

# Introduction

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This book is about the social and cultural study of finance, of the markets and institutions used for financial transactions, and the trading of assets and risks. The financial system controls and manages credit; in contemporary societies, the ultimate users of real capital rely heavily on others (investors) to provide the funds with which to acquire the resources they need. Investors make the transfers of money to those seeking credit in the hope of reaping profits at later points in time; the debts the receivers of the funds incur are claims investors can make on future income and on economic output and development. Characteristically, these claims (which take the form of company shares, government bonds, etc.) and their derivatives are marketed and traded on *financial markets*—with the help of financial intermediaries (e.g. banks, brokerage houses, insurance companies) who package the deals, assume some of the risks, and facilitate the trading of claims and risks among market participants. The existence of such markets allows participants to sell claims and risks they no longer want, and to pursue additional profits through clever trading. Financial markets, then, are a major, if not the most important component of the credit mechanism in risk-based economies. Economists regard them as constituting an efficient mechanism that fulfills vital functions of, and for, the financial system: for instance, they pool and transfer wealth for capital use, decrease the costs of finance (through the elimination of banks as direct lenders), and spread and control risks—risk being more widely distributed when credit is obtained in financial markets through the splitting of shares and through derivative products that can be used for hedging risky investments (e.g. Merton and Bodie 1995: 4f, 13-15).

In contemporary Western societies, financial activities are a defining characteristic not only of the corporate economy, but also of politics, the welfare and social security system, and general culture. For example, the corporate economy has long depended on credit to finance production and investments. A Robinson Crusoe with nothing to invest could not hope to produce much. He would first have to invest his own time and labor in order to build the rudiments of a productive capital structure (Shapiro 1985: 77). As Susan Strange argues (1994: 30), if we had had to wait for profits to be accumulated there would have been none of the economic growth of the past decades in industry and agriculture. The state has long needed credit and borrowed vast amounts of money. From the seventeenth century onward, states systematically financed costly military interventions by issuing debt (government

bonds) and borrowing money from banks and financial intermediaries, habits in which the financial sector might well have its earliest roots (Neal 1990). State borrowing continues to be strong today, though now it is more oriented toward deficit management and investment spending. In general terms, Western governments operate in interaction with the developments on financial markets. State officials and central bankers observe the price movements of currencies and financial indicators whose value may have an impact in a given geographic area, and they respond to them by talk and policy changes in an attempt to manage market participants' expectations and behavior (see Abolafia, Chapter 10, this volume). The state is interlinked with the financial system through government fiscal and regulatory policies which impact on the financial markets (e.g. Fligstein 2001: 201-2), and through the incentives states provide to attract financial investments and systems. A central component of modern welfare societies, pension systems, also depend on and interact with financial markets. Reserves that pay benefits to retirees are assets managed through investment vehicles. Finance is, moreover, now an ever more present part of the larger culture, as exemplified by the expansion of media attention given to finance. The first all-news financial television network appeared in the United States in 1983. It was soon followed by and absorbed into other networks (e.g. CNBC, CNNfn, Bloomberg Television and Radio). Newspapers also expanded their business section into enhanced 'Money' sections; together, these media provide an uninterrupted stream of financial and business news consulted by both a lay and a professional audience (Shiller 2000: 28-9). Barbara Czarniawska (Chapter 6, this volume) shows that the world of finance is present in popular culture—in consultancy books that dispense useful tips about personal investing mingled at times with autobiographical accounts (e.g. Schwager 1989, 1992), and in films and novels (e.g. Lewis 1989; Ridpath 1996; Partnoy 1997) that capture the dominant view of finance in our times.

