

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?”**