

FROM CONTRACTUAL APPROACH OF FIRM TO THEORIES OF KNOWLEDGE

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The object of contractual theories is describing exchange relation between agents, considering institutional and informational restriction in which they evolve.

From trials of removing insufficiency in contractual theories new representations gradually appeared, of enterprise organizational order, which take exception to neoclassical model and surpass the contractual paradigm, without rejecting it. Common elements of these new types of organization are: using new informational and communication technologies, trial of respecting higher consumer demand, mobile and recreational structures in which individuals must adapt permanently to unpredictable events and market uncertainty. Far from converging to a unique model, these new forms of organization are varied and often hybrid. The most popular in literature are network organization, virtual organization and learning organization.

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1. Contractual approach of firm

The contractual approach of firm is based upon concepts and results of game theory and information economics, which analyse agents' behaviour in different strategic environments and in the conditions of asymmetry and information imperfection.

In the contractual model firm appears as a coalition of actors which contributes at the well functioning of organization in exchange of a satisfying retribution. Management art consist in maintaining coalition and capacity of serving clients efficiently (which means better than competition). J. G. March and H. A. Simon (1958) insist in management role, and R. M. Cyert and J. G. March (1963) emphasize certain general organization practice (sequence and secret treatment of matters, preference for short deadline, preference for already experimented solution etc.).

Contractual paradigm takes into account the human functioning of productive organization which is the enterprise. Its object is describing exchange relation between agents, considering institutional and informational restriction in which they evolve.

We can distinguish more families of models in the frame of contract theory, sending to different economic preoccupation. The most known are: transaction cost theory, property right theory and positive theory of agency.

1.1. Transaction cost theory

Transaction cost theory offers a useful frame of decision internalization or externalization analysis of transaction. Based upon two hypotheses (limited rationality and individual opportunism), this theory identifies a connection between the nature of transaction (the degree of incertitude of transaction, frequency of transaction and active specificity) and institutional arrangements which will be chosen by individuals: market hierarchy or hybrid form (cooperation between firms). Most efficient organization manners are those which minimize costs of transaction owed to exchange, costs connected to negotiation, surveillance and contract control. There are three ways of coordination: complementary activities (corresponding to different

phases of production process) and similar (which need same knowledge, experience and capacity) will be coordinated through firm, and strictly complementary activities, though un-similar will be coordinated ex-ante by cooperation agreements and ex-post by market transaction. Despite and un-contestable empirical balance sheet, the transactional cost theory made the object of numerous critiques. A first critique consists in the fact that the role of opportunism, considered a central variable of the theory, is overestimated. In this concern, L. Donaldson (1995) brings three arguments:

- Opportunism is a regressive concept concerning human behaviour. This concept reminds the X theory of Mac Gregor, in which the individual is selfish, lazy, untrustworthy, always following own interest and must be checked (through rewards and punishments).
- Opportunism does not reflect variability of management behaviour. As for L. Donaldson, opportunism is not just one of the possible behaviour of manager, which is generally privileged on short term. The game theory demonstrates that on long term the cooperation strategies are more profitable. The author ascertains that between all academic research connected with transactional cost theory and practice there is an obvious gap.
- Opportunism raises inevitable issues of empirical order. Information concerning a “deviant” behaviour of managers is hard to obtain.

Another author which considers the role of opportunism as being overestimated in O. Williamson theory is C. Perrow (1986). He disputes the diminishing of transaction costs in the case of vertical integration, showing that in the case of merging of two firms some costs (like the one connected with losing organization flexibility) increase, such a fact is not due to actors’ opportunism.

Some recent analysis suggest that trust plays an important part in the majority of transaction and certain signal, visible or not, allow the maintaining of trust and diminishing risk probability associated with exchange (B. Baudry, 1994).

R. Coase himself, the founder of transaction cost theory, contradicts O. Williamson thesis, by questioning two central arguments of transactional cost theory: opportunism and active specificity, as explicative factors of the vertical integration decision in the detriment of choosing market. R. Coase estimates that the individual predisposition to opportunism is limited in the manner in which the behaviour will affect future transaction as a consequence to bad reputation obtained. As well as rationality, opportunism becomes thus limited, for not being profitable on long term.

Another critique upon basic concepts of transactional costs theory belongs to M. Granovetter (1985) and to S. Goshal and P. Moran (1996), which tries to demonstrate that applying theory is dangerous to managers for the hypotheses and logic of their fundament. He criticizes O. Williamson for he does not make the distinction between opportunism as an inclination (attitude) and opportunism as behaviour manifestation. Psychology and organization theory show that the two concepts (attitude and behaviour) are different and influenced by individual and contextual mood.

