
Economics of Organization (A): Models of the Firm

Introduction

In this course, we will focus our attention to the different models of the firms, their assumptions and their implications for management research. It is very important for management scholars to develop the ability to understand the fundamentals of each theory so they can apply them in rigorous and relevant way.

Objectives

The key objective is to understand the contribution of the different models of the firm to management research. This requires to identify the fundamental assumptions behind each model and theory, as well as to learn how to use them in a consistent way to study organizational problems.

Learning Outcomes

- i. Identify different theories of organization
- ii. Understand their potential contribution to management research
- iii. Highlight the fundamental premises and assumptions behind each theory
- iv. Understand the consistency among the different theories
- v. Apply the theories or models of the firm to research questions in Management and Organizations
- vi. Understand the role of assumptions about the human nature in social sciences
- vii. Apply sound rigorous theory to social science research.

Competences

CG3: Conduct a critical analysis, evaluation and synthesis of new and complex ideas with the objective to produce general principles applicable to business situations.

CE1: Understand the concepts of social and human sciences relevant and necessary to carry out research projects of international level in the area of business management.

CE4: Distinguishing of the different fields of management sciences and acknowledgement of the research methodologies related to them.

CE6: Ability to take current management and organizational problems and identify how different theories of organizations can help us understand them.

Content

The content covers (1) the formal, economic-based models of the firm; (2) The knowledge-based models of the firm; (3) The Decision-based models of the firm; (4) The Humanistic models of the firm; (5) Trust and the limits of organizations

Methodology

The format of the class will be a seminar: We will use a combination of lecturing, class discussion and exercises.

Evaluation

The final grade will be based on the class participation and on the evaluation of a short report (around 10 pages) dealing in depth on one of the topics covered in class. The report should have an academic style and be based on the assigned readings plus 4 or 5 additional articles to complement the material discussed in class.

Course Outline & Bibliography

SESSION	DESCRIPTION	CASE/ACTIVITY
1	TRANSACTION COST ECONOMICS 6 th Oct. 2016	Readings: <ul style="list-style-type: none"> Coase, "The nature of the firm", <i>Economica</i>, 1937 Williamson, "Economics and Organization: A Primer", <i>California Management Review</i>, Vol 38, n.2, winter 1996. Baumol, "Williamson's The economic institutions of capitalism", <i>Rand Journal</i>, vol 17 no. 2, Summer 1986
2	THE PROBLEM OF ASYMETRIC INFORMATION 6 th October 2016	Readings: <ul style="list-style-type: none"> Akerlof, "The Market for Lemons", <i>Quarterly Journal of Economics</i>, 89 pp. 488/500, 1970 Spence, "Job Market Signaling " <i>Quarterly Journal of Economics</i>, August 1973
3	AGENCY PROBLEMS 6 th October 2016	Readings: <ul style="list-style-type: none"> K.J. Arrow, "The economics of agency", Chapter 2 in: <i>Principals and Agents: The Structure of Business</i> (Research colloquium / Harvard Business School) - February, 1991 Edited by John W. Pratt and Richard J. Zeckhauser
4	FORMAL MODELS FOR EMPLOYMENT 13 th October 2016	Readings: <ul style="list-style-type: none"> Edward P. Lazear, "Labor Economics and the Psychology of Organizations", <i>Journal of Economic Perspectives</i>, V.5, N.2, 1991. Edward P. Lazear, "Personnel Economics and

		Economic Approaches to Incentives," <i>HKCER Letters</i> 61 (Sept/Oct 2000): 1-8.
5	FORMAL MODELS FOR EMPLOYMENT AND EXECUTIVE COMPENSATION 13 th October 2016	<p>Readings</p> <ul style="list-style-type: none"> • George P. Baker, Michael C. Jensen y Kevin J. Murphy, "Compensation and Incentives: Practice vs. Theory", <i>Journal of Finance</i>, V. XLIII, N.3, 1988 • Michael C. Jensen y Kevin J. Murphy, « CEO Bonus Plans: And How To Fix Them », HBS Working Paper 12-022.
6	IDEM 13 th October 2016	
7	THE NATURE OF KNOWLEDGE IN ORGANIZATIONS 17 th October 2016	<p>Readings:</p> <ul style="list-style-type: none"> • Nonaka, I. (1994). "A Dynamics Theory of Organizational Knowledge Creation", <i>Organization Science</i>, vol. 5, No. 1, February. • Spender, J-C. (1994) "Organizational Knowledge, Collective Practice and Penrose Rents", <i>International Business Review</i>, vol. 3, No. 4. • Andreu, R. and Sieber, S. (2000). "Learning Trajectories: A Source of Requirements for Effective Knowledge Management", <i>Proceedings of the BPRC Conference on Knowledge Management: Concepts and Controversies</i>, Warwick University, February 10-11.
8	KNOWLEDGE MANAGEMENT IN THE THEORY OF THE FIRM 20 th October 2016	<p>Readings:</p> <ul style="list-style-type: none"> • Kogut, Bruce and Zander, Udo (1992). "Knowledge of the firm, combinative capabilities, and the replication of technology", <i>Organization Science</i>. • Connor, Kathleen R. (1991). "A historical comparison of resource-based theory and five schools of thought within industrial organization economics: Do we have a new theory of the firm?", <i>Journal of Management</i>, vol. 17, No.1, pp. 121-154. • Foss, Nicolai (1996). "Knowledge-based approaches to the theory of the firm: Some critical comments", <i>Organization Science</i>, vol. 7, No. 5, pp. 470-476. • Connor, Kathleen R. and Prahalad, C.K. (1996). "A resource-based theory of the firm: knowledge versus opportunism", <i>Organization Science</i>, vol. 7, No. 5, pp. 477-501. • Kogut, Bruce and Zander, Udo (1996). "What do firms do? Coordination, Identity, and Learning", <i>Organization Science</i>, vol. 7, No. 5, pp. 502-523.

