

*SO430*  
*Summative Essay 2013*

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*Question:*

*Can a single idea change the nature of economic life? Answer with reference to an empirical example not covered in lectures or workshops. You may use any appropriate methodology.*

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## *Introduction*

In my essay, I will argue that ideas are a fundamental part of economic life and as such continuously change the nature of economic transactions. The first section of my essay traces the importance of ideas as an analytical concept in the literature of economic sociology. For this end, I draw on a selection of important classical and contemporary studies. Based on the concepts and insights won from the pre-existent literature, I then turn to a collective of drinks manufacturers in Germany as an empirical example. The investigation is based on a mixture of social network analysis, document analysis and several interviews. Drawing on both the literature and my findings, I conclude that ideas do in fact change economic life. But I will also argue that the ideas that shape economic life do so in a fundamentally social process, which is difficult to predict.

## *Ideas in Economic Sociology*

For a solid grounding of my discussion, I will define what I mean by an idea. The Oxford dictionary provides a useful definition and calls an idea „a thought or suggestion as to a possible course of action“. According to Georg Simmel, thought and action are organised in a similarly clear hierarchy (Simmel 1978). In this view, economic actions are based on calculations in the widest sense, before they are acted upon. These calculations then turn into a social action when two calculating individuals meet and negotiate the value of an object. If an agreement is reached, the result becomes the intersubjective value of that object. Hence, ideas not only change economic life, but economic life in general can be understood as a system of interrelated thoughts that are negotiated into intersubjective values and then shape the material world.

Joseph Schumpeter also assigned a great deal of importance to the role that ideas play for economic life in general and for the existence of profits in particular. He traces the source of profits to the entrepreneur who, “carries out new combinations” (Schumpeter 1934, p.132). In the short term the enactment of ideas by entrepreneurs’ typically involves either more efficient use of factors of production or improved products, thus creating the room for profits. In the long term, however, the use of new technology and processes may radically change the way the entire economy works. This idea has risen to prominence as “creative destruction” (Schumpeter 1942). Schumpeter concluded that economic growth and development are linked to the capacity for innovation. As with Simmel, ideas are more than an ingredient in economic life. They are at the core of the capitalist economy.

But how else do ideas have a lasting influence beyond the individual mind? Max Weber’s (1930/2001) essay on the protestant ethic and the spirit of capitalism is probably the most famous sociological analysis of lasting change caused by a single (religious) idea. The accuracy of Weber’s thesis that several protestant sects have been of central importance for the reorganization of the lifeworld with a more rational and this-worldly approach is, of course, contested (see for example Cantoni 2009; Giddens 2001, Sayer 1992). But while some of the historical evidence given by Weber might not be accurate enough to withstand the test of time, Weber’s fundamental reasoning is still relevant for a contemporary analysis of ideas as a *social process*. The reasoning is clear when Weber points out that both Luther’s and Calvin’s original ideas and teachings cannot be reconciled with the ideas of modern, liberal capitalism. But because their spiritual ideas required an almost inhumane degree of austere asceticism and faith (Weber 1930/2001, p.71) from their followers, they also created a need for individual and social reassurance, which in turn favoured a return to this-worldliness. The fact that the

outcome can be at odds with or even diametrically opposed to the original idea illuminates the social interactions that influence all aspects of change. The relationship from the origination of an idea and the ensuing social action is not causal in a straightforward manner. An idea that begins to disseminate into the social space, is acted upon, contested and negotiated and it will almost certainly have unintended consequences that depend on the way in which it is communicated and interpreted. The origin of new ideas is not always as clear as in the case of the reformation, but the process in which new ideas begin to shape economic life has been demonstrated in the case of the emergence of life-insurance (Zelizer 1978), normative economic theory (MacKenzie and Muniesa 2007, Beckert 2008) and Financial Regulation (Campbell 2010).

### *Ideas and Change in Social Networks*

As seen above, if we want to understand their potential for change, ideas need to be analysed in their social context. There are several ways in which such a context is conceptualised. In an established field of organisations it can be useful to analyse the institutional framework and how it has created specific cognitive patterns that enable and constrain social action (Powell and DiMaggio 1991, DiMaggio and Powell 1982). According to this approach, change usually occurs as the result of conflicting conflicting institutional logics. (Philips, Lawrence and Hardy 2004, Friedland and Alford 1991) However, institutional theory only fully unfolds its analytical strength in well-established settings and requires a very broad and extensive collection of data to demonstrate the existence of cognitive patterns and tacit norms. Unfortunately, this is not possible in this essay. Because the empirical example (see below) that I draw on is also a young organisational environment, I will mainly draw on theories that try to explain how economic networks work that are embedded within the institutions mentioned above.

