



Performativity and its implications for philosophy of science

Emilio Marti

Postdoc at the Saïd Business School

Lecture “Wissenschaftstheorie” of
Prof. Andreas Georg Scherer

November 27, 2017



The beginning: Self-fulfilling prophecies

- Robert K. Merton (1948) first discussed the possibility of self-fulfilling prophecies
 - “*false* definition of the situation evoking a new behavior which makes the originally false conception come *true*”



Discuss with your neighbor for 3 minutes: What role can self-fulfilling prophecies play for bank runs?

Systematizing self-fulfilling prophecies



- Historical analysis of Black–Scholes option pricing model
 - Developed by Black & Scholes (1973) and Merton (1973)
 - Nobel prize for Merton and Scholes in 1997
- MacKenzie & Millo (2003) found that poor fit between actual options prices and predictions of model prior to 1973
 - After 1973: Increasingly better fit *because traders started to use model...* almost perfect fit in 1980s
- Some social science theories do not merely *describe*, but also *shape* social reality
 - Researchers have dubbed this phenomenon *performativity*



The basic of performativity



- ▮ We need to understand:
 - ▮ Outcomes of performativity (Ferraro et al. 2005)
 - ▮ Types of performativity (MacKenzie 2006)
 - ▮ Process of performativity (Marti & Gond 2017)

Outcomes of performativity



Discuss with your neighbor for 3 minutes:
According to Ferraro et al. 2005, what parts of
social reality can theories reshape—and why?

Types of performativity

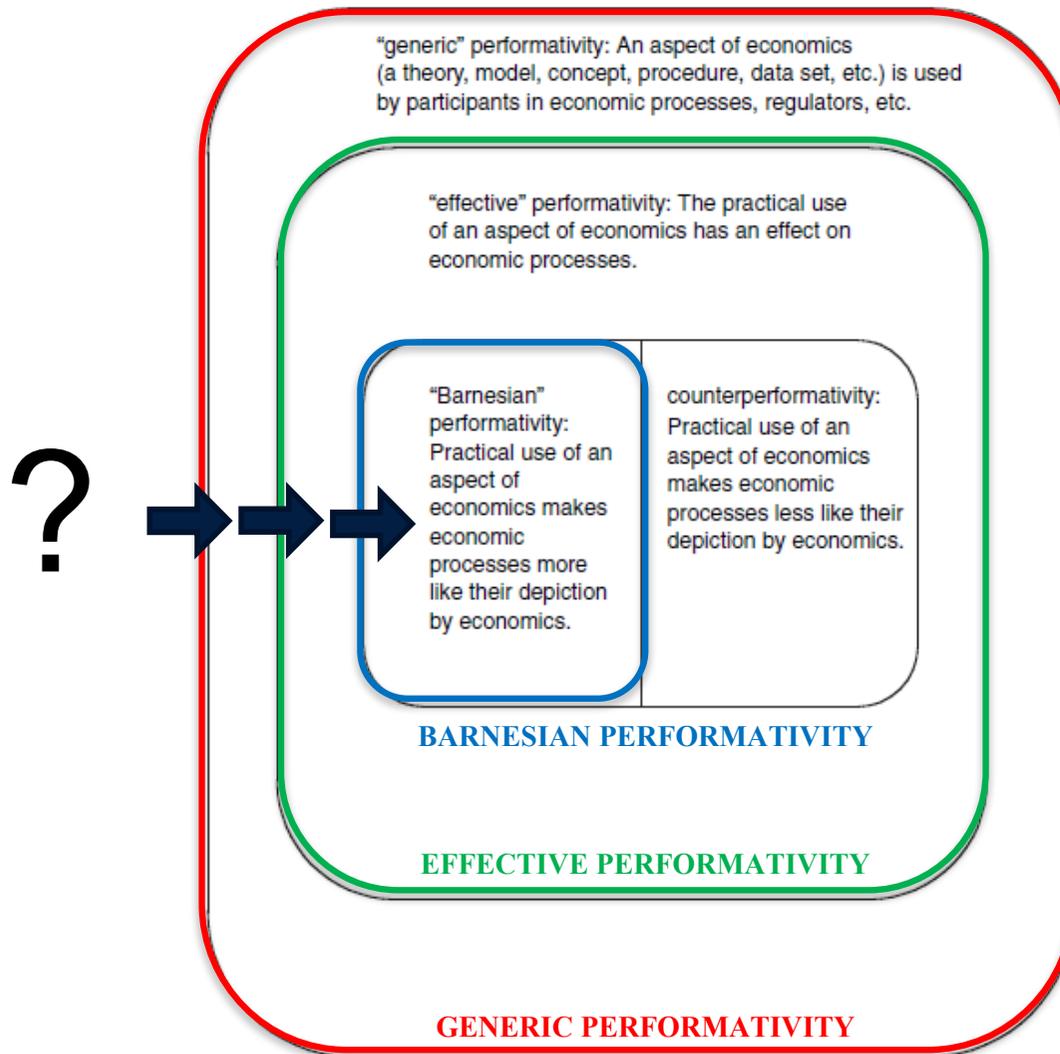
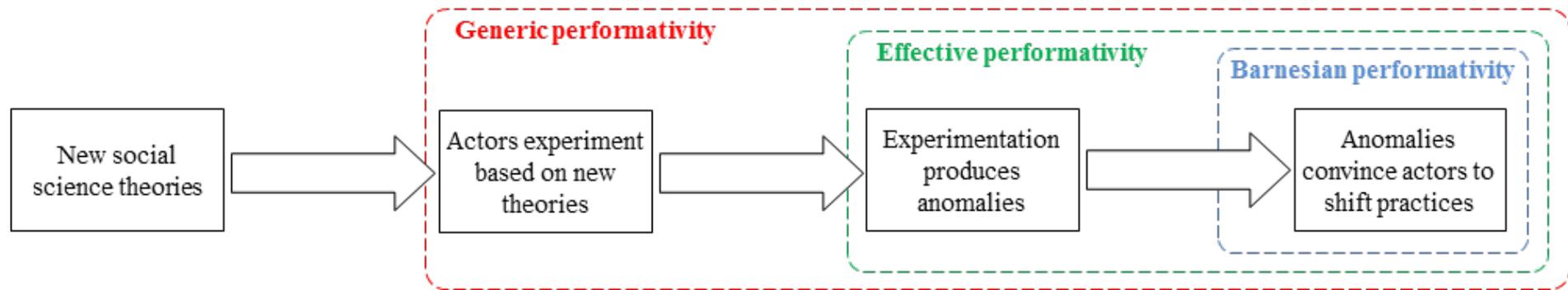


