first impression one can get reading this statement is that the risk analyst tries to transmit a complex image of risk analysis proceedings contradicting the popular image of "robots". Furthermore, one can get the impression of a reflexive statement: the combination of facts, an example which is quite simple, and a certain kind of self-reflection generate the impression that one has to deal with a quite complex process. The emergence of these impressions is firstly related to the use of certain words (like "to see immediately", "to imagine immediately") and secondly to the described automatism of "seeing" and "imagining", as though the figures were the substances which get cognitive processes going.²⁵

In the eyes of this risk analyst, the situation of a corporate client is communicated through images within the bank. In order to be able to proceed this way, ratios have to be produced and calculated because their function lies in the stimulation and regulation of cognitive processes based on which a picture of a client is imagined and reasoned. Who are the speakers within this context? From the point of view of the risk analyst the figures are the real speakers. But what they say is only transmitted through other speakers and therefore audible. This is to say: the figures themselves would not say anything if these other entities remained silent. At the same time they seem to indicate these other entities and to refer to these entities as well. By consequence, a figure represents economic knowledge as a metaphorical sign of an economic movement.

Furthermore, in his statement the risk analyst establishes a chain of connections which starts with the highly aggregated ratios and ends with a two-page note in which the analyst lays down and legitimates his position against the corporate client. Between them we find sensual perceptions ("to see figures") and cognitive associations ("to imagine") and effects ("to produce pictures"). When the risk analyst speaks about "pictures" or "imagination" which he can produce on the basis of figures, then he does not mean he has produced a copy of reality, but that he is in the picture about the meaning of the figures. This reminds of Martin Heidegger's (1977: 129) discussion of the notion of "world picture": "»We get the picture« [literally, we are in the picture] concerning something. This means the matter stands before us exactly as it stands with it for us." To this being in the picture belongs, following Heidegger (1977: 129), a knowing about and a being prepared. In this sense, to imagine something or to have an image of something also means to *produce* or to *build* something.

If we consider it from this perspective, we can say something more about the statement of the risk analyst. Using figures, economic conditions or facts are imagined—to be precise: the way

²⁵ The word "to see" is used to describe two different activities: On the one side it means "to read" figures or "to look" at figures; on the other side it means "to imagine" something.

they could have been—and fixed in a written note. In other words: imagining a corporate client on the basis of his figures and producing his economic standing goes hand in hand. In this perspective, the economic world can only be translated by figures, which are in turn legitimized by the methods of their production, and by empirical knowledge as well (cf. Czarniawska 2000). At the same time we have to distinguish between the imagined scenario on the one side, and the economic situation (“reality”) of the enterprise on the other side. This difference leaves room for negotiations between banks and clients, relationship manager and risk analyst.²⁶

But it is maybe not surprising that in his statement the risk analyst does not speak about the fact that his “seeing” of the figures is embedded in a twofold way. On the one hand through their content as ratios, which is defined by economic or financial theory; on the other hand the “seeing” is embedded by the way the figures are represented. This is to say that the architecture of economic representation is situated in the aesthetic and logical principles that organize and order quite different rhetorical devices. All these devices of economic representation are not representing the economic world as it is, but they systematically organize a certain view on this world. Through their principles of organization separate identities and entities can be seen simultaneously (cf. Desrosières 1993; Porter 1995). In other words, the enterprise and its figures are not just given objects 'out there' but a result of activities using socio-technologies of calculation and devices of representation which are in turn no neutral at all but effect producing ‘machines’ (e.g., effects of homogenization and simplification; cf. Law 2000).

The encounter between the risk analyst and the figures of an enterprise is an encoded encounter and an encounter over a distance. The future potentiality of the enterprise is made accessible by interpretation. The risk analyst sees the figures not only as figures, but as figures which refer to something else which is not represented in this medium but which make the figures ‘tick’. He sees *something as something*. For instance, he sees the enterprise *as* a good or risky credit business or *as* well placed on the market. I take the quote discussed here as an example of what, within the phenomenological tradition, is called “appresentation” (cf. Schütz 1971: 339ff.). This means that economic practices of an enterprise are rendered present through decoding economic figures. In other words: Risk analyst use economic figures as objects which refer to economic activities. The process of rendering present something is based on the explicit and implicit knowledge of the actors involved. In this case it is the theoretical knowledge about the meaning and the arithmetical definition of economic ratios, and the understanding how one should read these figures, which is in turn related to experience and imagination as well. (cf. Callon 1998).

5. Concluding Remarks

The focus of this paper has been on conceptualizing the banking activity of risk analysis as a process of manufacturing, processing and shifting economic representations, that is on the manufacture and processing of writing and number materials and thus on a shifting of economic practices that can now only be perceived as imprints, signs, tracks, shadows. In this process, stations are implemented which repeat and transform figures, for which it is assumed

²⁶ The relationship manager is a hybrid figure because within the credit process he becomes the enterprise-in-the-bank (cf. Kalthoff 2000).

that the number symbols easily keep their identity—an identity that they obtain first of all from the calculation technology. Different questions that would have to be discussed further in this context have remained without mentioning here, as there would be questions from the sociology of technology or on the relation of writing and visuality.

The aspects discussed here (such as the technical production and the incompleteness of representations) do not mark any surprising findings in the context of the new sociology of science (cf. Knorr-Cetina 1999; Latour 1999), but they do harbor a need for clarification and discussion in economic sociology. Economic sociology can learn from the new sociology of scientific knowledge to distinguish between two levels. On the first level (first order observation) acting and deciding is only possible if it is based on correspondence theory of truth, that is convictions about the relationship of economic reality and its representation; this focus can be called objectivist conviction. On the second level (second order observation) the correspondence theory is replaced by an analysis of economic practices and practices of economic representation; this focus can be called constructionism or relativism. On a first level there are economic practices, on a second level representations of these economic practices are constituted through practices of representation (cf. Rottenburg et al. 2000). With this distinction in mind, economic sociologists may come to appreciate, for instance, that the notion of a sphere that is sealed off from practices of representation and contains economic practices which follow certain inherent laws and which can be depicted in a scientific-technical manner *without* the representations affecting the practices, has become questionable.

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RATING AGENCIES

SETTING A STANDARD FOR GLOBAL FINANCIAL MARKETS¹

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Introduction

Rating agencies are professional service firms that assess the creditworthiness of borrowers and communicate that information to investors. For most of the time since their modest beginning in the early decades of the 20th century, rating agencies limited their activities to the financial markets in the United States. The globalisation of financial markets in the 1990s brought about new opportunities. Rating agencies now rate borrowers world-wide through their global net of local subsidiaries. Public awareness of their existence has increased accordingly. During the 1990s, rating agencies were held partly responsible for the outbreak of the financial crises in Mexico, Asia, and Russia. Many argued that these crises could have been avoided, had rating agencies reported the credit risk involved in investments in emerging markets more accurately. More recently, rating agencies were criticised for their role in the demise of Enron, the US energy company. Rating agencies had given Enron a highly positive assessment even only a few months before the final bankruptcy. Also, their decision to delay the publication of a revised, much more negative credit risk assessment so as not to unduly harm the company in its struggle to avoid bankruptcy, was seen to have favoured Enron at the expense of other stake holders.

Rating agencies have not only come under scrutiny because of performance problems, real or perceived, but also because of their increasing power. After the globalisation of financial markets, rating agencies are seen to have replaced states as one of the most significant forces influencing the global flow of credit. Globalisation analyst and New York Times journalist Tom Friedman compares rating agencies to “blood hounds” that can scare away the “electronic herd”, the mass of global investors, for long periods of time, when they issue a warning. He illustrates the pressure that they can exert even on states with an episode from Canada. In 1995, Bill Clinton’s first visit as American president to Canada raised remarkably little interest as it was overshadowed by the visit of the CEO of Moody’s, the rating agency. Canada at the time experienced fiscal problems but wanted to avoid a negative judgment by the rating agency, which would have made it more expensive for Canada to persuade investors to invest in Canadian bonds. In this situation, the CEO of Moody’s was deemed more important than the President of the United States.

¹ This report is based on a larger research project on the role of private actors in transnational governance. For further references and information, please consult my paper available online (<http://www.mpp-rdg.mpg.de/deutsch/publik1.html>) or contact me.

But is this true? Have rating agencies really become a major new global player in financial markets, so influential that they can even coerce states? In the following, I want to clarify the role of rating agencies in the governance of financial markets. To do so, I shall present a brief sketch of how rating agencies work, and why they have expanded world-wide. I will then analyse in which way they are influential. Subsequently, I offer an explanation for the nature of their influence by conceptualising rating agencies as standard setters. I conclude by raising the question of what a study of rating agencies could contribute to the agenda of economic sociology.

Credit Rating Agencies

Credit rating agencies are financial service firms that assess the credit risk of financial transactions. The credit risk is determined by assigning a “credit rating” to a security or issuer. Comparable scales are used by all credit rating agencies to determine the credit risk. It usually ranges from AAA (credit risk very low) to C (credit risk very high), with D meaning “default”, i.e. a borrower cannot service his debts as promised.

RATING SCALES

	Moody's	Standard & Poor's
INVESTMENT GRADE	Aaa	AAA
	Aa1	AA+
	Aa2	AA
	Aa3	AA-
	A1	A+
	A2	A
	A3	A-
	Baa1	BBB+
	Baa2	BBB
	Baa3	BBB-
SPECULATIVE GRADE	Ba1	BB+
	Ba2	BB
	Ba3	BB-
	B1	B+
	B2	B
	B3	B-
(close to) DEFAULT	Caa	CCC+
	Ca	CC
	C	C
		D

Ratings work like school grades, but they are more ambiguous. Higher grades are always better than lower grades. But higher ratings are not inherently better than lower ratings. Rating agencies always stress that the evaluation of the credit risk does not imply an advice to buy or sell a certain security. An investor has to take care of other risks as well (e.g., exchange rate risk). Furthermore, lower rated securities have a higher yield: the more you risk the higher the future to profit is likely to be. Therefore, an investor may opt for a higher risk for part of his portfolio.

The assignment of a rating is a lengthy process. Usually, the rating agency is approached by an economic entity planning to borrow money by bonds. Then the rating agency proceeds with an in-depth analysis of this firm or government agency. This involves an analysis of official and confidential documentation and by personal interviews with the management. To arrive at a certain rating, the agencies look at a combination of factors. First, the financial condition of the firm is determined. At the level of the firm, the risk of a default is mainly seen in the risks involved in the business strategy and the financial risk, i.e. the risks involved in the strategies in which businesses are financed. Rating agencies also look at factors beyond the single firm, e.g., the condition of the economic sector in which the firm operates and the country in which a borrower is situated. The product of credit rating agencies consists of a published rating. In important cases, the media report about changes in ratings. That way, credit ratings are publicly available. One of their main advantages is their simplicity. They make it easy to compare the risk of borrowers that are very different from each other. Therefore, ratings have increasingly become a precondition for access to financial markets.