Another critique belongs to S. Wolff (1996) who suggests including the manners of network organization in a historical time dimension. This approach emphasizes dynamic factors which allow analyzing agreements between enterprises from a perspective of creating values and not minimizing costs. In fact, agreements between enterprises represent a solution in the case of new and risky activities, allowing the eventual cease of alliance after reaching its purpose. This flexibility allows obviating an irreversible decision (e.g. a merger – acquisition) to the time of uncertainty decrease.

Another author who critiques transactional cost is A. Bienaymé (1998). He states that the level of costs in structural exchange, of disinvestment, of decentralization is very high, and the passage from a manner of organization to another is not made rapidly. Thus, the marginal reasoning which included choice of market, hierarchy or a hybrid organizational manner for developing transactions seem inadequate. The author underlines that the passage from a hierarchy

coordination manner to a manner of coordination by transaction market is more difficult with the development of professionalism in the exercise of productive activity and with the existence of a productivity dynamic connected with the integration of a worker inside firm and his knowledge. The enterprise elaborates and takes decision at a more efficient level than an unorganized assembly, for it “dissolves complexity”.

The enterprise seems less susceptible of mobility and flexibility than the individual producer of pure and perfect competition on a walrasian market.

Despite critiques brought to it, the transactional cost theory offers a useful frame of decision analysis of internalisation or externalisation of transaction. Also, it allowed the reconsideration of a great number of problems, such as: choosing financing methods for firms; work organization, internal organization structure of enterprise; industrial politics.

1.2. Property right theory

The best known founders of property right theory are: R. Coase (1960), A. Alchian (1959, 1961, 1965), H. Demsetz (1966, 1967), H. Manne (1965), S. Cheung (1969), E. Furubotn and S. Pejovich (1972, 1974) and L. De Alessi (1983). Having different professions (economists, jurists) these developed a pluridisciplinary analysis of property rights.

Property right theory has an important part in understanding firm. It is based on the idea that any relation between the economic agents can be considered an exchange of property rights upon some goods. Adepts of this theory consider the existence of well determined property rights is an essential condition of individual initiative. Maximising each individual utility must develop a growth of collective efficacy, and the diverse ways of motivation are influenced by property rights structures (E. Furubotn, S. Pejovich, 1974).

There are some gaps in property rights theory, the most important consists in the actual defining of these rights, which is based on the existence of free contractual relations which lead, necessarily, to choosing the most efficient system. Strictly founded on methodological individualism, the property rights theory aims only the interindividual relations, contractual relations between agents, excluding the analysis of power reports between several actors of enterprise. This limit of property rights is partially compensated by its integration in agency theory, moreover in its present development.

1.3. Positive theory of agency

The essential component of positive theory of agency are present in founding articles of M. Jensen and W. Meckling (1976), M. Jensen (1983) and E. Fama and M. Jensen (1983a, 1983b).

Positive theory of agency represents an integrated theory of organizations, which aim to reuniting two different research trends: research base on market functioning and the one associated with psychology domain, sociology, organizational behaviour, anthropology, biology, having as an objective explaining human behaviour, as well as individually and socially.

The central spot which the manager occupies in the positive theory of agency, made this theory play a determinant part in management branches development. If at the beginning the positive theory of agency seemed a financial theory, it rapidly extended to other domains, for proposing new accountancy analysis, management control, and human resources management, management of production or marketing. Positive theory of agency is at the origin of many new theoretical domains such as “corporatist governing”. Along with transaction cost theory, positive theory of agency became one of the main “grammars” used in management sciences.

Present research in positive theory of agency aims for four main axis (M. Jensen, W. Meckling, 1980):

a. Shaping the nature of human behaviour. The objective is of building a human behaviour model which integrates the work results of economists, psychologists, neurosciences specialists with the purpose of understanding rational behaviour (calculated) and irrational. This concern to undertake at the level of individual same effort undertook at the level of organization.

b. Studying systems of performance measurement, of remuneration and promotion. M. Jensen and K. Murphy (1988) and M. Jensen and K.J. Murphy (1990) papers this axis has as a purpose providing human resources management theories which the managers can base on for conceiving and putting in practice system to allow a better use of human resources in the frame of organization. The effort of theorizing is integrator, considering as well as the problems of labour economy and human resources, and in the human behaviour sciences or from traditional research trends in management control.

c. Connections between tasks structure, organizational barriers and the technology process nature. Studying these has as a purpose understanding the manner in which diverse systems connect to organization and markets allow a better use of opportunities offered by different technologies. In other terms, is to analyse relations between the nature of technological process and the organizational structure. This axis relatively new in the frame of contractual perspective allows solving a problem emphasized often by these theories, that of neglecting production phenomena.

d. Connections between systems of governing, enterprise finances and organization performance. The objective of this study is to understand the way in which firm relation with providers of capital influence the strategy, manners of taking decisions and creating and distribution of value. This axis includes especially the papers concerning society governance, focused upon organizational rules of game which restrict manager decision (e.g. administrative board). Papers concerning enterprise governance are in direct connection with research of firm finances, especially with those concerning financing and property structures.