Ours is not, of course, the first period in history to demonstrate a heightened curiosity in investment and some breathtaking movements of financial markets (see below and Preda, Chapter 7, this volume). But finance has perhaps risen in importance in the last quarter century more rapidly than any other sector of the economy. Since it bottomed out in 1982, the US stock market has experienced the most dramatic price increases in its history, if long-term data (1871-2000) are considered, and large stock price increases also occurred in Europe, Asia, and Australia (Shiller 2000: 5 ff.). In the period between 1981 and 1986 alone the volume of US public bond issues rose at an annual rate of 37%, equity issues almost tripled, the dollar volume of mergers and acquisitions activity tripled, and the volume of international bonds multiplied fivefold (Eccles and Crane 1988: 1). Since then there have been various dramatic falls in prices (examples are the 'Black Monday' of October 19, 1987 when the Dow Jones Industrial Average dropped 508 points, and the market declines of 2001 and 2002). Nonetheless, the level

and diversity of financial activities appears to have increased significantly since the 1980s. More importantly, perhaps, awareness of the financial system and of the risks and benefits it offers to individuals and organizations has also risen. As Sassen points out (Chapter 1, this volume), since 1980 the stock of financial assets has increased three times faster than the aggregate gross domestic product (GDP) of the twenty-three highly developed Organization for Economic Cooperation and Development (OECD) countries, and the volume of trading in currencies, stocks, and bonds has increased five times faster. Most of this activity is financial market activity. For example, the global foreign direct investment stock was US\$6 trillion in 2000, while the worldwide value of internationally traded derivatives was over US\$80 trillion, and rose to US\$192 trillion in 2002. In 1983, on the largest financial market in terms of volume of transactions, the foreign exchange market, transactions were ten times as large as world trade (the economic exchange of goods and services), but in 1999 they were seventy times larger, even though world trade also grew significantly during this period (Sassen, Chapter 1, this volume).

Financial markets in particular, then, have risen in importance since the early 1980s, and their power to determine outcomes in production, consumption, and social welfare is enormous. Yet to date they have not been paid much attention by sociologists. This is somewhat surprising in the light of the sharp upturn economic sociology has taken in the last twenty years, and the pioneering work that has been done in this field (e.g. White 1981; Granovetter 1985; Burt 1992; Fligstein 2001; Podolny 2001). Why the relative lack of interest in financial markets then? One answer surely is that the new economic sociology has focused on aspects of the *economy*, an area which has to be distinguished from that of finance. Economists have defined economic activities as that set of pursuits which involves the use of scarce resources to satisfy various human needs or wants—and they have broadly classified these activities into the categories of production, consumption, and exchange (Dholakia and Oza 1996: 7). Economic sociology also defines economic behavior in these terms—in terms of the institutions and relations of production, consumption, and social distribution (e.g. DiMaggio 1994: 28; Smelser and Swedberg 1994: 3; Portes 1995: 3). In their research, economic sociologists have focused on the production side of the economy, taking the firm as their point of departure—in line with the distinctive role production has played in the discipline's understanding of capitalism and with the focus early economic sociologists placed on the internal working of organizations (Swedberg 1991; Baron and Hannan 1994; Carruthers and Uzzi 2000: 486). Though a number of early studies were concerned with financial markets (Smith 1981; Adler and Adler 1984; Baker 1984), most recent research has not been in this area but has involved a shift from what goes on within firms to what goes on between them. The dominant line of research specializes in the analysis of interorganizational ties, in effect joining organizational

analysis and market analysis through the use of network approaches that analyze the nature of the relationships and networks and how these affect labor, product, and credit-seeking (e.g. White 1981; Burt 1983; Baker 1990; Baker, Faulkner, and Fisher 1998; DiMaggio and Louch 1998; Uzzi 1999). When markets are analyzed they tend to be producer markets, for example, markets for industrial products and nonfinancial services. Characteristically, the research glosses over distinctions between producer markets and financial markets in an effort to address the question of how economic activities are embedded in social structure (Granovetter 1985). While this research does not reject differences between markets, it is also not designed to capture the types and patterns of social structural and cultural variation that a 'multiple market' model (Zelizer 1988) suggests. Yet differences between producer markets and financial markets are consequential for almost every level of analysis of markets.