The rating industry itself has become influential well beyond the United States. The traditional U.S. rating agencies now boast a truly global network of offices that cover the major financial centres. In several countries, local rating agencies have been founded. This is not only true for highly industrialised countries but can also be observed in emerging economies (Adams et al. 1999: 189). Local rating agencies try to capitalise on their more detailed knowledge of the industry compared to that of their international competitors. Newly founded rating agencies in Germany, *Euro Ratings* or *Unternehmens-Rating Agentur* for example, try to exploit their knowledge of the *Mittelstand*, the dynamic sector of small and medium sized enterprises. Their claim of superior local knowledge makes them more attractive to these firms because the latter can expect to be evaluated in an appropriate manner. Presumably, these local rating agencies also appeal to investors who feel that the analysis is superior. Nevertheless, these local rating agencies have not challenged the position of the U.S. rating agencies. On the contrary, often these local rating agencies enter into joint ventures with one of the big American rating agencies or are taken over by them. For example, in the early 1990s, Standard & Poor's took over the local French rating agency "Agence d'Evaluation Financière".

Another indicator for the increasing importance is the number of sovereign ratings, i.e. ratings of foreign countries. These ratings are of pivotal importance for the rating of financial interments, etc., because they place a ceiling on the credit quality that can be achieved. Moody's reports an increase in the number of sovereign ratings from more or less 10 in the 1980s to nearly seventy in 1999 (Adams et al. 1999: 196). In the same year, Standard & Poor's lists 79 sovereign ratings.

The Impact

Rating agencies are gatekeepers for markets, especially bond markets but also the market for asset-backed securities. Credit ratings are essential signposts for investors operating in these anonymous markets. By condensing the highly complex contingencies of credit risk into a single measure, rating agencies contribute to transforming uncertainty into calculable risk. Without rating agencies, investors would have to analyse each investment opportunity individually. For large institutional investors, this would be difficult. Since they need to diversify their portfolio by investing in many different securities, it is hard to accumulate adequate knowledge on each. Thus, economists point out, rating agencies contribute to the efficiency of large and liquid bond markets by reducing transaction costs that arise between borrowers and lenders. Their constitutive role in setting up global financial markets became visible in the 1990s when large capital flows into emerging market economies were preceded by the publication of credit ratings for these markets.

However, it is questionable whether the role of rating agencies can be reduced to that of efficiency enhancing financial market intermediaries. A first, very fundamental observation is that their very existence increases the investors' risk appetite. Once a rating has been issued, their analytical basis is assumed to be correct. Rating agencies are thus absorbing uncertainty for investors, making unpleasant surprises about credit risk more likely (Strulik 2001). A second problem is that rating agencies are biased. Given that there are many factors influencing the creditworthiness of a borrower, rating agencies are relying on rules of thumb. These rules of thumb are influenced by a neo-liberal ideology (Sinclair 1994). In the past, rating agencies have been persuaded to reconsider further downgrades by austerity programmes with sometimes dubious usefulness. Mass layoffs by firms or a reduction of state expenditure by countries, e.g., by cutting essential public services, is a common sacrifice that rating agencies demand for avoiding downgrades. The third and probably the major problem is that rating agencies increase market volatility during times of crises. Rapid downgrades of firms and countries during the Asian crises have exacerbated the outflow of capital from these countries and thus contributed to their ruinous effect (Adams et al. 1999).

The potential adverse effects of credit ratings are magnified by the fact that it is hard to hold rating agencies accountable. Downgrades can do much harm, yet rating agencies will almost always turn a deaf ear to any complaints. Negotiating with borrowers would risk tarnishing the rating agency's image of being a neutral information provider. As a consequence, despite the fact that rating agencies have become increasingly influential in global financial markets, it is very hard to hold them accountable for their action. Rating agencies seldom have to justify their decisions, let alone provide compensation for the adverse consequences of mistakes. The breach between the magnitude of potential damages for borrowers and the possibilities of a remedy gives rise to an 'accountability gap'. Why is it that rating agencies have power without responsibility?

Explaining the Impact

Rating agencies are influential because they exert their influence in a specific way but also because there is only a very small number of them, with very limited competition. An explanation of the influence of rating agencies will have to take into consideration both, the market for ratings and the market for securities which are framed by ratings.

Rating agencies operate in a distinct market, the market for credit ratings. As private firms, rating agencies need to generate revenue from their credit risk assessment. Since the information is only useful if it is public, it is hard to persuade the users of the information, the investors, to pay for a rating. Rating agencies therefore charge the issuers of bonds, not the investors for their services. Two American firms dominate the US and the global market, “Moody’s” and “Standard & Poor’s”. A third firm, “Fitch” is hardly an important competitor. Also, the firms do not really compete for customers. Most borrowers need to have two independent ratings, so that in the case of a new issue of bonds, both rating agencies are likely to do business.

The dominant position of only two agencies in the market for credit ratings is an important factor for the explanation of their influence. How did it come about? The first fact can be explained by “positive network externalities”. Just as the usefulness of a telephone increases for an individual with the number of participants in the network, so does the usefulness of credit ratings increase for an investor, if the agency issues many other ratings. Only then is it possible to reliably compare different credit risks, which is essential for the orientation of investors. This network effect implies high sunk costs which amount to a formidable entry barrier for new agencies.

In spite of these difficulties, there are a few smaller rating agencies that have a special area of expertise (e.g., “Fitch” specialises in banking), and that try to expand to become a full fledged rating agency. A further explanation is needed in order to understand why firms that manage to overcome the problem of sunk costs do not succeed in competing successfully with the incumbents. Such an explanation can be provided by the status-based model of market competition (Podolny 1993). The model is based on the hypothesis that markets often develop a status hierarchy in order to limit competition. The more status brackets a market develops, the more firms can thrive in it without unleashing too much competition. Investment banks, for example, only do deals with firms that are perceived to be equal to their own reputation. Top investment banks will not jeopardise their reputation by doing deals with high risk clients. In the market for credit ratings no such status hierarchy develops and therefore the number of firms is very limited. The reason is that contrary to investment banks, rating agencies do not automatically send a reputation signal by agreeing to rate a firm. If a firm poses a high credit risk, the rating agency’s reputation is not tarnished, as long as it issues a low rating. Market dynamics is only one factor that explains the dominance of the incumbent rating firms. Another important part of the explanation is that rating agencies are used for the purposes of regulation. The rating standard has been used in regulation designed to mitigate excessive risk taking in financial markets. Its purpose has been to create flexible rules that automatically adjust to different levels of risk; rules referring to ratings impose lower regulatory requirements if the rating signals a low level of credit risk and vice versa. In the United States, three types of regulatory requirements have been designed that vary according to the magnitude of risk they address (Adams et al. 1999: 153). The rating standard of creditworthiness was first used to define investment restrictions for financial institutions. In 1936 already, U.S. regulators prohibited banks to invest in low quality debt instruments. A second major use of the rating standard has been to adjust capital reserve requirements to the credit risk involved. Since 1975, the Security Exchange Commission (SEC) is using ratings to adjust capital requirements for investment banks and similar institutions to their risk exposure. Finally, regulators have defined disclosure requirements with reference to the rating standard. Since 1982, issuers of highly rated bonds can use simplified forms to register them with the

SEC. The problem with this type of regulation is that the observation of ratings has become compulsory for most investors. On the other hand, U.S. regulatory authorities only recognise those rating agencies for regulatory purposes that are well established in the market place. This makes it virtually impossible for newcomers to compete with the established firms because even if investors were interested in their type of analysis, for legal purposes they would need to observe the ratings of the incumbents. Thus, in addition to the barrier offered by the structure of the market there is a formidable regulatory barrier to market entry.

If the explanation for the quasi monopoly of a few dominant agencies in the market is convincing, then there is reason to believe that the established rating agencies will retain their dominant position for some time to come. This dominant position as such is seen to be problematic because it gives a few agencies such a large influence over the larger financial markets. In order to explain the way in which rating agencies exert influence, I propose to understand rating agencies as standard setters. This comparison of the process of credit rating with standardising is a useful lead. On the one hand it preserves the insight that rating agencies are not merely neutral information intermediaries but that they also establish a common understanding of what constitutes credit-worthiness; on the other hand, 'standardising' avoids the connotation that there is an inevitable monopoly, since standards (as opposed to regulations) are not mandatory and often have to compete with other standards.

In order to gain insight into how standards co-ordinate behaviour, a useful starting point is a definition of a standard as any rule based on expertise that can be adopted voluntarily. In this sense standards are "advice given to many" (Brunsson 1999: 114). Examples of such standards are technical standards, the rules of international sports associations, or the OECD's recommendations of how to best run an economy, and many others. It is clear that such a definition aims at a vast area of rule-making in modern society. Standardising in this sense is a mode of governance in its own right. Standardising is similar to hierarchical rule-making in that it can only effectively co-ordinate action if the outcomes are seen to be desirable; it differs in the way this underlying legitimacy for rules is secured. In a world of autonomous actors, the legitimacy of hierarchical rules depends on the authority of the rule setter; and the validity of such rules is restricted to a limited range of actors, e.g., the members of an organisation. But standards depend on the legitimacy of the underlying expertise. Because adopting them is voluntary, they do not have to be limited in application to be acceptable.

Standards, in the sense of expertise-based voluntary rules, not only differ from hierarchical rules, but also from the more conventional understanding of 'standards'. They are not technical standards specifying the desired properties of a technical artifact, nor are they just specifications of the minimum or maximum level of protection or risk defined in regulation, such as environmental emission standards. Rather, the underlying paradigm is that they are rules aimed at promoting certain organisational procedures or structures.

Most importantly, the view of rating agencies as standardisers, i.e. as co-ordinating by setting expertise-based, voluntary rules points to a systematic reason for the accountability gap. Standards face an accountability problem whenever they are hierarchically enforced by a third party. This blurs the clear accountability criteria that usually apply in the pure cases. As a rule, in a hierarchy the top of the pyramid, where the rules are set, is held accountable. In the case of standards, by contrast, the user of a standard is responsible, since per definition the adoption of a standard is voluntary. Whenever standards are made mandatory the legitimacy pattern should shift to the hierarchical model. However, often this is not the case, because

third party enforcement is also justified by the legitimacy of expertise. In this case, the standard setter acquires power by third-party enforcement, which is not checked by corresponding accountability. This suggests that the accountability gap concerning rating agencies is largely due to the fact that they are being instrumentalised for regulatory purposes.

