

Bringing (Crude) Functionalism Back In  
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With the possible exception of “reductionist,” there is no greater insult for a sociologist than to be labeled a functionalist. And the aversion to the functionalist tag seems stronger among economic sociologists than it is among our disciplinary brethren. After all, the *raison d’être* of economic sociology lies in its adoption of an approach distinct from that of neoclassical economics, a discipline that is firmly (though with some nibbling around the edges by various heterodoxies) gripped a functionalist logic. Who needs sociologists to be functionalists when we have economists?

And yet, if we examine recent economic sociology, it is interesting to observe how much functionalism has been smuggled in, albeit with marked ambivalence. Consider, for example, how the literature on embeddedness and business groups tends to regard social networks as solving such problems as trust (Granovetter 1985), fine-grained information transfer (Uzzi 1997), adverse selection (DiMaggio and Louch 1998; Gulati and Garguilo 1999), risk (Lincoln, Gerlach, and Ahmadjian 1996), and uncertainty (Baker 1984; Powell et al. 1996). Authors typically retreat from a fully functionalist interpretation. Some stress that networks may also be dysfunctional (Granovetter 1985). Others caution that overuse of networks is problematic (Uzzi 1997). Still others stress that networks take on lives of their own such they cannot be reduced to their purpose (Lincoln et al. 1996).

Yet these caveats do not eliminate the underlying functionalism. And with good reason. To completely avoid a functionalist logic is to embrace the troubling assumption that the rates at which the practices and institutions of contemporary capitalism are created and survive are unaffected by the extent to which they further actors’ interests. Imagine that social networks systematically impaired a firm’s ability to remain in a market. Would it then be reasonable to expect networks to be widespread? Whether via adaptation or selection, it makes sense to begin with the premise that practices which significantly help economic performance are adopted and will eventually be prevalent, while behavior that significantly hurts performance are avoided and will eventually be rare.

But does admitting the importance of functionalist processes undercut economic sociology’s claim to be distinctive from economics? It would indeed do so were we to see the market as a highly efficient functionalist mechanism— i.e., such that observed practices can be assumed to be most efficient since they have been exposed to the selection pressures exerted by the market. Economic sociologists are rightly repelled by such naïveté. Yet to reject market efficiency does not mean that we need to reject market functionalism— at least when we allow the functionalist solutions provided by the market to be crude: good enough to reproduce themselves but suboptimal in that they may fail to reward (punish) a significant amount of the very behavior that they are supposed to encourage (discourage).

The image of the market as a crude functionalist mechanism appears in two ways in my own work. Consider first the classificatory structures that organize many markets, including the financial and labor markets that I have studied (see Zuckerman 1999, 2000,

2003; Zuckerman, Kim, Ukanwa, and von Rittmann 2003). The tendency to assign the goods, assets, or services in a market to categories can be readily explained on a functionalist basis: categories help market participants place value on things for which value is difficult to establish. Unless a categorical label helps buyers and sellers arrive at and communicate value, and unless it distinguishes a reality (intersubjective rather than material) that is not captured by other categories, it will not survive for very long. And yet, categorical structures may be useful without being optimal.

The basic reason for such suboptimality is that categorical distinctions are typically crude cuts through a highly nuanced and dimensionalized array of phenomena. For example, the industry-based classificatory structure that guides investment in the stock market operates on the assumption that each firm can be mapped into a single, identifiable industry. This assumption may be valid in general, but it is not valid for some firms, which face pressure to conform to prevailing categories even when their business models are sound—the very issue that the categories are “designed” to judge. A similar, workable-but-crude, assumption operates in many labor markets: that most people have the potential to be skilled in a single job category, and that therefore, past work in one category indicates lack of skill in others. While this tendency to typecast on the basis of past work is a reasonable heuristic for employers, it limits the extent to which workers who have a broad array of (potential) skills obtain a chance to showcase (develop) them. Thus, the market mechanism “works” without being fully efficient ; it produces a systematic relationship between an actor’s attributes and its market position but ensures that the latter cannot be reduced to the former.

The image of the market as a crude functionalist mechanism has also been helpful to Stoyan Sgourev and myself (2003) in analyzing what we term “industry peer networks.” These are sets of small, exclusive groups of firms that are industry peers but not market competitors, which gather regularly to share information and review one another’s performance and business practices. Our fieldwork and survey data reveal three sources of value that small business owners seek and typically say they receive from participating in peer networks: learning, motivation, and friendship. While all three dimensions are interesting, the issue of motivation is perhaps the most intriguing. Our informants generally report that they gain a sense of “accountability” through oversight by their peers that they do not receive through the indirect and opaque feedback provided by the market. Indeed, it is striking that they seek out reference points and even additional bases of competition that are orthogonal to their local markets.

To deny that such industry peer networks are governed by a functionalist logic would be silly. Participants would (and do) leave if they feel they are not valuable. But note that the very reasons that peer networks might be valuable undercut standard neoclassical assumptions about the efficiency of the market in fulfilling its purported functions. After all, consider that the capitalist’s motivation is not treated as problematic by economists (or even most sociologists). Due to the harsh discipline handed out by the market to those who fall behind their rivals, it seems capitalists should be maximally motivated. And yet, the presence of peer groups suggests that the market must not be as powerful a motivational force as commonly supposed. Again, while the market may provide a solution that is good enough to reproduce itself, it falls short of being an optimal device. Indeed, one’s attention is directed towards a closer examination of the

nature of the motivation that is provided by the market and whether it may sometimes be dysfunctional.

More generally, viewing the market as a crude functionalist mechanism charts a middle course between the economist's tendency to assume markets to be efficient and the economic sociologist's general discomfort with functionalism. It encourages us to endogenize "social" and "positional" differences between actors not so that we may treat them as epiphenomenal but so as to better understand how they can exert causal force.

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