Financial markets are not primarily concerned with the production of goods or with their distribution to clients but with the trading of financial instruments not designed for consumption. No 'production' effort on the trader's part is involved in 'spot' transactions, the direct sale or buying of a financial instrument. When more complex instruments are traded (options, futures, etc.), their value tends to be calculated on the spot by traders themselves without recourse to production facilities. Financial markets belong to a second-order economy where the 'goods' are contracts (equities, bonds, currencies, derivatives) that *circulate* rather than being channeled to end consumers. There are two aspects to the sense in which these markets are steps removed from the ordinary economy of production and consumption. The first pertains to the instruments traded, which are not the funds investors provide but the shares and obligations they obtain in return for their investment and the contracts they enter into so as to protect these investments. Thus financial market participants do not withdraw credit directly from a company when they sell company shares; what may happen is that the sale influences the value of these shares. The shares and other instruments are abstract entities which may not even be pieces of paper but merely an entry in the books of the respective parties; the value of these entities is determined by financial market activities and is only tenuously related to the underlying referent (e.g. a company). The shift from concrete funds to abstract entities epitomizes the decoupling of financial markets from the ordinary economy of production, consumption, and exchange. The second aspect of this decoupling has to do with the form of action prevalent in financial markets, which is 'speculation.' Consider the example of the foreign exchange market, where 'actuals' (currencies) rather than contracts are traded in spot transactions (though these currencies nonetheless take the form of abstract entities). Historically, currency (foreign exchange) dealers provided services for importers, exporters, and others who needed foreign exchange to pay bills and pay for goods. They were intermediaries in conventional trading

oriented to the transfer of goods from producers to consumers. But only a tiny percentage of the current daily trading volume in foreign exchange (about US\$1.2 trillion in 2001; Bank for International Settlements 2002) reflects any 'real' requirements of companies; the daily volume of dollar transactions in this market is approximately 200 times larger than the added volume of US merchandise imports and exports, plus other sales that require foreign exchange (e.g. Caves, Frankel, and Jones 1999: 420). Thus, most foreign exchange dealing today is speculation not motivated by a need for the product obtained but by the motive of gaining from expected price changes of the currency when it is resold. Speculation and the seemingly endless circulation of the entities traded also differentiate other financial markets not only from producer markets, but also from merchandise and service trading, which is oriented toward the transportation of goods from one location to another and toward consumption at the end of the trading chain.

There is another sense too in which financial markets and the associated institutions differ from national economies: financial markets tend to be global markets, and the financial system can arguably be considered a global system. It is, if you wish, a structure of the world as one place rather than one of national societies. Economies, on the other hand, have typically been localized; they are the economies of nation states. They depend on national regulatory frameworks and institutions, tax and social security systems, national policies and interventions. They use national currencies and presuppose the existence of a national central bank. Their localized character is reflected in national economic indicators and in the attention given to them. Larger economic systems such as the European Union pose problems for analysts precisely because they do not correspond to this pattern; European statistics are often problematic since they average out the internal dynamics of localized economic activities and their causal dependencies on national frameworks of policymaking. To make predictions about the European Union's economic development, analysts tend to resort to the indicators of leading national economies and to disregard aggregate statistics that reflect the European level. The global architecture of financial markets is reflected in their concentration in global centers and cities (Leyshon and Thrift 1997; Sassen 2001), in the bridgehead construction of their infrastructure and the global 'scopic systems' they employ (Knorr Cetina, Chapter 2, this volume). All this will become clearer in the first section of this book. Not all financial markets, one should add, are equally global. While currency markets are inherently transnational markets, bond and equity markets are not, though they have become increasingly global in the most recent wave of globalization. As Sassen shows (Chapter 1, this volume), the value of cross-border transactions in bonds and equities as a percentage of GDP in the leading economies was 4% in 1975 in the United States, 35% in 1985 when the financial era was in full swing, and had risen to 230% in 1998. This share grew from 5% to 334% in Germany and from 5% to 415% in France.