Conclusion

The activity of rating agencies and other types of standard setters is an attractive research topic for economic sociology. The genesis and the effect of standards offer a rich field of study on the social construction of markets. I see two major advantages of an analytical focus on standardising. First, contrary to diffusion studies a focus on standardisation allows an action-oriented analysis of where new best-practice models come from. Second, by dissociating rule-making from the coercive power of states, it points to a new role of the state in structuring markets: as an enforcer of rules made elsewhere.

It is probably fair to say that standard setting has not been a high priority item on the research agenda of economic sociologists. The Handbook of Economic Sociology—probably still the authoritative overview of the field—does not feature a single article on standard setting. Recent interest in some of the more conspicuous cases, for example the international quality standard ISO, indicates that this neglect of standardisation is coming to an end. The study of rating agencies supports this trend by showing that a vision of rule making that includes standards is useful for an analysis of economic life.

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LAW AND ECONOMY

THE NEED FOR A SOCIOLOGICAL APPROACH

By

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In this article I will argue that economic sociologists need to devote much more attention to the role of law in the economy than they have done till now.¹ There are a number of reasons for this. Law, for one thing, is important to *any economy* in the sense that it is needed to settle conflicts and ensure property. Doing this will help to ensure peace in society—and the economy thrives on peace. Law is also crucial to *the modern capitalist economy*, since this type of economy needs predictability to work. And a certain type of legal system is very helpful to ensure predictability, as we know since Weber.

To these two general reasons why it is important to study the role of law in economic life, the following two facts can be added. First, the legal dimension of modern economic life often involves enormous sums of money. One example of this would be patents, another copyright. It is also very expensive to pay for the legal system, from the policemen who guard private property (among other things) to the lawyers who work for the modern corporation. If one could put together a bill for all of these expenses, using Europe as an example, the sum would easily be in billions of euros.

For all of these reasons, as I see it, there exists a definite need for what can be called *an economic sociology of law*—that is, for a sociological analysis of the role of law in economic life. Before saying something about attempts to move in this direction, it may be useful to first address the issue of whether an economic sociology of law is needed at all. There does, after all, already exist a well-established field called law and economics among the economists. Furthermore, sociologists of law (including its Marxist proponents) have for many decades analyzed the relationship between law and society, including the economy.

All of this is true—but it can also be argued that none of these approaches have tried to accomplish what an economic sociology of law would set out to do. The law and economics literature does not approach legal phenomena in an empirical and sociological manner, as the economic sociology of law would do. Instead it relies heavily on the logic of neoclassical economics to explain why legal decisions are made the way they are. The law and economics tradition, as opposed to the economic sociology of law, is also explicitly normative in nature and advocates how judges *should* behave and how legislation *should* be constructed, usually so that wealth is maximized (Posner). While the economic sociology of law is only concerned

¹ This article draws on a talk given at the fourth annual conference on economic sociology at Princeton University, February 22-23, 2002. For comments I thank Jens Beckert and Frank Dobbin.

with the legal aspects of economic life, the law and economics approach argues that one should extend the logic of economics to the analysis of *all* types of law.

Also the sociology of law has paid some attention to the economy and produced a few studies which are of much relevance to the economic sociology of law (e.g., Selznick 1969, Aubert 1983, Bourdieu 1987, Edelman and Suchman 1997; cf. Posner 1995). Still, its main focus—and this is what is being discussed just now—is usually on law and society in general. And the same can be said about the law and society movement in the United States which can be described as generally sociological in nature (e.g., Abel 1995, Garth and Sterling 1998). Finally, Marxist sociologists of law have produced surprisingly few studies of specific legal phenomena which are of relevance to the economy, and have mostly preferred to discuss general aspects of the impact of capitalism on the legal system (e.g., Spitzer 1983). There is the additional difficulty that many sociologists who work in this tradition mainly view law as part of the superstructure (for an effort to overcome this, see Thompson 1975, 2001).

What would then be the main task of an economic sociology of law? A general answer would be that it should produce careful empirical studies of the role that law plays in the economic sphere, drawing primarily (I myself would add) on an analysis that highlights not only social relations but also interests. To use the word “careful” in this context may seem odd, but the few studies in this genre that do exist testify to such a degree of complexity in the interaction of law and economy that one would like to issue a general warning for studies that produce sweeping and general answers to the question of how legal institutions function in the economy, including the question of the overall role of law in the economy. To study “mankind in the ordinary business of life”, and how this relates to law and economy, would constitute the main task of the economic sociology of law.

Similar to the sociology of law, complementary tasks would be to analyze the relationship of law and economy to other spheres of society, such as the political sphere or the private sphere of the family. Just as the Marxist sociology of law, the economic sociology of law would look at the way in which economic forces influence legal phenomena; but it would in addition analyze how law impacts on the economy, again with reservations for the complexity involved. Finally, just as the law and economics approach, the economic sociology of law would study the way that the legal system helps to further economic growth and perhaps even to show how the spirit of a commercial society can come to pervade other parts of the law than those that directly have to do with the economy. To this should also be added how law can block and impede economic growth—a task which is implied in the research program for law and economics, but rarely carried out.

In its efforts to analyze the role of law in economic life, the economic sociology of law should surely draw on the insights of economic sociology in general, but it should also be able to make important contributions to economic sociology of its own. It has, for example, been well established in contemporary economic sociology that economic actions take place in networks, and that these networks connect corporations to one another, corporations to banks, individuals to corporations, and so on. In all of these relationships law is present; and the concepts of networks and economic (social) action can therefore be used in an attempt to reach a better understanding of the role that law plays in the economy. This is similarly true for other concepts and approaches in economic sociology, such as the concept of the field, the idea of markets as social structures, economic actions as a form of culture, and so on.

But there is also the fact that the economic sociology of law should be able to make a distinct contribution to economic sociology as it currently exists. To introduce law into the picture typically means to add another factor, without which the picture would be incomplete. In mainstream economics before the 1950s, it was generally agreed that the legal system could safely be disregarded since it did not affect the typical course of events, and one sometimes gets the impression that this has also been the view in economic sociology. Law, for example, plays a marginal or non-existing role in the analyses of most new economic sociologists.

Law, however, is a factor that typically affects the economic actor, in the sense that she has to take law into consideration; and if it can be disregarded in certain economic situations, this should be explicitly specified. The assumption that a decision by the state automatically translates into a law, and that this law is generally followed, should not be made since there is no simple one-to-one causality involved. Law introduces, so to speak, *an extra layer* in the analysis. There is typically a story behind the creation of every law; every law has to be interpreted; and, very importantly, those who are subject to the law will react to it in different ways, depending on a host of factors.

To develop an economic sociology of law along these lines constitutes a huge challenge, since it demands some knowledge of three different social sciences—law, economics and sociology—as well as a capacity to wring something novel and sociological out of the combination. But there already exist some suggestive ideas for how to go about things, as will be shown in the next section of this brief article.

Studies of Law and Economy in Current Sociology

While no effort has been made to develop a general analysis of the role that law plays in economic life—what has here been called an economic sociology of law—there do exist a number of individual studies that naturally would fall into such a field and from which much can be learned. Three different literatures are helpful in this respect, even if their main thrust, to repeat, differs from the economic sociology of law: the law and society movement in the United States, sociological studies (especially by sociologists of law and economic sociologists), and law and economics. Quite a bit could be said about each of these, but here I will only look at studies produced by contemporary sociologists. My reason for choosing just sociological studies is simply that I want to underscore that the enterprise I am suggesting is not utopian in nature—beginnings already exist.

A study with which many people are familiar is Neil Fligstein's analysis of the way that antitrust legislation has influenced the various strategies and structures of American firms during the 20th century (Fligstein 1990). There also exist a number of studies in organizational sociology and in the sociology of law which have produced valuable insights into the relationship of legal and economic forces (see e.g., the study of law firms in Silicon Valley, in Suchman 2000, and of international commercial arbitration in Dezalay and Garth 1996). The law and economics movement has also served as an object of critique, in the area of gender and inequality of pay (e.g., Nelson and Bridges 1999).

It is possible to pick out a few distinct themes of research which discuss some aspect of the role that law plays in the economy. There is, for example, the attempt in a few studies to focus on *the firm as a distinct legal actor*. Several attempts have also been made to study the role of

bankruptcy and what happens when a firm or some of its employees break the law. The most innovative of these three themes may well be the work on the firm as a legal actor. This type of research has grown out of new institutional analysis in organizational sociology and uses as its point of departure the idea that law is part of every firm's surroundings (e.g., Edelman 1990, Edelman and Suchman 2000). Through a series of studies of the 1964 Civil Rights Act and related legislation it has been shown why certain firms rather than others have responded positively to this type of law and implemented a series of legal measures, such as formal grievance procedures for non-union members and special offices for equal employment opportunity and affirmative action offices (for a summary, see e.g., Sutton 2000:185-220). It has, however, also been noted that many of the measures that make up this "legalization of the workplace" mainly serve to legitimize the firm in the eyes of its surroundings; and that management is careful to see to it that these new legal measures do not interfere with important interests in the firm. In Edelman's formulation: "Organizations' structural responses to law mediate the impact of law on society by helping to construct the meaning of compliance in a way that accommodates managerial interests" (Edelman (1992:1567).

Some interesting sociological studies have also been carried out on *corporate crime*—when firms break the law as well as when some employees engage in criminal activities. Policing the stock exchange constitutes an important and difficult task, given the enormous values that are at stake and the temptations that exist for the individual (e.g., Shapiro 1984; cf. Zey 1993). While insider crimes and embezzlement constitute fairly straightforward phenomena from a conceptual viewpoint, this is much less the case with e.g., whistle-blowing and organizational crimes, including corruption. In whistle-blowing enormous pressure is put on any single employee who dares to publicly challenge a firm for some wrongdoing (e.g., Alford 2001). As an example of organizational crime, that is criminal behavior that benefits the firm, but not necessarily the individual, one can mention price-fixing, which is common in all industrial countries and involves enormous amounts. In a recent study of price-fixing it has been shown that the social structure of trusts lends itself very well to networks analysis (e.g., Baker and Faulkner 1993). Price-fixing of standard products (e.g., switchgear and transformers) typically leads to decentralized networks, since little direction is needed from above, while the opposite is true for more complex products (e.g., turbines). The more links there are to an actor in a price-fixing network, the larger is also the risk that she will be found out. Corruption, finally, is a crime that should be on the agenda of economic sociology since it plays an important role in modern capitalism.

