Framework 1: “Market” “Failures”

When might imperfect orgs outperform imperfect mkts?

Besides Markets: Governance of Value Creation

Ostrom & Williamson, 2009
Hart & Holmstrom, 2016

Organize the Right Problems

Different transactions require different safeguards.

“Sometimes fiat is more efficient than haggling.”
Williamson, 1971
Organize the Right Problems

If contracts were perfect, why would we need bosses?

Bosses not immune to problems that wreck contracts.

Lesson 1.
If the organizations you observe seem less efficient than the markets you observe, consider that they may be handling different problems.

Lesson 2.
If a contract will handle your problem well, why use a boss?

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

What Interactions Are Governed?
What Interactions Are Governed?

<table>
<thead>
<tr>
<th>Transaction difficulty</th>
<th>Effectiveness</th>
<th>Integrated (ILLUSTRATION)</th>
<th>Non-Integrated</th>
</tr>
</thead>
<tbody>
<tr>
<td>Invisible Hand</td>
<td>interactions are priced</td>
<td>interactions are “governed”?</td>
<td></td>
</tr>
<tr>
<td>Visible Hands</td>
<td>100%</td>
<td></td>
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</tbody>
</table>

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

(Williamson, 1973)