

Framework 1: “Market” “Failures”

When might imperfect orgs outperform imperfect mkts?

Transactions That Are Priced Governance of Value Creation

Besides Markets: Governance of Value Creation



Coase, 1991



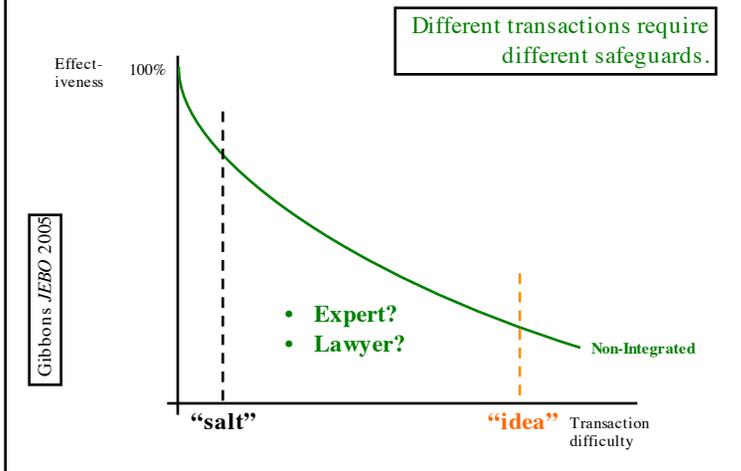
Ostrom & Williamson, 2009



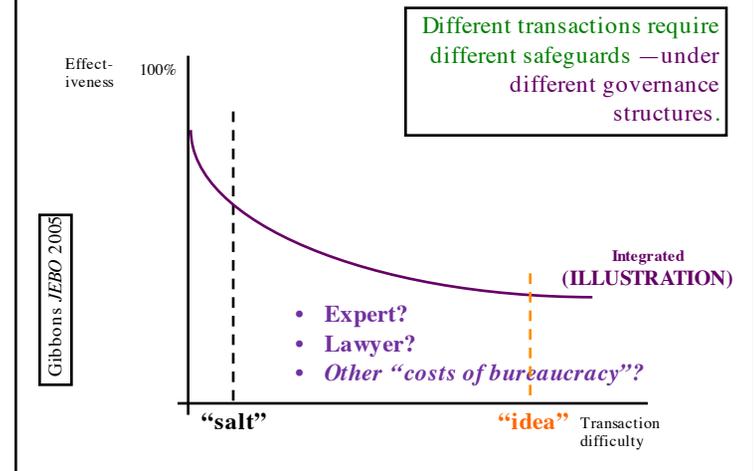
Hart & Holmstrom, 2016

Nobel ≠ Managerial Relevance

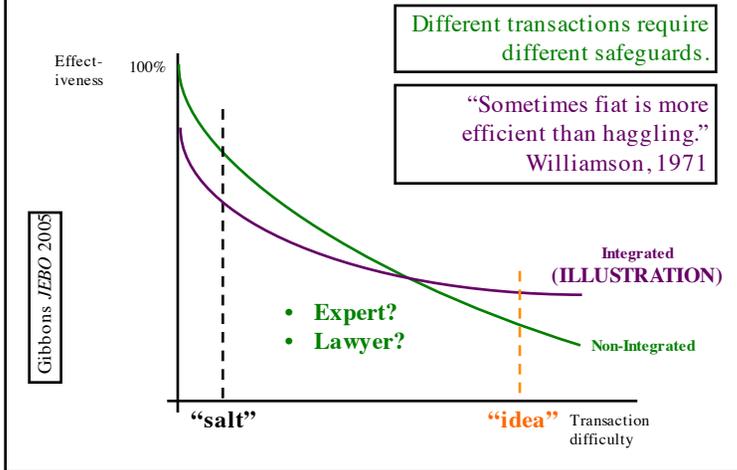
Organize the Right Problems



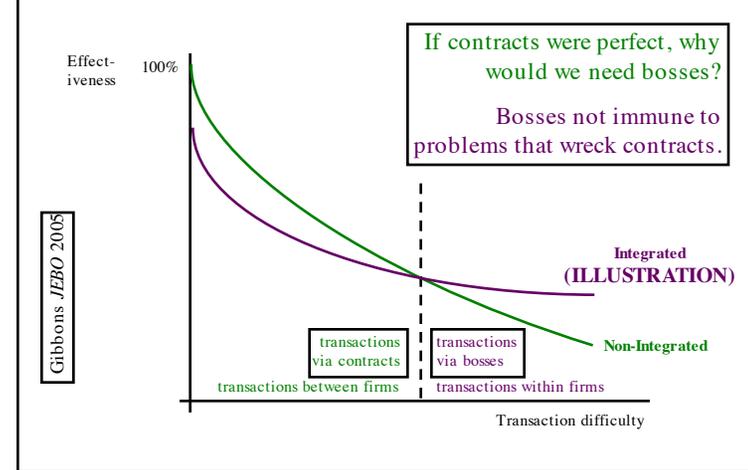
Organize the Right Problems



Organize the Right Problems



Organize the Right Problems



Lessons

1. If the organizations you observe seem less efficient than the markets you observe, consider that they may be handling different problems
2. If a contract will handle your problem well, why use a boss?
3. If a contract would do poorly, you face a hard problem, so a boss might do better but still not be perfect.

Organize the Right Problems

Organize the Right Problems

Organize the Right

Lessons

Raising central Q

Not giving answer (for "salt" or "idea")

Not yet building tools for answering

3. If a contract would do poorly, you face a hard problem, so a boss might do better but still not be perfect.

Many Formal Governance Structures

Multiple Orgzns

“spot market”
Alliance
Joint Venture
Consortium
...

Alternative
allocations
of control /
decision rights?

One Orgzn

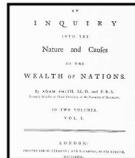