One form of economic legislation that has been studied quite a bit by sociologists is that of *bankruptcy*. For more than a decade research on personal bankruptcies has been conducted in the United States, and one of the findings is that during the 1977-1999 period these increased more than four hundred per cent and often involved middle class people (see Sullivan, Warren and Westbrook 2000). But there also exist a growing number of studies of corporate bankruptcies. The most important of these—*Rescuing Business* by Bruce Carruthers and Terence Halliday—is a comparative study of the 1978 U.S. Bankruptcy Code and the English Insolvency Act from 1986 (Carruthers and Halliday 1998). According to the authors, research on law and society has failed to understand that legal professionals do not only play a role in interpreting the law but also in shaping the way that it is changed and reformed. In this particular case, it is furthermore argued, the United States and England changed their bankruptcy legislation to make it easier to reorganize a business that has failed, as opposed to dissolve it.

Concluding Remarks

Space prohibits a detailed argument about an economic sociology of law and what its various tasks would be (see however Swedberg forthcoming). It deserves nonetheless to be stated once more that law is absolutely essential to the everyday workings on economic life, and that this is a fact that economic sociologists have not paid much attention to. To properly understand economic life, you have to understand the role of law. Another way of stating this is as follows: the economic sociology of law, in brief, opens up new exciting opportunities and deserves to be on the agenda for economic sociology in the years to come.

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ECONOMIC SOCIOLOGY IN EUROPE: SWITZERLAND

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A glance at the history of Swiss sociology¹ indicates that reflection on the relation between the economy and society was an important element in research and teaching in Swiss universities as early as the end of the 19th century. Therefore, the historical roots of current economic sociology are the core topic of the first section of this article. The second section describes attempts to revitalize and to institutionalize this sociological subdiscipline at Swiss universities after World War II. In the third section, a compact overview of current research projects follows.² Of course, the list of authors and projects referred to in this survey does neither claim to be representative nor complete.

Between Institutional Emancipation and Antisociological Zeitgeist

Doubtless the most prominent figure to engage in anchoring economic sociology in university teaching and research in Switzerland was Vilfredo Pareto (1848-1923). Although Pareto was appointed by the University of Lausanne in 1893 to teach economics, he fought vehemently to get sociology accepted as an equal subdiscipline of the social sciences (cf. also Pareto 1986). A further but less prominent promoter of economic sociology was Louis Wuarin, who taught sociology, social economics and the study of political systems at the University of Geneva between 1890 and 1921. As in Geneva, at the end of the 19th century the claim that the study of the economy should no longer be monopolized by economics was heard in Fribourg. In contrast to Geneva, however, this demand was supported not by the liberal bourgeoisie but by the protagonists of Catholic social theory. In view of this, it may be no surprise that Kaspar Decurtins, leader of the Catholic labour movement in Switzerland, co-author of the papal *Enzyklika Rerum Novarum* (1884-1891) and the person responsible for the recruitment of lecturers at the “Catholic” university founded in 1889, first committed Pater Albert Maria Weiss as Professor of Economics and Social Theory.

As in Lausanne, early economic sociology studies in Bern and Basle also stem primarily from economists. The Ukrainian Naum Reichesberg (1867-1928) counts as one of these. In 1898, he received a professorship in the capital and supported the expansion of public statistics and an international law for the protection of workers. In Basle it was primarily Hans Ritschl, the

1 Due to the linguistic and confessional diversity in the country as well as its federalistic academic system there is actually no genuine Swiss tradition in sociological theory and research (cf. Levy 1989, Zürcher 1995). Swiss sociologists indeed make more references to their colleagues using the same language in the North (Germany) or in the West (France) than to their compatriots beyond the linguistic border.

2 The author would like to thank Thomas Eberle, René Levy, Ueli Mäder, Chantal Magnin, Andreas Pfeuffer, Alex Salvisberg, Christian Suter, and Patrick Ziltener for the information they provided.

successor of Robert Michels (1876-1936) (professor of economics and statistics, 1914-1928), who rendered outstanding services in this connection. He focused on the sociology of finance in his lecture course on economics and sociology. From 1928 Edgar Salin (1892-1974), neohistorical economist and PhD supervisor of Talcott Parsons, taught in Basle. He found international recognition as first editor of the originally transdisciplinary journal *Kyklos* (from 1948), and as an advocate of the idea that economics should take into consideration the structural and cultural contexts of economic action (cf. Salin 1967 [1923]).

At the University of Zurich only the activities of Josef Goldstein stand out at this time. In 1898 Goldstein received the *venia legendi* (authorization to teach at a university) for statistics and economic policy, whereby his reputation rested on the work “Berufsgliederung und Reichtum” (occupational structure and wealth) and on studies concerning population development and occupational structure in France, which were discussed in detail in the journal *Année Sociologique*. Besides his courses “Moral-, Sozial- und Wirtschaftsstatistik”, he also taught on the “Gesetzmässigkeiten im Gesellschaftsleben” (regularities in social life) in the winter semester of 1899/1900 as well as in 1904/1905 on the “Zusammenhänge von Wirtschaft und Technik” (relationships between economy and technology). His career came to an abrupt end when the Social Darwinist, member of the National Assembly and factory owner, Eduard Sulzer-Ziegler (1854-1913) complained to the education authorities following a factory visit that Goldstein had undermined the “authority of the enterprise” and the majority of the visitors were (female) Russian students.

Similar to sociology on the whole, economic sociology suffered a severe set-back in Swiss universities in the period between the wars. A symbolic low was doubtlessly the presentation of an honorary doctorate at the University of Lausanne in 1937 to Benito Mussolini, who was praised as the “créateur et réalisateur d'une conception sociologique originale” (from Zürcher 1995, p. 163) in the laudatio. The initiator of this honour was Pasquale Boninsegni, who as successor of Pareto had been responsible for teaching political economics and sociology since 1926. The antidemocratic and antisociological *zeitgeist* in the 1930s also gained a foothold at the University of Fribourg, for in 1933 Jacob Lorenz (1883-1946), a prominent antisocialist and antiliberal and glowing supporter of an authoritative “Swiss corporatism”, was appointed to the new chair for Economics and Sociology.

Attempts at Revitalization after the End of World War II

Important contributions to economic sociology immediately after the end of the war stem from Maurice Erard (University of Neuchâtel) and Richard F. Behrendt (University of Bern). The economist Erard occupied the first chair for Sociology in Neuchâtel between 1954 and 1986. As a dedicated “sociologue pluraliste”, since 1948 he taught not only general sociology but also the history of economics, statistics and econometrics. His most important research work dealt with the enterprise (Erard 1960), women's participation in employment and class structures. Like Erard, Behrendt, who held a chair between 1953 and 1965, was a qualified economist. His research and teaching interests were directed primarily towards the interaction between the economic and sociocultural factors in development processes (Behrendt 1965). Although Behrendt, contrary to Erard, was not appointed as a sociologist but rather as an economist, he fought vehemently to establish the “Institut für Soziologie und sozio-ökonomische Fragestellungen” in 1960.

Aptly, in the same year that Behrendt left Switzerland for Berlin, thus weakening the orientation towards economic sociology at the Institute in Berne, the University of Basle appointed the economist Karl William Kapp (up to 1976) as Salin's successor. Kapp's reputation was based on the pioneering socioecological work *The Social Costs of Private Enterprise*, he had published in 1950. After the departure of Behrendt, the sociology of development nevertheless experienced an upswing in Switzerland, and this is primarily thanks to Peter Heintz, who was appointed in 1966 to the new chair for Sociology in Zurich, where he focussed among other things on the crossnational stratification patterns in the world economy (Heintz 1969, Heintz and Heintz 1974). In St. Gallen and Basle too, economic sociology gained in importance towards the end of the 1960s. Thus in 1968, the Sociological Seminary was founded at the commercial academy of St. Gallen under the directorship of Andreas Miller and "economic sociology" was established as a main subject (until 1991). The appointment of Paul Trappe followed in 1969 in Basle. As a former member of Behrendt's staff, he has been interested in questions of development in general (Trappe 1984) and rural sociology and cooperatives in particular (Trappe 1966).

The upswing of economic sociology continued in the 1980s as well. After his appointment in 1982, François Hainard proceeded with Erard's tradition in economic sociology by making the cultural aspects of the economy and the problems of migration his major topics (Hainard 1981). However, it was the Sociological Institute of the University of Zurich built up by Heintz, which became a stronghold of economic sociology in the 1980s. As early as the 1970s, a number of Heintz' scholars published various studies in economic sociology (e.g., Bornschiefer 1976, Höpflinger 1977). In particular, the work of Volker Bornschiefer caught international attention, especially his cross-national analyses of the effects of the activities of transnational firms on income distribution and economic growth in the periphery of the world economy (Bornschiefer and Chase-Dunn 1985). In the 1980s, he also focussed on social stratification in Switzerland and on long waves in the development of Western industrial societies (Bornschiefer 1998 [1988]). In the 1990s, he further investigated the European integration process (Bornschiefer 2000a) as well as the growth effects stemming from European integration and collective social capital (Bornschiefer 2000b). The strong position of economic sociology in Zurich is underpinned by Bornschiefer's teaching activities, the projects of the World Society Foundation founded by Heintz who died in 1983, and by various contributions from his collaborators. Their studies were concerned, among other issues, with economic crises in Mexico (Stamm 1992), with debt cycles in the world system (Suter 1992) with neo-corporatism, industrial relations and interest groups in the European Union (Nollert 1992/1997), with changes in the European integration process (Ziltener 1999), and with development strategies in Malaysia (Trezza 2001). Moreover, two colleagues of Bornschiefer, Hans Geser, Marlis Buchmann (Professor at the Swiss Federal Institute of Technology (ETH) from 1990 and from 1994 also at the University of Zurich) and their collaborators have also been concerned with sociological aspects of the economy (e.g., Fluder et al. 1991, Buchmann et al. 1999).

With the appointment of Claudia Honegger and Andreas Diekmann in 1990, the University of Berne again started to conduct research in the field of economic sociology. To begin with, it is noticeable that Honegger primarily uses qualitative research methods, whereas Diekmann utilizes quantitative ones. Worth mentioning are the studies of Diekmann (together with Josef Bröderle and Henriette Engelhart, 1993) on gender related income discrimination and on the

Swiss Labour Market Survey 1998, and a Swiss version of Pierre Bourdieu's *La Misère du Monde* (Honegger and Rychner 1998).