### A Brief Look at the History of Financial Markets

The world economy was born with the dawn of international trade, and foreign exchange trading has played a role in this economy from this time onward. Some financial transactions are ancient; of others we have had evidence only more recently. We need to distinguish here between the existence of public debt or of company shares (with occasional trades) and the emergence of financial markets and of stock exchanges. Financial securities were well known and privately owned in the eighteenth century in North America, but they were not traded (Wright 2001: 21-2). Financial markets can only be assumed to exist when there are routinized, systematic forms of trading, relatively stable settings, a minimal degree of standardization of financial securities, and established cognitive procedures for their evaluation. When stock exchanges emerged they involved, in addition, agreements about formal rules, an established organizational structure, and a regulatory framework for exchange activities. Economic historians agree that informally organized financial markets preceded stock exchanges and shaped the ways they were set up (Michie 1999: 15). For that reason, the social and cultural history of financial markets does not begin with the analysis of the institutional structure and dynamics of exchanges. One must also investigate forms of interaction, social relationships, and cognitive and technological patterns that indicate the existence of more or less informal financial markets.

Sociologists and economic historians have distinguished at least two patterns of market emergence. The first pattern, proposed by Max Weber, is that of functional differentiation. Weber ties the rise of financial markets to the emergence of modern, large-scale commerce (Weber 2000 [1894]: 306). In the seventeenth century, wholesale merchants began to exchange certificates of the ownership of goods and brought only samples to the market. This saved transportation costs and expanded the circulation of goods. In time, certificates began to be traded independently of the goods. When early modern states turned to financing their wars through public debt instead of costly private debt, this innovation gave financial markets an additional and decisive impetus (Neal 1990; Carruthers 1996: 71). Previous trading in paper certificates facilitated the move to trading government bonds, which states unloaded on the market. The growth of maritime trade—a costly enterprise—led to the emergence of joint-stock companies in the late seventeenth century; their shares added to the supply of trading instruments.

The second pattern of market emergence has been proposed by Winifred Barr Rothenberg, who ties the emergence of financial markets to the separation between property rights and exchange rights. Rothenberg (2000: 5) shows how in eighteenth century rural Massachusetts, in a cash-poor economy, in the absence of a banking network and of other financial institutions, members of rural communities issued mortgage deeds as financial securities without renouncing their property rights. The deeds were issued for the sole

purpose of exchange; they were designed to facilitate trades in agricultural products. Over time, mortgage deeds were traded and accumulated without any reference to the underlying agricultural products, and a network of informal exchange relationships was thus established.

In Western Europe, financial markets emerged in the late seventeenth and early eighteenth centuries in Amsterdam, London, and Paris. The Paris Bourse was created already in 1724 by royal decree. In contrast, the London Stock Exchange was not completely institutionalized until 1801 (Michie 1999: 35). The New York Stock Exchange emerged from the 'Buttonwood Agreement' of May 17, 1792, by which the participating stockbrokers agreed to ask the same commission rate on transactions. The first formal stock exchange in North America was founded in Philadelphia in 1790 (Markham 2002: 115). Before that, there had been an incipient financial market in Philadelphia in the 1750s, but on a comparatively modest scale. Initially, financial transactions were conducted in the street and in the pubs and coffee houses where merchants came together. After the institutionalization of stock exchanges, the formal market moved indoors while the informal market continued to trade in the street. This situation continued until well into the twentieth century. In the nineteenth century, several formal exchanges existed in parallel in New York city; they specialized in various classes of securities (oil, mines, cotton, listed or unlisted, etc.). For most of the nineteenth century, trading in derivatives was not regulated by law, and was therefore practiced mostly in informal markets.

In the second half of the nineteenth century, markets underwent a process of technological remaking. While financial markets had benefited from communication technologies such as the telegraph and the telephone since the 1840s and the 1870s, respectively, what developed in the 1870s were custom-tailored technologies for the recording of security prices and for their simultaneous display in several places. This process was not free of tension; there were conflicts over the access to market technologies, to financial news, and to price information. Since then, financial markets have been reshaped repeatedly by revolutionary new technologies, a process that is ongoing. Several European stock exchanges have recently become entirely automated; the now empty trading floors of the Paris Bourse are occasionally used for staging fashion shows. The technological remake of financial markets in the nineteenth century had a number of consequences. The introduction of price recording technologies promoted the standardization of price information. Official price quotations appeared in London and New York in the late 1860s; with this innovation, producing business analyses and company statistics became more feasible and popular. As a further consequence of price standardization, one of the first market indexes was created by Dow Jones in 1884. Shortly afterward, security ratings and systematic financial analyses of industrial stocks were introduced. Technological innovation, along with processes of economic expansion, urbanization, and international