Figure from:
MacKenzie 2006, p. 17

Process of performativity



Part of a figure from:
Marti & Gond 2017

- Key argument: Theories will only become self-fulfilling if (1) new theories motivate **experimentation**, if (2) experimentation produces **anomalies**, and if (3) anomalies lead to a **practice shift**

Illustrative case: CSP–CFP theories (1/2)

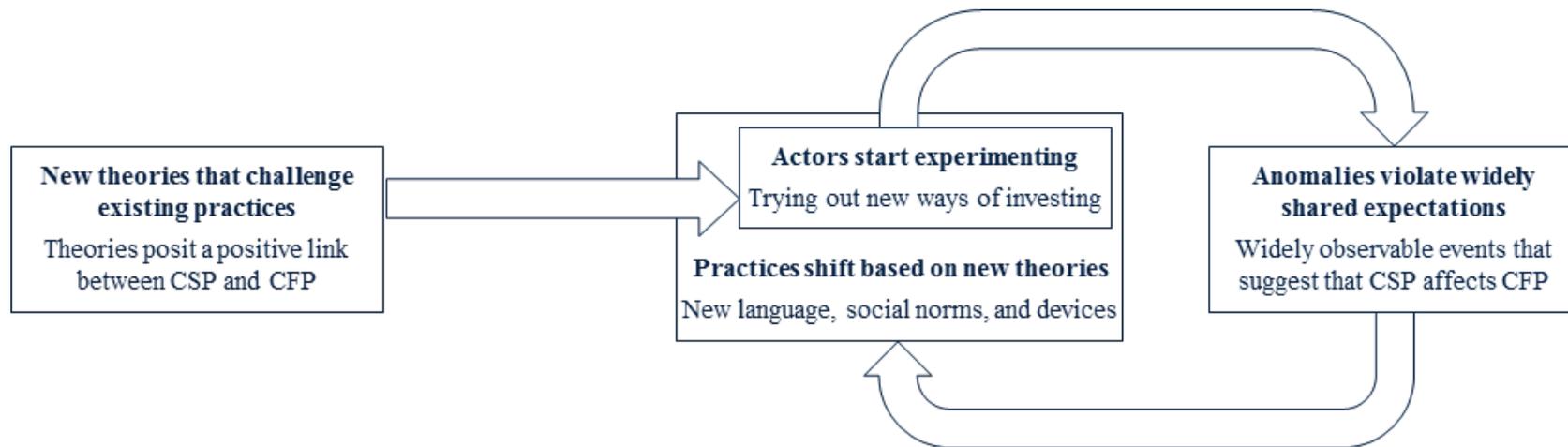


- Linking corporate social performance (CSP) to corporate financial performance (CFP) as “holy grail” of business & society research
 - More than 200 large sample studies since 1970s (e.g., Orlitzky et al. 2003)
 - In addition, case studies such as “creating shared value” (Porter & Kramer 2011) or “base of the pyramid” (London & Hart 2004)
- We argue that CSP–CFP theories are not merely descriptive
 - They may influence investors, toward socially responsible investing, and thereby reshape the impact of CSP on CFP
 - Theories may trigger shift in the rules of the game for companies

Illustrative case: CSP–CFP theories (2/2)



- ▶ We explore the possibility that theories on the CSP–CFP link can contribute to a shift toward a more sustainable economy in which investors will take for granted that CSP matters for the success of companies



Implications for philosophy of science



- Felin & Foss (2009: 655): performativity “threaten[s] the fundamental definition of science and theory as an attempt to understand and predict objective reality”
 - ...and undermines such “traditional scientific notions as explanation, prediction, description, understanding, and control”
- One a scale from 1 to 10, how much do you agree with Felin & Foss? (1 = not at all; 10 = fully agree)
- Group exercise: Are Felin & Foss right?
 - Two groups: one “pro,” one “contra” the position of Felin & Foss
 - Take 10 minutes to prepare a 3-minutes presentation
 - You may use the whiteboard

A pragmatist view of performativity (1/2)



A pragmatist view of performativity (2/2)



References



Black, F., & Scholes, M. 1973. The pricing of options and corporate liabilities. *Journal of Political Economy*, 81(3): 637–654.

Felin, T., & Foss, N. J. 2009. Social reality, the boundaries of self-fulfilling prophecy, and economics. *Organization Science*, 20(3): 654–668.

Ferraro, F., Pfeffer, J., & Sutton, R. I. 2005. Economics language and assumptions: How theories can become self-fulfilling. *Academy of Management Review*, 30(1): 8–24.

Habermas, J. 2003. Introduction: Realism after the linguistic turn. In J. Habermas (Ed.), *Truth and justification*: 1–49. Cambridge: Polity Press.

London, T., & Hart, L. S. 2004. Reinventing strategies for emerging markets: Beyond the transnational model. *Journal of International Business Studies*, 35(5): 350–370.

MacKenzie, D. 2006. *An engine, not a camera: How financial models shape markets*. Cambridge, MA: MIT Press.

MacKenzie, D., & Millo, Y. 2003. Constructing a market, performing theory: The historical sociology of a financial derivatives exchange. *American Journal of Sociology*, 109(1): 107–145.

Marti, E., & Gond, J.-P. 2017. When do theories become self-fulfilling? Exploring the boundary conditions of performativity. *Academy of Management Review*: forthcoming.

Marti, E., & Scherer, A. G. 2016. Financial regulation and social welfare: The critical contribution of management theory. *Academy of Management Review*, 41(2): 298–323.

Merton, R. C. 1973. Theory of rational option pricing. *The Bell Journal of Economics and Management Science*, 4(1): 141–183.

Merton, R. K. 1948. The self-fulfilling prophecy. *The Antioch Review*, 8(2): 193–210.

Orlitzky, M., Schmidt, F. L., & Rynes, S. L. 2003. Corporate social and financial performance: A meta-analysis. *Organization Studies*, 24(3): 403–441.

Porter, M. E., & Kramer, M. R. 2011. Creating shared value. *Harvard Business Review*, 89(1/2): 62–77.