After Miller's departure from St. Gallen in 1991, the main subject "economic sociology" in economics was replaced by the general, department-independent subject of *Management of Social Processes*. Nevertheless, the Sociological Seminar, meanwhile headed by Peter Gross, has carried out many projects in economic sociology since the end of the 1980s. The following should be mentioned here: a survey on the computerization of small businesses, studies on the importance of the self-employed in processes of structural economic change, on employee apathy, on firms' policies concerning older employees, on computerization of management, as well as ethnographical studies on Japanese managers in Switzerland and on foreign exchange dealers. There were also interesting contributions from Emil Walter Busch of the Institute for Work and Labour Law (Business Management Department).

Of particular interest are doubtlessly the works of René Levy (University of Lausanne) on social stratification (Levy et al. 1997), of François-Xavier Merrien (University of Lausanne) on labour markets and New Public Management, of Yves Flückiger (economist at the University of Geneva) on income inequality, economic integration problems and new forms of employment, of Jean Ziegler (Professor at the University of Geneva since 1972) on famines in the Third World, of Pierre Weiss (University of Geneva) on employment and work, as well as the study on poverty from Ueli Mäder (Basle, 1991). Furthermore, the works of Christian Suter, at the ETH since 1997, should be emphasized. Suter's work deals, among other things, with the relationship between globalization and regime changes in Latin America (Suter 1999) and with the living conditions of single mothers and the redistribution effects of welfare state measures. Finally, it should be mentioned that since 1998, the two chairs in Neuchâtel carry the label "General and Economic Sociology".

The Main Focus of Current Research

Looking at current research activities at the universities³, it is a matter of fact that the labour market and the problems of development are getting most attention. Sociological research on the labour market plays an important role, especially in Berne and Zurich. Diekmann (with Ben Jann) is conducting a survey on the "Future of Working Life" that investigates the objective situation of the working population on the labour market and the subjective value which people attach to work. Also, the 1997 ISSP (International Social Survey Programme) module on "Work Orientations" will be replicated. His colleague Ruth Meyer Schweizer is responsible for the Univox long-term surveys on basic attitudes to work, working values, and perception of one's own work situation. Also in Berne, Honegger together with Chantal Magnin is conducting a sociological survey on the unemployment insurance in Switzerland based on the practice in regional labour office centres. In Zurich, it is mainly the chairs of Geser and Buchmann that deal with the sociological aspects of work. Together with the Swiss Institute for Business Cycle Research (KOF/ETH) and collaborators (e.g., Urs Meuli), Geser is currently in charge of a prospective study of Swiss companies in industry, trade and the service industry under the title of *Wandel der Arbeitswelt* (change in the world of work, see <http://socio.ch/work/home.htm>). Buchmann's current research projects at the ETH deal with

³ In non-university research institutes, sociological aspects of economic phenomena hardly play a role at all. A praiseworthy exception is the Swiss Academy of Development in Bienne, founded in 1991 (see <http://www.sad.ch>).

the change in working and occupational qualifications (with Stefan Sacchi), with educational, occupational and employment careers (with Sacchi, Irene Kriesi and Andrea Pfeifer), with work and identity (with Alexander Salvisberg), and with the importance of new information and communication technologies (with Salvisberg). Work is also an issue in the study of working-poor from Olivier Steiner (Basle), Ueli Mäder and Stefan Kutzner (both Fribourg), in the project on employment policy in the European Union from Jean-Michel Bonvin (Fribourg), in the qualitative analysis of the attitudes to work of white collar employees in small and medium enterprises from Françoise Messant-Laurent (Lausanne), and in the project on flexibilization of working time from Michèle Ernst (Lausanne).

Sociological aspects of economic development and economic inequalities are still to the fore in Zurich. For example, Bornschier is at present conducting cross-national analyses dealing with growth and distributional impacts of transnational firms' activities (with Mark Herkenrath), with the economic relevance of social capital, with the social factors favouring the diffusion of the internet (both with Thomas Volken), and with the relationship between the perception of social inequality and economic growth (with Hanno Scholtz). Aspects of development are also included in the projects of Christoph Bosshardt on trust (Basle) and of Claus Daub (Basle) on theories of globalization.

Apart from these two dominant theme complexes, the sociological research landscape in Switzerland still offers a variety of projects which have more or less stringent ties with economic sociology. In this connection, we should mention Berne and the qualitative survey of habitus formations, mentalities and everyday economic theories of young entrepreneurs by Honegger and Peter Schallberger, and the survey on the expansion of business management thinking (Realities and Rationalities) by Honegger, Susanne Burri and Pascal Jurt.

In Geneva, strong ties with economic sociology are found primarily in the projects of Flückiger and in Lausanne, of Merrien (policies of social integration in European systems of collective action), of Jean-Yves Pidoux (economy of culture), of André Mach and Thomas David (globalization, neoliberalism and corporate governance), of Sébastien Guex (financial policy and banks), and of Antoine Kernen (social impacts of the privatization in China). Strong connections are also found in the Fribourg Department of Social Work and Social Policy in the projects of Carrie Yodanis on the economic costs of violence to women, of Michael Nollert (also University of Zurich) on non-profit organizations providing social benefits, transnational economic elites and intercorporate networks (Nollert 1998, Windolf and Nollert 2001), and of Alessandro Pelizzari on sociological aspects of New Public Management. Suter's current research activities include an international comparison of the perception of inequality and a project that deals with the scale of "verdeckte Armut" (hidden poverty) in Switzerland. In St. Gallen, although sociology has meanwhile changed from the Department of Economics to the Department of Humanities, questions concerning economic sociology are continuing to be dealt with. Examples of work there include Achim Brosziewski's management studies and an ethnographical project on the social microstructures of financial markets (Urs Bruegger in collaboration with Karin KnorrCetina at the University of Constance, see Bruegger and Knorr Cetina (forthcoming)). Finally, it should be mentioned that the two chairs in Neuchâtel remain true to their tradition. Thus, apart from Hainard (e.g., on the work situation of migrants) and Schultheis (e.g. on youth in precarious economic circumstances), who has in the meantime transferred to the University of Geneva,

Erwin Zimmermann (Director of the Swiss Household Panel) and Andreas Pfeuffer (e.g., on the history of socio-economic statistics) are also pursuing related projects.

A Concluding Assessment

A glance at the history of sociology at Swiss universities indicates that, as early as the end of the 19th century, it were principally open-minded economists who emphasized the social embeddedness of the economy. With the exception of the University of Fribourg, which according to its founders was to form a Catholic think-tank, the efforts at institutionalization were normally supported by liberal-democratic political forces. As a result of the rise of patriotic, anti-sociological attitudes in the academic system these efforts were contained after World War I. More and more it was suspected that the sociological analysis of economic processes, in view of the ever-increasing crisis, no longer contributed to solutions of that crisis, but rather to encouraging materialism and societal disintegration. Mussolini's honorary doctoral degree in Lausanne and the appointment of Lorenz in Fribourg, doubtlessly form an absolute low point in this development. Fortunately, immediately after the war a revitalization of economic sociology was discernible. Beginning with Erard in Neuchâtel, a number of economists who studied the sociological aspects of economic processes were appointed as faculty members. Following that, particularly in Neuchâtel and Zurich economic sociology advanced to a core element of teaching and research in the sociology departments. If one observes the development in the last decades, the expansion of this subdiscipline appears to be unbroken at first glance. Like in other countries, this expansion is unfortunately not due to the diffusion of paradigms of "New Economic Sociology" (Swedberg 1997), but rather to intensified reference to genuinely economic approaches (e.g., human capital theory and rational choice theory).

If one concentrates on the research landscape of Switzerland, two main fields of focus become apparent. With the appointments of Behrendt, Heintz and Trappe in German-speaking Switzerland, and Erard, Hainard and Ziegler in the French-speaking part, the analysis of economic development processes has advanced to the dominant fields of research in economic sociology. Since the end of the 1980s, work and labour markets have also established themselves as themes of focus. Assuming that research on development will continue to lose significance, labour market research will advance to the dominant field of research. In addition, no dominance at large of either quantitative or qualitative methods can be discerned. While quantitative data analyses are preferred in Zurich, interpretive approaches dominate in Basle and St. Gallen, and both groups of methods are equivalently represented in Lausanne and Berne.

The overview on teaching and research activities presented here, as well as the lively interest in the Research Committee for Economic Sociology founded within the Swiss Sociological Association in the year 2000 confirms that a growing number of sociologists are professionally involved with economic issues and no longer shy away from the intranational dialogue. In comparison to the large neighbouring countries (Germany, France, Italy), however, the number of economic sociologists will self-evidently stay low. Moreover, there is still no fruitful dialogue between sociology and economics. Finally, it is regrettable that although sociological analyses of economic phenomena won't wither in the short run,

economic analyses of social facts obviously enjoy more and more legitimacy in public and private institutions funding research.

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BOOK REVIEWS

DiMaggio, Paul (ed.): The Twenty-First-Century Firm: Changing Economic Organization in International Perspective. Princeton: Princeton University Press 2001.

Why another book on the shape of the (post-) modern enterprise? Is it not well-known by now that this, very much in contrast to the old-fashioned, vertically integrated firm with bureaucratic structures, resembles a network organization with flat hierarchies, project-based team work, and permeable boundaries? Opening the book with this initial reservation, I encountered the list of contributors to this volume, which includes, apart from the editor, Walter Powell, David Stark, Eleanor Westney, Reinier Kraakman, David Bryce, Jitendra Singh, Robert Gibbons and Charles Tilly. All these prominent and highly-renowned authors from different disciplinary backgrounds made me expect significant new insights into the shape and functioning of the postmodern enterprise.

The introductory chapter by Paul DiMaggio places the volume's subject in the historical context of the evolution of the firm during the last two centuries and of the landmark contributions by Max Weber, Karl Marx and some more contemporary commentators. Moreover, it arouses the reader's interest by questioning well-known descriptions of the network form of organization and straightforward explanations of the evolution of this organizational form of economic activity. What raises expectations even further is the unique concept of the book. In the first part, Powell, Stark and Westney investigate the evolution of the modern firm in *three regions* of the world: (1) United States and Western Europe, (2) the former socialist societies of Eastern Europe, and (3) Japan and East Asia, respectively. In the second part of the volume, the other authors comment on these analyses from their particular perspective: law, evolutionary theory, organizational economics, and the comparative historical study of the nation-state. Finally, the editor concludes the book with some remarks on the future of business organization and the paradoxes of change. This concept is not only quite unique but very fitting to the times in which scientific discourse, because of the increasingly disjunctive character of most research, *has* to be organized.