migration have contributed further to the speed of transactions and the expansion of markets throughout the nineteenth and twentieth centuries. This expansion has been accompanied by the cross-border integration of these markets, manifest in the increased speed of capital flows, the growing interdependence of markets, and their previously mentioned concentration in global centers.

### Outline of the Book

Economic sociology, we said, has focused very much on the production side of the economy. Yet an incipient sociology of financial markets has also emerged since the 1980s, exemplified by Smith's work on trading strategies and auctions (e.g. 1981, 1989), Baker's studies of trading networks (e.g. 1984), Abolafia's ethnography of bond traders (1996), and Sassen's continued work on the location of financial markets in global cities (e.g. 2001), amongst others (e.g. Lie 1997). The studies collected in this volume extend this tradition and that of recent or ongoing work not represented in this volume (e.g. Hertz 1998; Miyazaki 2003; Zaloom 2003). The studies cover a whole spectrum of approaches focused on the internal working and governance of financial markets, on the rise of the investor and investors' concerns, and on the influence financial markets exert on other areas, for example, on popular culture and the internal structure of firms.

Section 1, *Inside Financial Markets*, looks at the transaction practices in various financial markets, at market globality, and at mechanisms of market coordination and integration—followed by a reflexive study of how women fare in this world as reflected in popular culture. In Chapter 1, *The Embeddedness of Electronic Markets: The Case of Global Capital Markets*, Saskia Sassen addresses the technological transformations behind the emergence of global markets and the growth of capital flows since the early 1980s—as indicated by a number of highly telling statistics. These developments ensure, Sassen argues, the consolidation of an upper stratum of select financial centers, forming the top layer of the 30-40 global cities through which the global financial industry operates, and a weakening of national attachments for the elites and firms which make up the stratum. Yet the global market also remains embedded in national policies and state agencies in terms of the guarantees and protections it receives, and by producing norms and cognitions that become integrated into 'sound' national economic policies and standards. Chapter 2 (Karin Knorr Cetina) poses the question *How are Global Markets Global? The Architecture of a Flow World* with regard to a specific case, that of the foreign exchange markets, which by all accounts are the most genuinely global and the largest market worldwide in terms of daily volume of trading. The chapter draws a distinction between network markets and flow markets, arguing that foreign exchange markets

have become decoupled from networks and exhibit a scopic architecture based on reflexive mechanisms of observation and projection that project market reality and enable it to flow. The argument challenges the notion that networks are the fundamental stuff of which today's markets (or other forms of new organization) are made, and the idea that electronic interconnectedness can be equated with a network form of organization. The chapter also spells out the characteristics of a flow market. In Chapter 3, *How a Super-Portfolio Emerges: Long-Term Capital Management and the Sociology of Arbitrage*, Donald MacKenzie turns to the actual trading practices of global arbitrage trading. MacKenzie's study focuses on Long-Term Capital Management (LTCM), a hedge fund that had been hugely successful for several years but was driven to the brink of bankruptcy in 1998. The chapter describes in detail LTCM's trading strategies, explaining its failure in terms of a sociological hypothesis: LTCM's success led to widespread imitation in the arbitrage community of people who personally knew each other and who ended up holding overlapping arbitrage positions. Sales by some holders then led to a cascade of self-reinforcing adverse price movements that exhausted LTCM's means to hold out against the losses it incurred. Daniel Beunza and David Stark (Chapter 4), *How to Recognize Opportunities: Heterarchical Search in a Trading Room*, also look at arbitrage trading, but from the perspective of how a Wall Street trading room of a major international investment bank is organized for the process of price discovery. Beunza and Stark conceptualize the trading room as a kind of laboratory characterized by heterarchy, that is, a flattened hierarchy where the evaluative principles and information of one trading desk can be exploited by other desks in a process by which intelligence is distributed across desks. The authors show how trading involves heterogeneous principles of valuation and collaborative efforts which have received hardly any attention hitherto in the literature on trading (but see Heath et al. 1994). Chapter 5 (Jean-Pierre Hassoun), *Emotions on the Trading Floor: Social and Symbolic Expressions*, also focuses on the financial trading floor—from yet another perspective, that of the role and management of emotions in trading. Drawing extensively on the metaphors traders use, Hassoun provides a typology of market emotions, which he associates with the contexts in which emotions emerge—those of performance, violence, and gaming and gambling. He also discusses the social effects of these emotions and specifies three 'registers' of market activity that range from the macro- to the micro-level. The final chapter in this section (Chapter 6), Barbara Czarniawska on *Women in Financial Services: Fiction and More Fiction*, provides a reflexive commentary on the way financial markets are exclusionary and represented in this way in popular culture. Czarniawska compares the portrayal of 'exceptional' women such as the Swedish analyst Elin Friman in novels and journalistic accounts with that of certain semi-fictional male characters in films and autobiographies (examples are the movies *Rogue Trader*, which is based on the autobiography