The two theories share the idea that social constraints guide the way in which economic life is organised. But a network approach provides analytical tools that allow for a much more detailed analysis of how individuals interact and try to translate ideas into organisational change that might result in institutional change. Granovetter has presented provided examples of how organisations are embedded in their social context (Granovetter 1984). He has also shown how information is passed on in networks, especially through weak ties (Granovetter 1973). This means that information becomes particularly useful, when two individuals do not normally share a social network. According to Granovetter, weak ties increase the likelihood that information received from weak ties is new and I argue that this also holds true for ideas. In a tightly woven network, the ideas that are within the network are well known. Whether they are adopted or not is secondary, but the ideas that have been within the network for long periods of time are likely to have reached their full change potential. However, if an individual picks up a new idea through a loose tie, this idea might be conflicting with pre-existing ideas within the network (or have a conflicting logics as institutionalists might say). The individual might bring the new idea up for discussion. The resulting social interactions (or power struggles) will cause the group to re-evaluate the *status quo*. This opens the opportunity for change or a recombination (as in Schumpeter) of old and new ideas. The result would then be a change (or an innovation) in the way economic life works for the involved networks. So in the following, I will present my empirical research and use the concepts of weak ties, social networks and ideas as a social process to see how exactly ideas can change economic practices.

### *The Idea of Premium Cola*

When the producer of the popular German “Afri Cola” changed the fizzy drinks’ recipe in 1999, a group of consumers formed a movement to get the old recipe back on the shelves. When the change did not materialise, the movement got hold of the original recipe and began to brew the original itself. Thus, in 2001 the Premium collective was born. The organisation has understood itself as a force for change from the beginning and as such has introduced several ideas that are intended to change the way in which economic life is organised. In its own words Premium is a project that aspires to „make the world a better place by creating, living and spreading a humane and sustainable economic model”<sup>1</sup>. While Premium Cola is clearly a niche organisation that supplies less than 1% of its market, it has seen expanded considerably over the last years. In 2011 and 2012 revenue grew by 20% and 12,5% respectively, while total sales amounted to almost 600.000 bottles<sup>2</sup>. The organisation has also been invited to give at least 150 talks and presentations in a broad range of contexts ranging from business incubators and business organisations to universities and the German military<sup>3</sup>. There has also been considerable media attention in major publications such as the Wall Street Journal<sup>4</sup>, Die Zeit<sup>5</sup> (a national weekly newspaper) and several national TV stations. The exact degree of change in national economic practices is difficult to estimate (also because of the limited scope of this article), but Premium has certainly established many weak ties through which the ideas are communicated. Here, I will mainly focus on the change potential within the direct surroundings of the network. All ideas and principles that are supposed to guide Premium activities are summarized in the *Operating System* (OS). The overall goals of the OS adhere to ideals of absolute transparency, sustainability, social

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1 Mission statement found on the front page of <https://www.premium-cola.de/>

2 Figures according to in project manager Anne. The data can also be requested from Premium.

3 <http://www.premium-cola.de/betriebssystem/transfer>

4 <http://www.wallstreetjournal.de/article/SB10001424127887324662404578332230968156620.html>

5 <http://www.zeit.de/2005/34/Afri-Cola>

responsibility and a consensus democratic process within the organisation. The OS consists of several modules that outline the organisations vision for how to run a business for change. The most notable modules that also pose a fundamental departure from standard economic life are the complete renouncement of any form of credit and profits (only a fixed predefined income generated as a relative share of each bottle is allowed). Contracts and formal hierarchies are equally avoided in favour of trust and consensus democracy in order to maintain the freedom of each participating individual<sup>6</sup>. Over the years, the OS has also become one of the main “products” of Premium. It is freely available under a *creative commons* licences and deliberately promoted by the collective, through weak ties, in order to encourage economic change across industries and business models. In relation to the question that this essay is going to answer, I am not going to elaborate further on the specific content of the OS. I will instead treat the OS as one single idea aimed at changing the nature of economic life. This means that I have limited my empirical investigation to an analysis of the mechanisms that transmit and shape the OS and if its increasing use by other organisations constitutes a change of economic life.