According to Powell's diagnosis, the network organization with a flat hierarchy and more project-based than job-prone working conditions is the form of the twenty-first century and of the "decentralized capitalism" of the West. In the main part, he draws a similar picture of the "new logic of network production" (p. 54) which has emerged incrementally and which is fairly well-known also from his earlier works. In his contribution, Stark recognizes the "heterarchy" as the common denominator of the now also more or less capitalist firm in the transformational societies of Eastern Europe. Heterarchy, according to Stark, is based upon interdependency (rather than market-like independence and hierarchy-like dependency) and implies organizational diversity and, not least for this reason, the capacity for learning and change. This form emphasizes organizational adaptability rather than adaptation. And despite national differences, adaptability seems to be not only needed most but provided abundantly by the broad array of network structures in operation in transformational societies where they are, of course, shaped by different policies of transformation.

Westney analyses the dominant organizational form in Japan. She comes up with not only the internal network structure of Japanese firms, but also the well-known vertical and horizontal *keiretsu*, which - more often than not - extend to organizations in other institutional sectors and, at least until the crisis of the Japanese economy, used to be some kind of model for restructuring processes in the Western economies. In her own words: “The belief at the beginning of the decade that Japanese companies were already the firms of the twenty-first century quickly shifted to a widespread conviction that they were not even up to coping with the challenges of the 1990s, let alone the future” (p. 106). More striking about Westney’s contribution than her update of the latest development of the Japanese model of network organization is, from my perspective, her overview of (competing) explanations for the existence of this form, the significance of the Japanese employment systems in this context, and one of the rare analyses of how the hub firm(s) manage their complex interfirm networks. Because of the detailed information given and the systematic character of the analysis, Westney’s chapter is certainly one of the highlights of this book.

Kraakman, in his commentary from a law perspective, elaborates on the legal differences between the corporative and the network form of organization. While he tries to subsume interfirm networks as far as possible under the legal umbrella of corporations and corporate groups, he admits that vertical *keiretsu*, and - even less so - horizontal *keiretsu* do not fit this legal conception. His conviction seems to be that, apart from *keiretsu* and some small-firm networks, most networks are corporate groups. While I agree with the author’s conclusion that “corporations anchor networks” (p. 158) as much as interfirm networks “depend on the legal attributes of the corporate form” (p. 159), I am convinced that his far-reaching identification of networks with groups of firms obscures more than it enlightens. Groups of firms are legally different from interfirm networks.

Bryce and Singh discuss the three principal contributions to this volume in the light of evolutionary theory. What is even more valuable, in my view at least is their concise discussion of the differences of the network forms presented by Powell, Stark, and Westney. The authors state these differences with respect to four core dimensions of organizational form: goals, governance, technology and markets. Such different forms, they infer, “are likely to lead to differential selection processes” (p. 170). According to Bryce and Singh, the processes of competitive and institutional selection work differently in the three regions under consideration: While competitive pressures dominate in the US, the situation is different in most East European societies, where efficiency still seems to be less important than institutional legitimacy, whereas in Japan the authors—very much like Westney—observe a pattern of de-institutionalization. Institutional histories matter, and institutional differences in these regions are likely to have a profound and enduring impact upon the concrete network form. In this respect at least, a modern evolutionary theory—despite different language—does not deviate much from neo-institutional theorizing which seems most popular when investigating the emergence of network organizations.

Gibbons, although discussing the emergence of the network from the perspective of organizational economics, does not come up with entirely different explanations. While his model, as he acknowledges himself, “may seem rather distant from the contemporary and international concerns of Powell, Stark, and Westney, [...] it is actually quite closely related” (p. 190). In fact, and in contrast to many institutional economists, Gibbons takes the relational character of interfirm networks with their “ongoing supply relationships” quite seriously and

analyses them as an outcome of “trigger strategies” in a repeated-game model. Not surprisingly, his model points to the importance of ownership rights in governing these relationships.

Tilly, taking a comparative historical perspective, sees similarities between the new network form of organization and those forms common until the seventeenth century. According to his historical perspective, the nineteenth and the twentieth centuries, which were characterized by the growth of “bounded firms, on one side; and consolidated states, on the other” (p. 201) and were, hence, *relatively* free of networks, “stood out from all others in these (and many other regards)” (p. 200).

DiMaggio, in his concluding chapter, states that it is not surprising that “observing different worlds through different lenses” (p. 210) leads the authors of this volume to different conclusions about the shape that the (post-) modern firm has taken. Nevertheless, he finds it useful to identify points of consensus. One important point of consensus, according to DiMaggio, is that the notion of network is not just a metaphor, but an observable organizational form which can be found in almost all industries and regions. There, some migration of agency from firms to interfirm networks can be observed, although the corporate form remains important, at least as long as there is a lack of alternative legal regimes which provide a reliable framework for network agency. There is also much agreement among the authors of this volume that the network form differs across industries and regions. The biotech networks Powell investigates in the United States are dissimilar to the network structures of the post-socialist firms in Eastern Europe as well as to vertical and horizontal *keiretsu* in Japan. Nevertheless, all these network forms share the relevance of trusted relationships and relational contracting for the organization of economic activities.

Perhaps most interesting are DiMaggio’s remarks on three dilemmas which, at present, characterize the network form: (1) the *dilemma of interest aggregation*, which cannot always be solved by a lead firm as in vertical *keiretsu*; (2) the *dilemma of economic valuation*, which has to take into account more than the social capital and relational competence of a firm; and (3) the *dilemma of accountability*, which is rooted in the very structural features of interfirm networks which, as Stark argues in particular, are accountable for many of their economic advantages: permeable boundaries, strategic flexibility, and adaptability and learning. It is perhaps from here that a future volume on the network form of organization should start.

Overall, this is a scholarly and yet very readable book which leaves behind many popular analyses of the extended, collaborative, centerless, horizontal, self-managing, knowledge-creating and/or boundariless enterprise, and which deserves—and is likely to attract—a wide audience. Only experts of the organizational form of networks will be somewhat disappointed, since it does not provide as many new insights as one might have expected – and as I did expect. Moreover, some questions remain: Why have the “regional experts” not made more use of explicit theorizing? For instance, Woody Powell’s important contribution to the new institutionalism in organizational sociology is well-known. Yet his text only shows trace elements of his theoretical understanding: organizations adapt to their changing environments though they have so much scope of choice that it is impossible to detect “best practices” of some kind, and institutions matter in this process, of course. The same is true for Stark’s and Westney’s contributions, of which the former makes reference to complexity theory. From a management science perspective, this volume leaves several questions unanswered: How are network members selected? How are resources allocated among network members? How are rules of coordination developed? And what does managing these

functions contribute to the reproduction of the form? While all authors provide extremely useful insights into the general shape of the network organizations in diverse industry settings and different regions of the world, they do not pay much attention to concrete processes and practices regarding how these forms are – not to mention should be – managed. A book which deals with these questions and yet does not fall into the simple normative answers of many other, apparently practice-oriented publications still has to be written.

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Colin Crouch, Patrick Le Galès, Carlo Trigilia and Helmut Voelzkow, *Local Production Systems in Europe. Rise or Demise?* Oxford: Oxford University Press, 2001.

The local dimension—at the intersection among economic sociology, political sociology and industrial sociology—is today a renewed field of interest for the study of economy-society relationships. The book by Crouch, Le Galès, Trigilia and Voelzkow presents a key analysis of small-medium size enterprises local systems in Europe. The book reaches two important aims: (i) it summarizes very clearly the debate and the various interpretative proposals about the development and/or crisis of the Local Production Systems (LPS) and (ii) proposes new analytical categories useful to classify the LPS and to explain their dynamics. The book consists of 7 chapters. The first chapter (Le Galès and Voelzkow) reviews the main contributions concerning LPS and illustrates the analytical differences within the approach applied in this book. Chapters two to six present empirical research on the cases of Germany, Italy, France and England. In the last chapter Crouch and Trigilia reconsider the research results and insert them in a wider analytical picture.

The text shows the empirical variety of the forms of the LPS, especially as specific reactions to the pressures of the globalization. In the authors' eyes, the debate on the LPS had three main flaws (p. 212): (i) it identified the LPS exclusively with industrial districts, (ii) it explained the dynamics of the LPS through unsystematic and anecdotal evidences and (iii) it did not consider the key role of entrepreneurship. The book challenges each of these three points. The first point (pp.213-214) states that the investigation of LPS must distinguish between three modalities: industrial districts, networked firms and empirical clusters. The districts are characterized by high horizontal integration between small-medium size autonomous enterprises, and the district is also a unique balance between cooperation and competition. The networked firms are characterized by the presence of a big enterprise connected with smaller units, inside the same territorial system. Finally, the empirical clusters are characterized by aggregations of small-medium size enterprises, with low horizontal integration levels and where a stable cooperation with a big enterprise is absent. The crucial point is that all the three models are different from the “company town” systems and for this reason their survival depends on the capacity to create local collective competition goods,

whose properties are analysed in the first chapter (2-5). In particular, Le Galès and Voelzkow analyse two kinds of these goods: intangible and tangible. The first notion refers to the normative and cognitive resources (tacit knowledge, specialized languages, conventions and trust) of the local contexts, while the second denotes infrastructures and services. The production of these goods by small-medium size enterprises can be difficult, especially if the units are isolated. Therefore, the institutional devices which enable the production of the local collective competition goods are key to understand the dynamics of the LPS. At this point the political-economy flavour of the book (which is also the authors' background) emerges very clearly. The capacity to produce local collective competition goods depends on the combination of regulative models, combined differently in the concrete empirical instances. The various models correspond to 5 ideal-types of social order: the market, the vertical organization, the state, the community, and associations. This analytical perspective has two consequences: (i) it justifies the existence of local orders ("contingency of orders") and (ii) admits the presence of various institutional solutions (e.g., various empirical mixes of the regulation models) for the production of the local collective competition goods. In the authors' words, "social relationships are like political interventions in their economic consequences" (p.235).