of Nicholas Leeson, who brought down the Baring Bank, and *Boiler Room*, a movie based on the story of Michael Milken, 'the king of junk bonds', who was later imprisoned). She finds that risk-taking women who try their hand at masculine pursuits come to sticky ends in the plots of such fiction, confirming conventional stereotypes expressed by male traders when they assert that women have no place in financial markets.

Section 11, *The Age of the Investor*, turns from trading and the architecture of markets to the historical and contemporary construction and self-understanding of investors. While governments, firms, and markets all refer to the investor and conduct their business in the name of the investor, there are few sociological investigations of investor attitudes and investment behavior. Chapter 7, by Alex Preda, on *The Investor as a Cultural Figure of Global Capitalism* takes a step toward remedying this situation. Drawing on primary historical sources, Preda describes the emergence and understanding of the investor in the eighteenth and nineteenth centuries as one of capitalism's cultural figures, comparable to those of the entrepreneur and the capitalist. Preda argues that investment, originally denounced as a kind of gambling, became legitimate during the first wave of globalization (1850-1914); it began to be seen as intrinsic to human nature and a human right regardless of social status. The process involved a reconfiguration of the investor as a person in possession of these rights and of certain cognitive and technical skills (a kind of scientist) that allowed him or her to pursue his or her financial goals in universally valid and rational ways. These rights continue to play an important role today—in various governments' attempt to institute standards of business that work to the advantage of investors, in legal investigations, and in the various national and international negotiations over how to make financial information more transparent. In Chapter 8, *The Values and Beliefs of European Investors*, Werner De Bondt extends the historical analysis to contemporary investor culture. Using a survey of more than 3,100 affluent and semi-affluent investors in six Western European countries as a basis, De Bondt shows how investment strategies and the perceived attractiveness of asset classes are influenced by the values and beliefs of investors—and by their self-confidence, financial sophistication, and trust in expert advisors. De Bondt finds that investors' values and beliefs correlate with national character, gender, age, and religion and are predictors of portfolio choice and investment strategy. The final chapter (Chapter 9) in this section is by Richard Swedberg, who writes on the *Conflicts of Interest in the US Brokerage Industry*. This returns to the topic of investor rights, which Swedberg examines in the context of a case analysis of recent corporate scandals. Swedberg starts from the sociological assumption that interests are always socially defined or constructed and that interests can only be realized through social relations. He shows that interests manifest in these scandals were the outcome of definitional struggles centered on the notion of 'general investor interest', and that social relations and institutions played a key role

in substituting particular definitions of interests for the general investor interest in determining the outcomes of these struggles. This analysis differs from the greed-centered psychological analysis of corporate scandals predominant in public discourse. Swedberg calls on economic sociology to pay more attention to the dynamic of interests in economic behavior, arguing, with reference to Weber, that interests are a dynamizing factor in economic and general behavior.