### *Methodology*

The definition of what an idea is according to the Oxford Dictionary has the benefit that it is inclusive focused on action rather than thought. Thought is a problem because they are empirically elusive, personal, subjective and prone to change over time, as for example when we “rationalize” our behaviour *post hoc*. Thoughts have been banned into the realm philosophy and sociologists have struggled with the concept of thought since the beginning (Swedberg 2011). In addition to these qualitative issues of interpretation and validity, studies that analyse thoughts will invariably be confronted with

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<sup>6</sup> <http://www.premium-cola.de/betriebssystem/>

problems of scale or depth. Scale is a problem because an in-depth analysis of thoughts can only be done qualitatively. Scarcity of time and money usually inhibits large-scale studies that would allow for a generalization of the finding. Depth is a problem in quantifiable questionnaire-based research of thought (or even attitudes). Even the most sophisticated survey design cannot adequately cover the breadth and wealth of the complex edifices of thought that make up individual action. Thus, while usually providing stronger generalizability, the findings of large-scale quantitative studies can be questioned on the basis of their validity and reliability. Studying thought gains a lot from being operationalized into outcome focused variables. As we have seen in Simmel, these negotiated outcomes can function as reasonable proxy for intersubjective agreements. While economic action is notoriously hard to predict, it does leave behind a trail of records. In the case of Premium the website, balance sheets and other forms of communication create a relatively stable source of such information. In hindsight they help me to establish historical facts. In a preliminary research, I have collected both financial data as well as information on external ties. The financial data (see above) and information on the talks given to externals is relatively straight forward and helps to interpret to what extent Premium is growing and spreading its ideas. The other documents on the website provide a set of formalized information and is a formal representation of negotiated intersubjective ideals about how the OS *ought* to change the structure of economic cooperation and coordination. The documents are a source for scrutinising how thoughts are collectively turned into a formal prescription of action patterns. Besides this, I have attended a biannual meeting of the collective, where I was able to conduct four semi-structured interviews with members of the group. The first interview was done with the initiator of the collective (Uwe). I then relied on a mixture of “snowballing” and observation to find other interview partners. This means that I both used clues from the first

and subsequent interviews to identify the central “project manager” (Anne), the accountant (Katja) and a long-standing member of the sales team (Eduard). I transcribed the interviews and systematically analysed them for mention of ideas and network ties. Ultimately, I distributed a set of questionnaire in order to collect data for a social network analysis. However, the resulting data is somewhat problematic. First of all, there were only between 17-20 members of the somewhere around 60-70 “core”<sup>7</sup> members present at the meeting. In total, I gathered 14 valid questionnaires. This means of course that the network sample that I present here suffers from self-selection bias (the ones that attended the conference are likely to be the most active). I thus run the danger to systematically overestimate the prevalence of strong network ties. Any generalisations should be adopted with care. It is quite possible, that a large degree of weak ties exists in the network that I could not record. There is also a risk that questionnaire based data does not adequately reflect the network, because Premium is organized around an email based communication system which is used extensively for discussions between members. A discourse analysis of this document could of course provide a stronger insight into the network and the way in which ideas form and result in action. But with thousands of pages of data, this type of analysis is, again, well beyond the scope of this paper. Even with all the shortcomings, I think that my social network analysis does provide an interesting insight into the structure of an important subgroup of decision-makers within the collective. It is also not completely unreasonable to assume that the structure within this group somewhat reflects the structure of the larger group. This is because it adheres to the same rules, is centred on the same team of organisers (Uwe, Anne and Katja) and consists of people with similar organisational responsibilities such as sales and representative functions. So while the data is far from perfect, I hope that the triangulation of three

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<sup>7</sup> Formally, many others, such as suppliers are also seen as members of the collective. This grows the total number to 1560 partners (Interview with Uwe, Minute 13:45).

methods can serve as an exploratory inquiry into the influence of Premiums ideas on the economic institutions it is embedded in.

## Analysis

The social network formed by the collectivists that were present at the meeting that I attended can be seen in figure 1.