Focused initially on an external view of organization, papers from this last axis, especially those used in enterprise finances, based on evaluation, had the tendency to neglect internal aspects, which are though the most important for understanding creation of value. Present research tries to integrate internal governing aspects, such as formulating strategy or distributing of decisional power in hierarchy. These problems must allow understanding the manner to take decision of investment, subject neglected paradoxically by financial research, as underlined by M. Jensen (1993). Beyond the investment decision, research themes also concerns restructuring or new forms of property structures, as LBO or employees-shareholders.

The main part of positive theory of agency is attributed to specific knowledge, as well as to evolution known by rationality shaping, on which it is based, tend to approach, especially the most recent development, by the evolutionist theory or strategic theory, which attributes a main spot to resources and competence. Positive theory of agency could be such considered from a point of view a first attempt of compromise between theories founded on opportunism and the ones based on knowledge.

2. Theories based on knowledge

Theories based on knowledge suggest new organizational models based on global competitiveness, on trust between partners and on collective cognitive apparatus. The most known of these are the network organization, the virtual organization and the learning organization.

2.1. The network enterprise

Firms are experiencing substantial transformations related to the rapid advance of information technology and economic environment. We can see today the emergence of networks of small and medium firms; subcontracting and outsourcing between large and small companies; decentralize the units of large corporations, particularly multinational corporations. The trend is not only towards the desegregation of business activities, but towards the cooperation between units. What emerges from this trend is a new organization form: the network enterprise. This not mean a network of enterprises, but the actual unit of business operation, made up of different companies or segments of companies, as well as of consultants and temporary workers attached to specific projects.

The network enterprise concentrates only on activities which can very well achieve and which profit on partners' competence for externalizing the other activities. Acting as such, firm diminishes costs, gains flexibility, has access to varied resources, reduces risk associated with its projects and simplifies internal structure.

2.2. The virtual organization

The virtual organization appeared as a consequence to product demand growth and specific services, named virtual.

The virtual enterprise can be defined as a temporary alliance of partners who work together for sharing competence and resources for market satisfaction, using computer networks and calculus informational technologies.

Virtual organizations have a high capacity of adjustments. They are characterized through fast and international deliveries, responding to a diverse request, by rolling services of great quality, small prices, and a great speed of traded values circulation.

2.3. The learning enterprise

The learning enterprise is the organization which has the aptitude of creating, acquisitioning and transfer knowledge. Thus is the enterprise which "learns" and adapt in consequence. The experience and adaptation can bring the firm various advantages to its competitors.

The attributes of as learning organization are flexibility, adaptability, autonomy, integration capacity etc.

In practice, more often the three models interpenetrate, and organization can have in the same time characteristics of all three models.

3. Conclusions

In contractual theories the firm is considered a network of contracts, of policy and agreements between individuals who constitute it (employees, managers, clients, providers, investors etc.). The starting point of this type of approach is different. Thus, transaction cost theory is based on the notion of transaction; positive theory of agency starts from the divergences of interest between partners of collaboration and the cost of these conflicts, while property right theory emphasizes the structure of property rights. Though, considering the conflicts concerning property rights are most which can appear between agents and any collaboration agreement implies a transaction over these rights, there are meeting points of these three theories. On scientific point of view, the three approaches have in common choosing methodological individualism and retaining the hypothesis of individual rationality.

Contractual theories suppose sophisticated maximising behaviours which lead to signing complex contracts which do not correspond to practice. Majority of results is obtained considering that individuals sign complete contracts which take into account all possibilities of achievement of random events. Except insurance domain, contracts met in real economic life are not as sophisticated as the theory suggests. They do not solve ex ante all problems which may appear between parts and are neither perfectly incentive, nor optimal.

Theories based on knowledge overpass contractual paradigm without rejecting it. They emphasize collective cognitive apparatus, on global competitiveness, on trust between partners and suggest organizational models based on mobile and reactive structures, in which decisions are distributed in various parts. Relations on long term with employees, providers and clients are current and essential for developing systems in the frame of which the price is no longer the engine of individual behaviour. Based on these long term relations and on constant evolution of technology, strategic decision aims achieving systems and alliances able to respond in a supple and coherent manner to difficulties an uncertain future presents.

In spite success registered by new organizational models, for enterprises, more important than imitating them, remain mastering evolution processes and strategic adaptation. Considering each

enterprise has a history and characteristics of own organizational configuration, future seems to be that of a plurality of organization ways and hybrid forms.

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