Functional
Divisional
Matrix
“Networked”
...

Visible Hands:

Governance of Value Creation

in Firms
and Beyond

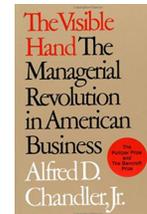
Invisible Hand?



As every individual, therefore, endeavours as much as he can both to employ his capital in the support of domestic industry, and so to direct that industry that its produce may be of the greatest value, every individual necessarily labours to render the annual revenue of the society as great as he can. He generally, indeed, neither intends to promote the public interest, nor knows how much he is promoting it. By preferring the support of domestic to that of foreign industry, he intends only his own security; and by directing that industry in such a manner as its produce may be of the greatest value, he intends only his own gain, and he is in this, as in many other cases, led by an **invisible hand** to promote an end which was no part of his intention. Nor is it always the worse for the society that it was not part of it. By pursuing his own interest he frequently promotes that of the society more effectually than when he really intends to promote it.

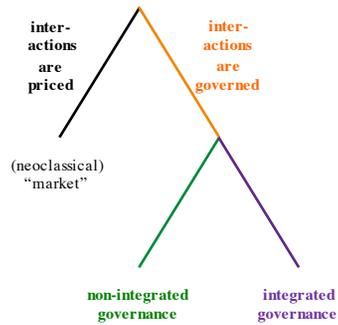
The Wealth of Nations, Book IV, Chapter II, paragraph IX

Visible Hand?

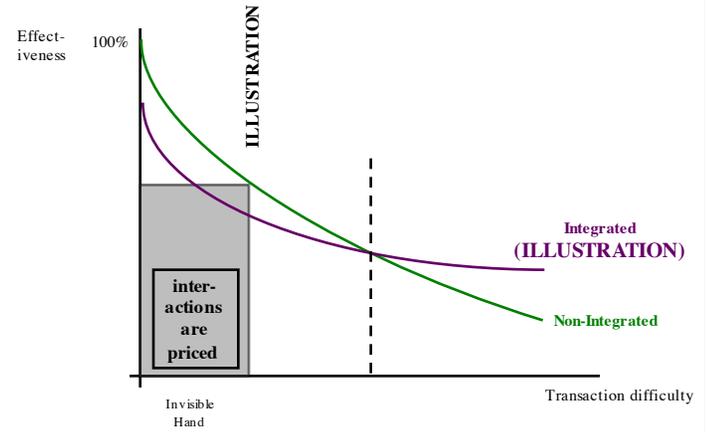


Economics inside firms?
Visible hands outside firms?
Economics beyond the invisible hand?

