Transaction Costs

- Information costs (measurement).
- Contractual
- Asset specificity
- Prediction of future
  - choices of others
  - state contingent
- All create interdependence & possible opportunism.

Review of Williamson
Transaction cost: Specific Assets between input suppliers and output processors

- Hierarchy
  - Hostages, etc.
- Market
  - Private government within public rules.
- No loss of specific assets.
- Potential loss of specific assets results in high cost general purpose technology. Fundamental transformation leads to hold-up.

Organizations…

- embody a set of institutions (human relationships) to which a group of people subscribe.
- are the norm, markets the exception.
- are the crucible for loyalty, i.e. the suspension of calculation.

Ideas: Simon

- Hierarchy is no guarantee against shirking, and shirking is not the major problem anyway if have radical uncertainty.
- Control Vs. advantage of delegation.
- Too much pressure and workers resist and put energy into deception (acts as suppression rather than reinforcement).
HIC & HEC

- Case study: Workers, union, culture, material reward held constant.
- 1. Toyota mgt.
  • Attitude (1)
- 2. GM mgt.
  • Attitude (2)
  • Test for “we-they” identity, responsiveness, feeling of regard.
  • Identify with product.

- 1. 45% fewer labor hours.
- 2. Profit & wage alone are inadequate motivator.

Simon: Situation--Extent to which obedience to command can be observed w/o losing benefit of delegation (HIC)

- Mkt. Employment contract defines authority of employer.
- Mkt. Rewards tied to individual effort.
- Loyalty/commitment....
- Coordination by prices or by quantities.
- Lose benefit of delegation or suffer inefficiencies.
- Inefficient, counter-productive.
- Workers creatively contribute.
- Depends whether prices are predictable.

More Ideas--Hodgson

- The firm is an economical way of generating knowledge to create new production functions in the face of uncertainty.
- Firm operates according to SOP’s that link stimuli to responses.

Hodgson: Radical Uncertainty?

- Organizational routines & learning. Is this related to
  – Functional org.?
  – M-Form?
- “Structural combination of competencies & resources.”
- Contractual-buy the above & assemble.
- Capacity to improve and innovate to create the future.
- Less capacity?? Mental model not shared.
Policy Implications

- Germany—codetermination
- Chrysler—bail out.
- Employee loyalty building.
- Organizational culture.
- Why do we hate meetings when they are the essence of organizational coordination and learning?

Bites

- “Growth of organizations may have only a little to do with efficiency.”
- Nice, teachable people do not finish last.
- Firms are for learning, not just economizing.
- Would you like to be an “independent windowless Leibnetzian monad?”