

**Research in the Sociology of Organizations**  
Volume 31

# Categories in Markets: Origins and Evolution

Greta Hsu  
Giacomo Negro  
Özgecan Koçak  
Editors

RESEARCH IN THE SOCIOLOGY OF ORGANIZATIONS  
VOLUME 31

# CATEGORIES IN MARKETS: ORIGINS AND EVOLUTION

EDITED BY

**GRETA HSU**

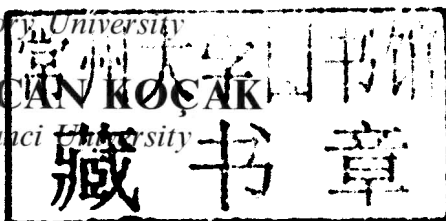
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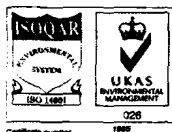
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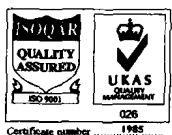
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# **PART I**

## **INTRODUCTION**



# RESEARCH ON CATEGORIES IN THE SOCIOLOGY OF ORGANIZATIONS

Giacomo Negro, Özgecan Koçak and Greta Hsu

## ABSTRACT

*The concept of a “category” and the social process of “categorization” occupy a crucial place in current theories of organizations. In this introductory chapter to Research in the Sociology of Organization’s volume on Categories in Markets: Origins and Evolution, we review published work in various streams of research and find that studies of organizational forms and identities, institutional logics, collective action frames, and product conceptual systems have key commonalities and predictable differences.*

## 1. INTRODUCTION

Categories and categorization processes in markets are thriving topics that span a number of literatures within the sociology of organizations. In this chapter, we identify common grounding points as well as key differences in this area of research, and we end by highlighting the contributions made by the chapters in this volume. Our aim, both in this introductory chapter and

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in this volume, is twofold. First, we hope to make this vast, diverse literature accessible to those who do not work on categories directly. Second, we hope to encourage those who work on them to be stimulated and provoked by ideas from other perspectives.

Before continuing, we would like to note that research in categorization in organizational studies cannot be thought independently of the work in categories in other areas of sociology. Excellent reviews and special issue volumes already exist, most relevantly on symbolic boundaries (Pachucki, Pendergrass, & Lamont, 2007), on boundaries in general (Lamont & Molnar, 2002), on culture and classification (Baumann, Dowd, & Janssen, 2009), and on culture and cognition (Cerulo, 2010). Our chapter is offered as a complement to these recent analyses and it is organized as follows. In the next section we describe early and recent approaches to the study of categories and organizations. Then, we discuss points of convergence and distinction of these approaches. We conclude with an overview of the studies included in the current volume.

## **2. CATEGORIES AND CATEGORIZATION IN ORGANIZATIONAL RESEARCH**

Many of the theories addressing categorization emanate from a branch in the study of organizations that views organizations and their environments as their focus of analysis (Scott, 1981). These theories engage with collective processes to explain social behavior, events, and mechanisms in and around organizations, and commonly read categories as socially constructed partitions that divide the social space and the distinct meanings associated with them (Durkheim & Mauss, 1963). Like other entities, organizations are subject to categorization. Categorization defines organizational identities, what organizations are expected to be by their members and other social agents. How organizations are placed within collective categorization systems affects the social, cultural, and material resources available to them. Knowing this, they often try to shape category systems and influence the choice of categories into which they are classified. Thus, understanding organizations' relationship to their environments often requires understanding categorization systems.

Categories as a conceptual tool for understanding organization–environment relationships has appeared in work on organizational forms, meaning systems in institutional fields, product classification systems, and social movement

frames. In these lines of research, categories were discussed as a part of broader cultural norms and rules; as a result, constraints of categorization were viewed as applying to all organizations within a domain or at least to very broad sets of them. In our view, the publication of Ezra Zuckerman's "Categorical Imperative" paper (1999) marked the beginning of (and was a key impetus for) the remarkable level of recent interest shown by organizational theorists in research using the idiom of categories (see also Hannan, 2010). One of Zuckerman's contributions was to demonstrate that cultural rules and norms apply in a more differentiated way. His work also identified more specific agents and mechanisms involved in at least enforcing categories, if not creating them. Among other things, this added differentiation opened up opportunities for defining new problems and making empirical analysis more tractable. In the rest of this section, we review the antecedents of interest in categories in prominent research programs in organizational studies. We then proceed to review more recent work, organizing our discussion in terms of common themes and different perspectives.

### *2.1. Antecedents*

New institutional theorists emphasized cultural and cognitive processes driving organizational homogeneity, highlighting how the societal belief systems and cultural frameworks in which individuals and organizations are embedded shapes the practices and behaviors they adopt (Meyer & Rowan, 1977; DiMaggio & Powell, 1983). Shared cognitive structures such as taken-for-granted scripts, schemas, rules, and norms play a powerful role in shaping and mediating the regularity of social behavior (Zucker, 1983; DiMaggio & Powell, 1991). Cognitive structures come to be shared as a result of three processes (Berger & Luckmann, 1966). First, behaviors adopted by actors in order to solve recurring problems become habitualized with minimal effort in response to particular stimuli. Second, behaviors are typified by developing common definitions linked to habitualized behaviors. Third, typifications are transmitted broadly so that actors who lack direct knowledge of their origins also treat them as "social givens."