Section III, *Finance and Governance*, presents two kinds of sociocultural processes: those which mediate and control market transactions (Chapters 10-12) and those through which financial markets affect the structure and organizing principles of corporations (Chapters 13 and 14). In Chapter 10, *Interpretive Politics at the Federal Reserve*, Mitchel Y. Abolafia takes the reader into the normally closed meeting room of the Open Market Committee of the Federal Reserve System. Analyzing meeting transcripts, Abolafia details the interpretive politics of the Fed during a period of a major policy change. The chapter identifies the temporal structure of Fed meetings and the framing moves that participants use to contest existing policy frames and project new ones. By looking at interpretive politics as an interactional process that relies on a repertoire of moves, the chapter exemplifies the social process of meaning construction in finance and provides a template for the mediating role of interpretive reasoning processes in other areas. In Chapter 11, *The Return of Bureaucracy: Managing Dispersed Knowledge in Global Finance*, Gordon Clark and Nigel Thrift shift the analysis away from such mediating interpretive processes to the question of how banks exercise control over trading rooms and financial market transactions. The authors describe a bureaucratic process of control through risk management that is dependent upon assessing dispersed knowledge about market conditions and response within the firm and across the globe. In financial markets more than in most other kinds of firms and industries, this kind of bureaucratic control is seen to be essential to corporate financial integrity and performance; indeed, the authors argue that it may also be essential to global financial stability. Chapter 12, *Enterprise Risk Management and the Organization of Uncertainty in Financial Institutions*, continues to explore risk analysis, but with a broader focus. Michael Power shows how new instruments of risk analysis, based in sophisticated financial metrics, have gained global prominence and are being adopted as regulatory tools for financial markets by national and international bodies. Power's argument is that the rapid rise to success of these tools is not necessarily due to their technical accuracy, but rather to the fact that they embody a new conception of the relationship between firms and financial markets (the shareholder concept of the firm). Power also argues, in line with Clark and Thrift, that risk analysis tools are adopted to increase the internal control of corporations. The shareholder concept of the firm is also central to Chapter 13, *Managing Investors: How Financial Markets Reshaped the*

*American Firm*, Dirk Zorn, Frank Dobbin, Julian Dierkes, and Man-shan Kwok start from the question of what causes large numbers of firms to change strategy and structure in tandem. They find that the new model, the shareholder concept of the firm, which emerged between the 1960s and the 1990s, could not be traced to internal functional demands but came from institutional investors, financial analysts, and hostile takeover firms which began to articulate a new ideal that suited the interests of these three groups. The chapter thus illustrates how professional groups in financial markets can act as agents of change in an area with which they have little direct contact by expressing their preferences for firm structure and strategy through their roles in the market—for example, by lowering the price of firms that did not abide by the new ideal, recommending against buying stock in them, or taking firms over and restructuring them themselves. Chapter 14 demonstrates another aspect of the effect such agents can have on the internal structure of firms. In *Nothing but Net? Networks and Status in Corporate Governance*, Gerald Davis and Gregory Robbins show that corporate boards seek to appoint well-connected directors above all when they have a strong need for a display of status—which is the case when they are owned by institutional investors rather than individuals, and when they have been the subject of shareholder proposals suggesting a change in firm governance. By examining a panel of the several hundred largest US firms observed at four-year intervals over a twelve-year period, the authors explore these findings in connection with firms' network centrality. Central boards are better able to attract central directors and CEOs of major corporations, but there is no evidence that boards composed of these individuals enhance subsequent performance (Khurana 2002).

The intention here is not to present the reader with a single point of view or argument, but rather to highlight the diversity of theoretical perspectives and approaches, as well as the complexity of the field. Some topics of research are just emerging; others are being approached under a new angle. Still others did not find their way in this book for reasons of space and structure. Nonetheless, the present book aims to deepen the sociological study of financial markets as a fundamental domain of modern societies. It hopes to convey to the reader the intellectual excitement triggered by studying them.

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