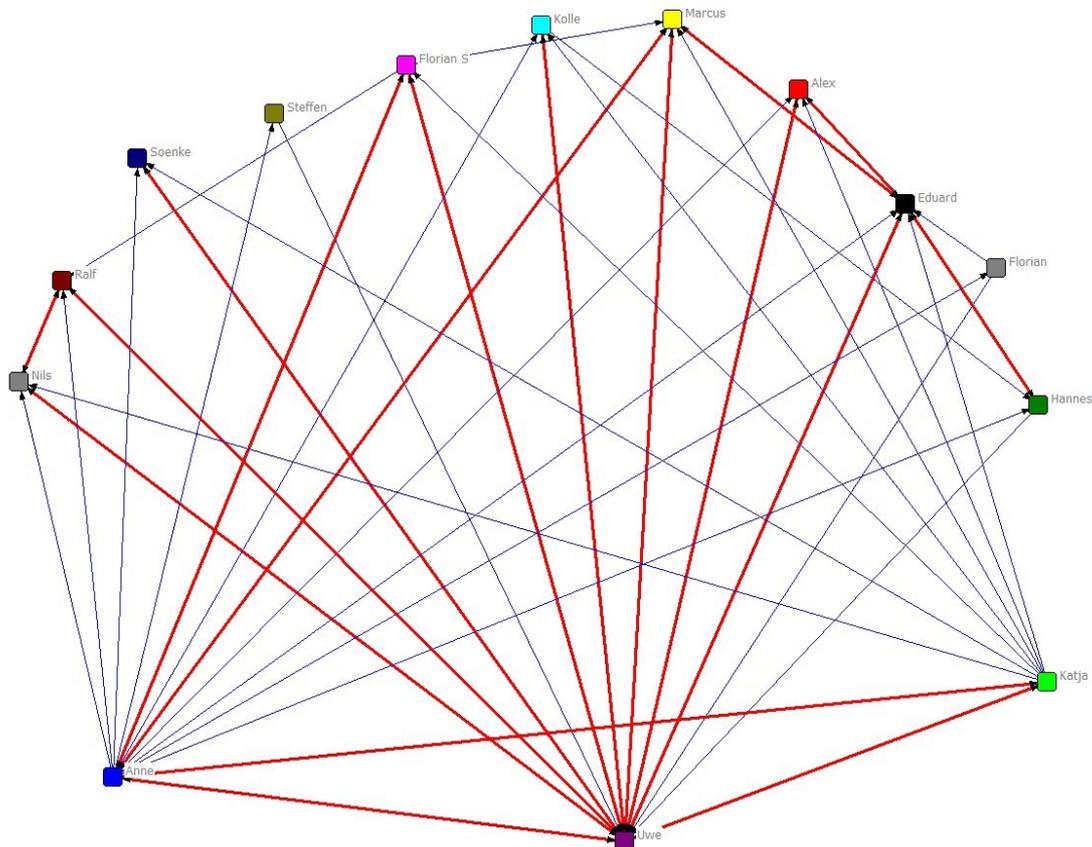


Figure 1: The three nodes in the bottom represent from left to right: Anne, Uwe and Katja. The other nodes are collectivists that are involved in sales or other tasks. Blue connections are unidirectional (weak) ties and the red connections are reciprocal (strong) ties.

From this it should be fairly clear that there are three members of the group that are particularly well connected to most other members. These are Uwe, Anne and Katja. This result is generally expected since the three are also centrally important for the practicalities (as described above). The fairly centralised structure, with particularly many reciprocal connections going to and from Uwe, makes it reasonable to assume that the main dialogue

regarding the development and spreading of ideas will normally also involve him. That he is the central force in spreading the idea at external events and interviews can also be seen from the fact that he has begun to act as an OS consultant:

By now, I am hoping to build a second branch; something like an alternative management consultancy; one that helps other businesses to develop in this direction [using the OS]; that was not planned but has evolved; we now have the fifth customer, who wants exactly this from me; without this product existing before;

(Uwe 22:10)

Uwe's central role in turning the ideas into change is also affirmed by Anne and Eduard:

Interviewer: Do you know when the OS was written?