The concept of institutional logics (Friedland & Alford, 1991) gained particular interest as an analytical tool to study clashes in the assumptions, values, beliefs, rules, and schemata that provide meaning to material practices (Lounsbury, 2007). This has entailed a view of institutions as being in tension with each other, allowing for ambiguity, multiplicity, and contradiction to sow the seeds of change (Haveman & Rao, 1997; Clemens & Cook, 1999).

However, cognitive frameworks and processes do not automatically produce significant change. Change is shaped by the interaction of schemas with social networks and other resources in processes of diffusion, innovation, and mediation (DiMaggio, 1997; Strang & Soule, 1998).

Beyond organizational institutionalism, the concept of organizational form played a prominent role in theorization within organizational ecology. A form was initially defined as “a blueprint for organizational action,” assuming a particular configuration of core properties and specific patterns of input–output activities (Hannan & Freeman, 1977, 1986). A form’s blueprint can be inferred from the formal structure of the organization but it depends on its cognitive order – the ways of organizing that are defined as right and proper by relevant sectors of the environment.

Sociological theories of markets also conceptualized the social structure of markets as comprised of cognitive models and cultural rules as well as material resources and positions (White, 1981; Leifer, 1988; Baker & Faulkner, 1991; Podolny, 1993). These models enable producers to identify their rivals (Porac & Thomas, 1990; Porac, Thomas, Wilson, Paton, & Kanfer, 1995) and make critical decisions like volume of production and price to charge (White, 1981). They enable clients of organizations to estimate quality (Podolny, 1993) and allow consumers to evaluate products (Rosa, Porac, Runser-Spanjol, & Saxon, 1999). In this conception, market social structures are heuristic systems, or cognitive tools, that enable economic decision-making. They often have self-reinforcing dynamics. For example, pecking orders of quality and status tend to persist among producers as behaviors of producers and consumers reproduce structural inequalities (Podolny, 1993; White, 2002).

The significance of categorization has also been highlighted in research on the collective action frames that activists develop to organize constituents. The concept of frame as used in the study of social movements is derived primarily from Goffman’s (1974) work on frame analysis, and applied by Snow and Benford and their collaborators (Snow, Rochford, Worden, & Benford, 1986; Snow & Benford, 1988). In this interpretation, frames denote “schemata of interpretation” that enable individuals to locate, perceive, identify, and label events within their life space and the world at large. Frames function to organize experience and help to render events meaningful.

## *2.2. New Approaches to Categorization*

While these theories of organizations addressed categorization, they mainly did so by considering categories implicitly as components of the external



environment. Zuckerman's (1999, 2000) work was the first to explicitly draw attention to category systems as taken-for-granted constructs that influence market behavior and market outcomes. In his research on financial markets, he found that firms that fail to establish themselves clearly as members of financial analysts' categories are less likely to receive coverage by analysts specializing in their industry. Such inattention reduces attractiveness to investors and impairs their value on the stock market and makes the price of their stock more volatile (Zuckerman, 2004). As a result of this selection process, firms are generally pressured to behaviorally conform to the category systems employed by their audience (Zuckerman, 2000).

Phillips and Zuckerman (2001) extended this perspective by developing a two-stage model of market competition describing an interface between two sets of actors: candidates and audience members. Candidates present offers to the audience for valuation and consumption, and the audience screens, selects, and consumes them. In the screening process, audience members must be able to compare offers with one another in order to make a choice; clear membership in a market category facilitates this.

Three key insights of this work have had significant impact on organizational research: (1) category boundaries are controlled by the perceptions of an audience, (2) they are consequential for organizations' interaction with other social actors, and (3) they can be studied empirically by using data on intermediaries' or other audiences' classification systems. The fact that this abstract theory about categories could resonate simultaneously with work on institutionalized rules and expectations, organizational forms, movement frames, and product classification systems, contributed to its influence.

The shift of attention to audiences and category boundaries has reoriented work within organizational ecology (see also Hannan, 2010). Most fundamentally, it has led to an effort to clarify the organizational form concept. According to Hannan, Pólos, and Carroll (2007) (see also Pólos, Hannan, & Carroll, 2002), categories emerge as audience members recognize similarities among groups of producers and come to regard and label them as members of a common set. If and when there is a high level of collective agreement about the cognitive model detailing what it means to be a member of the set, it is referred to as a category. And if the schema for the category becomes highly taken-for-granted such that audience members automatically assume that producers with the label have schema-consistent features, it is regarded as a form. The shift is evident in that forms are not distinguished by organizational architectures but involve social and cultural typifications. Forms constitute a key part of producers' identities; when producers are accepted as a member of a form, audiences assume