These considerations developed by Le Galès and Voelzkow in the first chapter, are taken up again by Crouch and Trigilia in the last chapter. This follows two directions: The first track reconsiders the results of the empirical chapters and analyses the different typology of the LPS in the national cases at hand; the second track examines in greater detail the analytical categories which characterize the governance of local economies. To summarize: from an empirical point of view, the presence of industrial districts is quite limited in Great Britain, France and also in Germany. In the first two countries, however, LPS are present in the form of networked firms and, above all, as empirical clusters. Besides, the diffusion of LPS formed by small-medium size enterprises in Germany and Italy hides important differences between the two countries. The role of the networked firm is crucial in Germany, while the industrial district one is still dominant in Italy. In general, the information contained in the empirical chapters represents a significant challenge to the conventional wisdom on the national LPS. Following the analytical perspective of the authors, the forms of governance of the local economies are analysed through three institutional dimensions: endogeneity vs. exogeneity, procedural rules vs. substantive provision and formality vs. informality (pp.224-230). The combination of the three dimensions allows placing the main forms of governance of the local economies in a conceptual space, and it makes clear the different way of understanding the regulation of the economy by the various institutional approaches (p.231). Trigilia and Crouch then discuss at some length concepts like anonymity, reputation and trust and their conclusion is that there will always be a dialectical process between exogenous and endogenous governance mechanisms. This is particularly true at moments of rapid change when "new knowledge and new networks are frequently appearing and will not be entirely captured by existing formal arrangements" (pp. 232-233). Certainly, the book uses heuristic concepts like reputation, trust, networks, and exchange that are formally applied in other sub-fields (e.g., network analysis, game theory). But the authors don't apply formal models of any kind; rather, they prefer to preserve the richness of detailed historical analysis as such. Within this framework the empirical and analytical achievements of the book are very stimulating. Nevertheless some tricky points are worth to consider. First of all, some of the most interesting works in the new economic sociology have been very effective in melding the

richness of historical analysis with the analytic power of formal network analysis (e.g., the work of J. Padgett and C. Ansell “Robust Action and the Rise of the Medici 1400-1434”, *American Journal of Sociology*, n. 98, pp. 1259-1319). Secondly, the heuristic and narrative use of the mentioned concepts can sometimes hide crucial distinctions. For instance, it seems that many local collective competition goods are in fact local clubs’ competition goods: namely, where you can consume the good only if you participate in its provision. Different mechanisms are working in the two cases and different governance structures are also required. For instance, clubs’ goods and networked firms share many important features, namely: actors choose their level of involvement in the club/network, they exercise a collective control over critical action resources and exclusion mechanisms are crucial in both cases.

As I said, the author’s background is very close to the new comparative political economy tradition. Certainly, this tradition has been a prominent approach to the study of economy-society relationships. The major weakness of this research tradition is—as some of the leading scholars of the field now acknowledge—the proceeding from static macro-comparative typologies that are of a descriptive nature. In this respect, the discipline lacked dynamic analysis and solid microfoundations, both crucial elements to achieve explanatory power. Thanks to some influences from other disciplines (e.g., from socio-economics, political science and the new economic sociology) scholars of political economy are more aware of this shortcoming today. This book is a distinctive example of this trend in political economy, despite the critical points I have briefly outlined. In conclusion, I’d like to suggest that today, the new comparative political economy and the new economic sociology are closer to one another than they used to be ten years ago. This book bears witness to this development.

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CONFERENCE REPORTS

Fourth Annual Economic Sociology Conference, Princeton University, February 2002

The fourth annual Economic Sociology conference took place at Princeton University on February 22-23, under the auspices of the Princeton Sociology Department, the Center for Migration and Development at Princeton University, and the Russell Sage Foundation. The excellent conference program, put together by Frank Dobbin, showed altogether the empirical diversity of the field and the intellectual maturity it has achieved in recent years. As Dobbin noted in his comments on the first set of papers, economic sociologists today widely share a number of fundamental ideas and concepts.

In particular, economic sociologists seem to agree that they now have tools at their disposal to counter the (to use Dobbin's words again) "post-hoc rationalists arguments of economists". They are especially well equipped to show that the organizational arrangements that surround us today are the product of contingent historical processes –not efficiency. And indeed the presentations in the first session of the conference (titled "Organizations as Context") illustrated the point quite well. Richard Scott argued that the changes in the organizational regimes, which have succeeded one another in the American health care field since the 1920s—e.g. the shift from a professionals-centered system (1920-1964) to a federal government-directed one (1965-1982) to a managerial or market model (1982-)—ought to be understood as successive responses to transformations in the institutional environment of health care. In the long run, the trend is one of field deconstruction. In a presentation of his forthcoming book, Charles Perrow also pointed out that the rise of "big business" in America was far from inevitable—in fact, throughout much of the nineteenth century small firms seemed more characteristic of American capitalism. If the large corporation prevailed ultimately, it was despite strong popular resistance, and thanks, largely, to the weakness of government at all levels, and the activism of the courts in removing regulatory constraints. Finally, echoing both Scott's and Perrow's urge for an institutional analysis of economic history, Richard Swedberg, in a programmatic paper that drew extensively on Weber, remarked that the impact of legal institutions on the economy remains to be studied at length. Interestingly, two papers that were presented on the second day of the conference (by Bai Gao and Mauro Guillen) vindicated Swedberg's call by focusing on law as a shaper of economic organization and corporate behaviors.

If they are united against economic arguments, economic sociologists today do not, however, necessarily share the same views about what to replace these arguments with. And I take it as a sign of the intellectual growth of our field that we are able to propose a variety of arguments and perspectives on economic phenomena—and engage in lively and interesting discussions about them. The second session of the conference demonstrated most splendidly the virtue of going "all the way" in the epistemological and methodological break with economics. "Looking at economic processes as a special case of social relations", as Viviana Zelizer put it in her comments, all three papers tried to understand economic practices as sites of cultural production. Kieran Healy, for instance, offered a brilliant analysis of the cultural work that has supported the construction of the organ market in the United States in the 1980s-1990s. Showing how organ procurement organizations develop cultural accounts that legitimate organ donation by emphasizing its "sacred" character and keeping money at bay, Healy

argued against approaches in terms of “commodification” that fail to see how players in these new and delicate markets try to navigate a fine line between economics and moral values. In a presentation of a book manuscript in progress, Sharon Zukin argued that corporations in recent decades have developed brand-centered marketing strategies in order to raise shareholder value, which has profoundly transformed the culture of shopping. She then proposed a complex theoretical framework for analyzing how people negotiate the symbolic and material pressures to consume. Finally, Deborah Davis presented the results of a fascinating study of the status of property in the “new” China. Using focus groups, she showed that people’s ways of solving hypothetical home ownership conflicts spontaneously organized around three logics of possession (family, regulatory state, and market) that were themselves rooted in three different periods of Chinese housing policy. All three presentations, then, underlined how cultural meanings and representations inform the ways in which people carry out their economic actions. They also emphasized, as Viviana Zelizer pointed out, the generally critical place of consumption in such culturally oriented studies.

Besides culture, network embeddedness constitutes another important theoretical perspective for understanding how economic outcomes come about. The next session (“Networks as Context”) placed a critical emphasis on the interaction between interpersonal relations and the structure of the economy, albeit in very different ways. In his analysis (joint with John Padgett) of corporate partnerships in Florence during the Medici period, Paul McLean showed that different industries had different market structures because they relied on different sorts of interpersonal ties. Familial ties tended to sustain both the distribution of credit and the formation of business partnerships, while neighborhood and class ties were only effective at supporting one of these two elements of business organization. The next two papers underscored, as Alejandro Portes remarked in his discussion, the importance of immigration as a strategic research site for economic sociology generally, and more particularly for the study of embeddedness. Drawing on a comparative ethnography of Koreatown, Pico Union, and Chinatown in Los Angeles, Min Zhou argued that ethnic-enclave neighborhoods offer non-economic resources that are of critical importance to the socialization of children. In a census-based study that nicely complemented Min Zhou’s, John Logan analyzed how different immigrant groups in Los Angeles tend to cluster into different forms of economic organization (enclave, mainstream, employment niche, entrepreneurial niche). Logan then assessed the relative payoffs of these different locations in terms of working hours and salary.

The last session, “Nation as Context”, confronted the audience with the question of the articulation between the local, the national and the global in the study of economic phenomena. Like in the other sessions, the papers were varied in terms of their methodology—going from statistical testing to historical analysis to ethnography—yet they cohered around the question of the nature and legitimacy of the “nation” as a context for economic activities—a point I emphasized in my own discussion on the session. Bai Gao developed the useful concept of “the constitutional order of the state” to understand why economic difficulties during the interwar led to the consolidation of cartels in Japan and Germany, but failed to secure the same movement in the United States—in spite of a brief attempt at a revival. In an interesting paper (joint with William Schneper), Mauro Guillen set out to understand what makes hostile corporate takeovers more or less legitimate in different countries. The study shows that beyond traditional economic variables, social and political ones (e.g., English law, individualist political culture, regulations on banking activities) account for widespread cross-national differences in the use of this corporate practice. Finally,

Karin Knorr-Cetina's presentation offered a nice counterpoint to these arguments. Her ethnographic study (with Urs Brueggers) of foreign exchange traders in Zurich analyzed the culture of the financial markets a—in a sense—totally “un-national”: instead, she described it as global, evasive, virtual, and bound by time rather than space. In doing so she, as many other presenters in this conference, articulated a subtle interpenetration between concrete agency and social structure in the formation of economic phenomena.

The 2002 edition of the annual Economic Sociology conference gave a wide panorama of some of the most exciting research topics, methodologies and theoretical arguments in this field today. During two days, presenters and the audience pursued the goal of such diversity with a true spirit of collegiality and enthusiasm. If economic sociology stays as healthy as it looked in Princeton this February, it is in great shape for the future.

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The First ASPS Seminar: Globalization and Business Cultures. Skellefteå, Sweden, February 15-16, 2002.

The American Studies Project at Skeria Utveckling (ASPS) - in cooperation with Umeå University and Luleå Technical University held the first international American Studies Seminar on February 15 and 16 in Skellefteå, Sweden. The seminar theme “Globalization and Business Cultures” sought to promote the analysis and discussion of globalising trends in corporate cultures including their logic, practices, and symbolism within the commercial, corporate, academic, public and private domains. For all attending, the event was a great success.

The seminar brought together an international forum of scholars from diverse disciplinary, national and cultural contexts who share an interest in studying the influences, reproduction and transformations of American-derived corporate cultures as major players in globalisation.

The seminar's immediate motivation was the initiation of the American Studies Project at Skeria. Although still in infancy, ASPS hopes to encourage and facilitate the critical study and discussion of American culture both in northern Sweden and Europe generally. And apart from offering course work, it hopes to support research and its dissemination, especially in the area of American business culture and its globalising influences. The seminar was a first step in that direction.

The initial idea for the gathering however came about last August at the Copenhagen Business School which hosted the bi-annual conference of the Nordic Association of American Studies (NAAS). It was there, that some new lines of research seemed to be emerging from a convergence of interests between American Studies, Business and Human Resource Management Studies and Globalisation Studies. Several scholars who gave papers in

Copenhagen made contributions to the ASPS seminar, including Janet Rose, Krista Vogelberg, Gary Webster and Eric Guthey.