As far as I know in 2008; but that was written by Uwe alone, as far as I know;

(Anne 18:31)

Well, you have seen it yourself already; much goes via Uwe; he is a communications professional; that is what he learned and you can feel to some extent; it could of course be a little...; it is good; he does it well; because he also knows the OS;

(Eduard 7:37)

In accordance to the theoretical assumptions it seems that generally the development of the OS was a long process that involved several steps. Overlapping attitudes and ideas fuelled the initial innovation but the action was incoherent and not necessarily conscious. Only after a process of at least 5-7 were the ideas formalised in the form of the OS. Despite some evidence for the importance of other actors in the development of the OS (Katja 6:00), Uwe alone could describe the development process in detail:

[...] there were several theoretical steps of extension. The basic approach was to treat all the partners, they were just a few in the beginning, as good as possible; that was kind of a very limited view; introspection, you could say; [...] And then to try: 'ok, now there are even more partners; now we can include this producer and this colleague;' to take the view a little more up; to try to get a view over the entire network. And then to write down all the things that we have worked on together; and then to spread this out, to have an impact beyond our own cause;

[...] the first five years, it wasn't even a business; it was a project for fun; Kind of like 'I got my own cola, who's got something like that?' It was not thought of as a business and it wasn't run like one either. And this notional step, that it could be a business at some point; that came after five or six years. Kind of according to the credo 'hey this is kind of working. I want to expand this and turn it into something bigger together with everybody involved'

(Uwe 4:40)

By now the OS is largely internalised and guides the behaviour of the collectivists in a fairly stable manner. Assumingly this has happened as the ties between the individual collectivists have strengthened and the ideas have been discussed thoroughly both online and offline. The OS has already succeeded in changing the economic behaviour of the collectivists.

Interviewer: Which role would you assign to the OS?

Eduard: Well that is an important part of the Premium collective; it's the written and sometimes also unwritten law at Premium that everybody is complying with; and also that everybody can use for orientation; and it does have a very high degree of significance, I think;

(Eduard 5:03)

[...] generally the OS in itself is not questioned [internally]; externally though, I think; when we are doing these coaching's with the people who want to adopt the OS; because it is not always possible to just adopt it 100%; [...] and they do actually question it; and so we are also engaging more intensively with it again; but normally in the daily routine, we have internalised it, but it doesn't really play a role; so that we would have to rework it all the time;

(Anne 6:30)

As the OS is exported increasingly beyond the borders of the Premium network, it would be a fallacy to assume that the entire system of ideas was developed in 2008 and is now statically reproduced. In fact, as it spreads, the OS is being actively adjusted both by the adopters and the collective itself.

I like to call it a project because it also means that it not done yet; it is still a step in the development; and another step and another step; lots of things don't work for us; that is also normal; because one has to develop it further;

(Uwe 21:30)

[...] there were, for example, some people who did produce absinthe; and there was somebody who is a beekeeper; and now there is another collective that wants to make its own cola, but according to our OS;

(Anne 6:50)

That is also part of the core of the whole thing; that you are listening to everything; from every direction; and then you still make your own decisions and go your own way; and some things can make sense;

(Uwe 24:45)

This flow of ideas between the Premium collective and weak ties it establishes with other users of the OS, seems to support the assumption that weak or new ties especially enable change. The collective receives feedback from other industries as to how the OS can be adapted to a variety of circumstances. This constant recombination of ideas and constant innovation makes the OS more applicable to a variety of contexts and thus increases its chances to change economic life on a large scale. Presumably, the spread of the OS beyond the original premium will also produce a host of unintended consequences and only time will tell to what extent the overall outcome is going to converge or diverge from the ideas of how Premium envisions the world.

### *Discussion and Conclusion*

From my brief (and selective) review of both classical and contemporary economic sociologists, it is clear that ideas have been seen as an important part of economic life from the beginning of the discipline. Because the very “nature” of economic life can be said to be a social process, ideas do not only change the nature of economic life. They fundamentally constitute an element of the nature of economic life itself in the same way they constitute an element of all social life. This does not mean, however, that ideas come out of the blue. Both in Weber’s case, as in the case of Premium, there are some central figures that have a great deal of influence on the social networks around them. They initiate the

original ideas and help spreading them. As others take them up, they change economic life but they are also developed further and adjusted. As this happens, unintended consequences result from the original idea. These two forces, ideas and unintended consequences also make social analysis tricky and largely limit it to historical events. It would therefore be interesting to conduct future research into the current impact of Premiums OS, as well as longitudinal research to see whether the OS changes economic life as intended or in a currently unexpected manner.

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