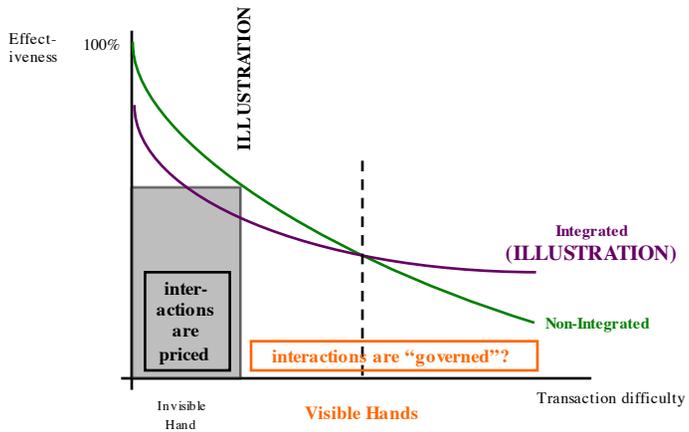
Which Interactions Are Governed?



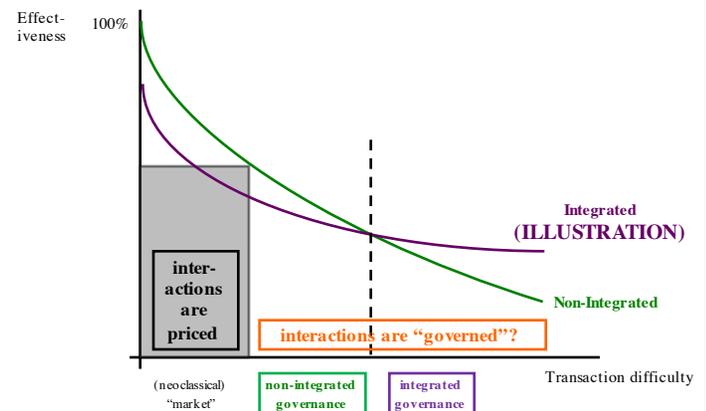
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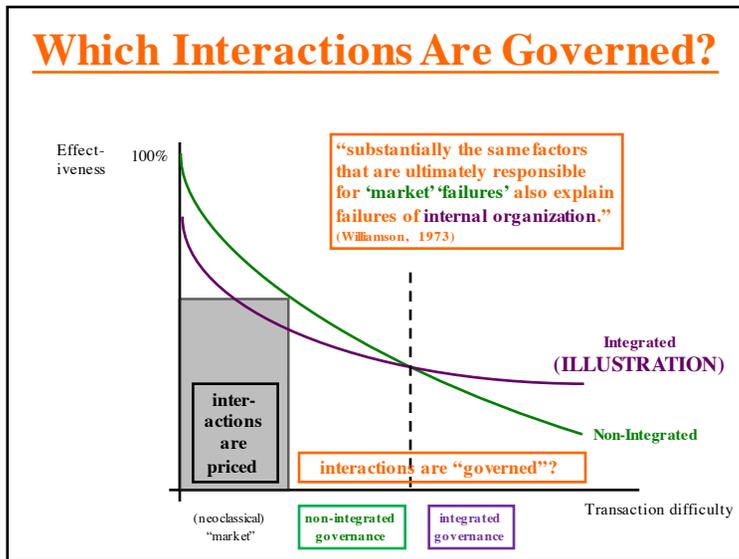
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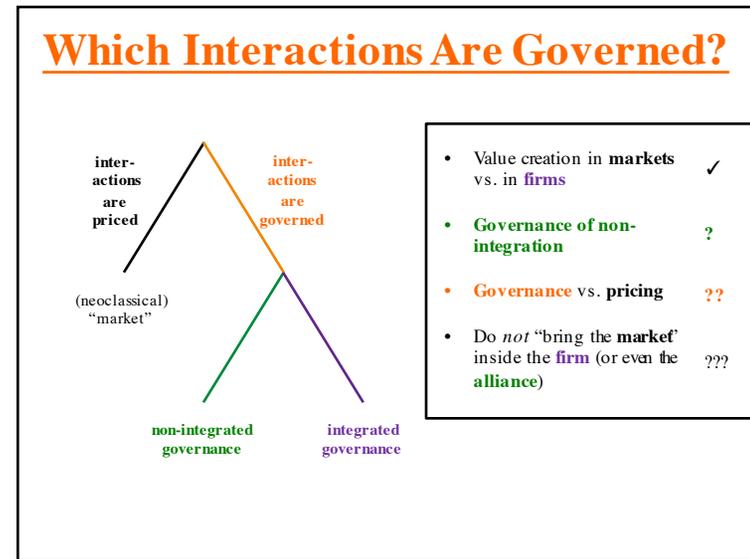
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- *Not* providing recipe for **Make** vs. **Buy**
- *Am* proposing “habits of mind”
 - What collaboration are we trying to implement?
 - What are the alternative formal governance structures?
 - What do they achieve?