Framework 1: Market “Failures”

When might imperfect orgs outperform imperfect mkts?

Supply & Demand 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

Different transactions require different safeguards.

“Sometimes fiat is more efficient than haggling.”
Williamson, 1971

Different transactions require different safeguards.
**Organize the Right Problems**

If contracts were perfect, why would we need bosses?

Bosses not immune to problems that wreck contracts.

- **Transaction difficulty**
- **Effectiveness**
- **100%**
- **Non-Integrated transactions within firms**
- **Integrated (ILLUSTRATION)**
- **Transactions between firms**

**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**

“Substantially the same factors that are ultimately responsible for market failures also explain failures of internal organization.”

(Williamson, 1973)

- **Multiple Orgzns**
  - “spot market”
  - Alliance
  - Joint Venture
  - Consortium
  - ... (ILLUSTRATION)
  - Alternative allocations of control / decision rights?

- **One Orgzn**
  - Functional
  - Divisional
  - Matrix
  - “Networked”
  - ... (ILLUSTRATION)

- 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?
  - What more can we do?

**Many Formal Governance Structures**