Skellefteå provided a special venue for the seminar. First being in Sweden—and speaking as a recent immigrant myself from America—put us at very the center of modernity (or post-modernity if you wish), within the quintessential post-industrial society, “IT central—the most wired nation in the world,”—futuristic, sophisticated, and global, not to mention socially progressive. At the same time Skellefteå offered its own contrasts by the very nearness to the northern edge of Europe, a mere 150 miles from the polar circle where the sun barely rises in mid winter and barely sets at mid summer, the Sami still herd reindeer in the surrounding forest; and just weeks ago wolves were reported on the western border of our borough. Here it was difficult not to feel as though we were in one sense also “looking back into” that same post-modern world from some kind of periphery, from its margin.

It was from this context, with its seemingly contradictory experiences of both centrality and marginality that the issues addressed seemed to take on some unique qualities. Qualities it is hoped may in time form the intellectual basis of what we might come to call the Nordic Perspective. In any event such a metaphoric-topographical dynamic proved for some of us a powerful imaginative strategy for engaging global issues.

The theme: Globalisation and Business Cultures might have been seen as too broad a terrain to locate any meaningful critical engagement. At the same time several issues seemed to stand out: Business culture has global influence. Corporate values, ethics and practices affect virtually every aspect of society. Much of the influence comes from America. What is the nature of these influences? Where are they being most felt? What are their benefits? Their costs? What practical issues do they raise? What political issues? What moral issues? And it was around these that many of the papers as well as informal discussions adhered.

Following my own opening remarks as the seminar organizer, Chris Warhurst (Department of Human Resource Management, University of Strathclyde in Glasgow, Scotland) formatted Friday's plenary session at the Explaris Congress Center with a keynote speech “American in the Age of Globalization” in which he analysed the relationship between ‘globalisation’ and ‘Americanisation’ in light of the events of September 11th. The morning session followed with papers by Gregorie Balaro and Joachim Boko (National University of Benin, Cotonou) on cognitive mapping (read by the organizer), Albena Bakratcheva (American and British Studies Program, New Bulgarian University of Sofia) on Americanization and Otherness, and Janet Rose (Department of American Studies, University of Kansas and Rose Consultancy Group) who notably provided an “insiders” view on managerial contestation within franchise regimes.

Graeme Salaman, (Business Studies Program, The Open University, UK) framed the afternoon session with his keynote speech, “Made in the USA: New Organizations and New Managers” in which he discussed the increasing American role in generalizing the enterprise form of organization and the idea of the Market as a purifying principle. Papers followed by Davis Weir (CEREM, France) on the distinctiveness of an Arab world management paradigm, Tim Wilson (Business Administration, Umeå University) on Romanian business organization, Fawzy Salaman (Faculty of Business, University of Technology, Sydney) on enterprise learning in e-businesses, and Krista Vogelberg (English Language and Literature, University of Tartu, Estonia) on the infusion of American style market thinking in post-socialist nations.

Following a welcome to the Skeria Campus by Benkt Wiklund (CEIA, Umeå University), Saturday's plenary was opened by a keynote speech "American Exceptionalism.com" by Eric Guthey (Intercultural Communication and Management, The Copenhagen Business School) in which we were reminded of the analytical importance of multiple and contending constructions of corporate America or its "corporate fictions." Papers then followed by Magnus Frostensson and Tommy Borglund (Centre for Ethics and Economics, Stockholm School of Economics), on the "Anglosaxification" of management values in Swedish business; Rickard Danell (Department of Sociology, Umeå University), on the dominance of American scholars in International Management Research as measured through bibliometric analyses; Jacob Henricson (European Students Information Bureau, Brussels), on market thinking in higher education; Fawzy Soliman, (again) on the role of knowledge exchange in business integration; and Justin Wallace (Department of Geography, National University of Ireland, Maynooth) in a rare and stimulating dialectical analysis of the contradictory effects of American Foreign Investments in Ireland.¹

For closing remarks I took the liberty to observe briefly that the seminar did as hoped accommodate multiple and sometimes contending-voices on the issues of globalization and business cultures. Both critical as well as accommodative approaches were represented. At the same time dialectical positions like Wallace's were rare. And completely unheard were attempts at embracing possibilities for a new, alternate, post-critical, or counter-hegemonic discourse on the issues: A project it is hoped to be taken up in future seminars of this kind.

As for disseminating the proceedings: The ASPS Seminar program (soon to include abstracts of the presentations) is now available through a link within the new ASPS web-pages (<http://skeria.skelleftea.se/asps/>). Beyond this, plans are under way to publish the full papers both as an edited volume as well as through the ASPS web-pages.

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Joint Princeton – Northwestern Junior Scholars' Workshop on Embedded Enterprise in Comparative Perspective, April 11-14, 2002, Princeton University.

Is sociology looking for a larger interpretative scheme of social change? What is the place that economic sociology plays in such an effort? These clear yet hard to fulfill tasks were part of the 'mission' offered to participants at the Joint Princeton–Northwestern Junior Scholars' Workshop on Embedded Enterprise in Comparative Perspective, held in Princeton, mid-April 2002. The workshop has been organized as a panorama of recent work—mainly of doctoral theses—by young researchers. The organizers carefully selected participants from a wide number of countries and disciplinary field (sociology, organization science, business studies,

¹ Time prevented the final presentation of my own paper "Corporate Knowledge, Contestable Spaces, Funky Business" (available on the ASPS web-site: <http://skeria.skelleftea.se/asps/>).

anthropology and history). The opportunity to observe and reflect on how the entanglement of economic and social-political factors gets progressively captured and acquires a sense and a scope in social scientists' analyses was probably among the most important goals to fulfil during the meeting.

Food for thought was provided both from the participants' works as well as from established faculty mentors, who offered observations on the papers and stimuli to further development. However, in describing this event there are different aspects to be considered: the 'embeddedness' of the economy in society can in fact be an opaque definition that needs refinement and a rigorous empirical approach. The introductory speech given by Ronald Dore was, in this sense, a valuable encouragement to re-analyse contemporary changes in the economic structure of many different countries. His suggestion was to re-define Polanyi's concept of embeddedness and use it to interpret interrelations while considering the development of social patterns based on community bonds and in general on processes of social achievement. This last aspect is particularly relevant for studies dealing with China and Eastern countries, which are experiencing changes in the economic and organizational pattern of development. The second call to 'reinvigorate' perspectives of analysis of social structure was expressed by Brian Uzzi, whose intervention stressed the relevance of socio-economic mechanisms that lead to the formation of social networks and homogeneous, stable and cohesive social groups. Uzzi's comment, specifically, focused on the methodological aspects of embeddedness and the need for the social sciences to approach its different dimensions (cultural, relational, historical and structural) with specific instruments. Economic sociology seems to respond quite well to these demands, as since the 1980s its advances both in the theoretical and in the empirical field have been impressive. Particularly, as Uzzi underlined, the perspective in analyzing economic behavior, the market (or to be more precise the markets) and organizations has been enriched by introducing a mindful regard for interactions with social and cultural elements also in the comparative analysis of economies.

The presentation of the papers was coherent with this statement and provided occasions for the young scholars to debate each other's work while defining at the same time more clearly the relation between structures and institutions in comparative perspective and reconsidering the contribution of different subfields of knowledge. The sessions organized around geographical areas of research, in particular, addressed more directly the tasks of the meeting and succeeded in giving dimensionality to embeddedness. Among the issue that the four groups analysed was the processes of decontextualization of economic relations in networks of social relations (Japan session and China session), so as to also consider the effects of cultural disposition on economic and organizational change (managerial styles are a clear example of such an integration between structural and cultural aspects of social organization). The 'China session', together with the one dedicated to emerging market nations, expressed also the need to overcome the selective view that see a 'culture of reciprocity' as a trademark of less developed countries and of specific ethnic contexts. The historical emphasis on state-defined markets somehow prevented to consider that reciprocity practices may perform diverse purposes in western countries (social integration of minorities, creation of a group spirit) and submit to a different operational logic than contemporary political economy. The session which focused on Europe dealt with the role that the European Union and correlated institutions play in the standardization of social and economic practices in the member states. Looking at this process as a special laboratory of social change it is thus possible to 'dis-embed' cultural and institutional patterns and frameworks that previously provide sense to

social and economic action. When decontextualized, these aspects reveal the entanglement of relational and political forms of association with the culture and the specifics of each European country. On a different note, emerging economies are also stimulated to adapt to such pressures as part of the commitment path that international organizations require and to integrate new patterns of behavior and innovative cultural traits. The pressure for conformity, however, frequently highlights social phenomena and reference frameworks that in most of the cases reveal the nature and forms through which the 'embeddedness' of economic organizations in society expresses itself. In conclusion, the seminar proved that theoretical exploration in the social sciences has not come to an end or has exhausted in ideological debates, and could benefit a lot from opportunities of exchange as well as integration with different approaches and observations from diverse methodological perspectives.

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PHD'S IN PROGRESS

This section of the newsletter is devoted to descriptions of dissertations in the field of economic sociology. PhD students from Europe are kindly requested to submit a synopsis of approximately 200 words to the Managing Editor. Unfortunately, no submissions were made for this issue of the Economic Sociology Newsletter.

To be included in the next issue, submissions should be made before September 1, 2002.

ANNOUNCEMENTS

New International Master in European Labour Studies at the University of Bremen

A new international postgraduate study programme in European Labour Studies is offered by the University of Bremen that will start in the winter semester of 2002/2003. In two semesters it gives an introduction to labour institutions and policies in the European Union as well as to the comparative analysis of labour policies and relations in European countries. The interdisciplinary programme with teaching personnel from various departments and institutes of the University and the University of Applied Sciences of Bremen focuses on Labour Relations and Organizational Development and Occupational Safety and Health Promotion in the European context.

The study programme prepares for a career in personnel departments, public administration, unions and employers associations, media and research institutions. An internship programme offers opportunities to acquire practical experience in public institutions, companies or associations.

The programme is international: Students spend their second semester at a foreign partner university. The European network of twelve universities from eight European Union countries has coordinated the study programmes and convened an academic exchange; it awards a common title 'Master Européen des Sciences du Travail'.

The study programme aims at graduates in Economics, Political Science, Psychology, Ergonomy, Sociology or Law (at B.A. or M.A. or equivalent level) with proven interest in labour and work problems and appropriate language competences.

Further information at <http://www.european-labour-studies.de>. Contact: Dr. Rainer Dombois, mels@european-labour-studies.de.