		<ul style="list-style-type: none"> Foss, N.J (1996). "More critical comments on knowledge-based theories of the firm", <i>Organization Science</i>, vol. 7, No. 5, September-October. Andreu, R (2009). "Competitive Advantage, Knowledge and Learning: Implications for the Management Profession", EGOS 2009, Barcelona Andreu, R., Riverola, J, Rosanas, J, de Santiago, R. (2011). "Firm evolution and learning in a market economy with bounded rationality", mimeo.
9	IDEM 20th October 2016	
10	CONVENTIONAL ECONOMIC MODELS OF THE FIRM 27th October 2016	<p>Readings:</p> <ul style="list-style-type: none"> T.H. Chiles and J.F. McMackin, "Integrating Variable Risk Preferences, Trust, and Transaction Cost Economics", <i>Academy of Management Review</i>, Jan. 1996. O. Williamson, "Calculativeness, Trust, and Economic Organization", <i>Journal of Law and Economics</i>, 36, 453-486 D.M. Kreps, "Corporate Culture and Economic Theory", Baker, George, Robert Gibbons, and Kevin Murphy, "Informal Authority in Organizations", <i>Journal of Law, Economics and Organization</i>, vol 15 no 1, 1999 Gibbons, Robert, "Incentives in Organizations", <i>Journal of Economic Perspectives</i>, vol 12 no. 4, Fall 1998, pp. 115/132
11	IDEM 27th October 2016	
12	IDEM 27th October 2016	
13	ALTERNATIVE APPROACHES TO DECISION MAKING IN ORGANIZATIONS 3 rd November 2016	<p>Readings:</p> <ul style="list-style-type: none"> H. A. Simon, "Organizations and Markets", <i>Journal of Economic Perspectives</i>, Spring 1991. Schelling, Thomas, "Economics or the art of Self-Management", <i>The American Economic Review</i>, vol 68 no. 2, May 1978. Bazerman, Max, Ann E. Tenbrunsel, and Kimberly Wade-Benzoni, "Negotiating with yourself and losing: making decisions with internal competing preferences", <i>Academy of Management Review</i>, vol 23 no. 2, pp 225-241, 1998.

		<ul style="list-style-type: none"> Cooter, Robert, and Melvin Eisenberg, "Fairness, Character and Efficiency in Firms", UC Berkeley School of Law, Public Law and Legal Theory Working Paper no. 55, April 2000 O'Donoghue, Ted and Matthew Rabin, "Doing it Now or Later", <i>The American Economic Review</i>, vol 89 no. 1, March 1999
14	IDEM 3 rd November 2016	<ul style="list-style-type: none"> Frey, B., Homberg, F, Osterloh, M. (2013) "Organizational Control Systems and Pay-for Performance in the Public Service", <i>Organization Studies</i>, 34(7) 949-972
15	IDEM 3 rd November 2016	
16	A DIFFERENT APPROACH TO DECISION-MAKING IN ORGANIZATION 10 th November 2016	<p>Readings:</p> <ul style="list-style-type: none"> Rosanas, Josep M. "Beyond Economic Criteria: A Humanistic Approach to Organizational Survival", <i>Journal of Business Ethics</i>, DOI 10.1007/s10551-006-9341-9, 2007 Rosanas, Josep M., "Organizational Decision-Making", Palgrave, 2013, caps 4-7. Pérez López, J.A., "Foundations of Management", mimeographed, IESE. (optional reading)
17	IDEM 10 th November 2016	
18	IDEM 10 th November 2016	
19	TRUST AND THE LIMITS OF ECONOMICS 17 th November 2016	<p>Readings:</p> <ul style="list-style-type: none"> S. Ghoshal and P. Moran, "Bad for Practice: A Critique of Transaction Cost Theory", <i>Academy of Management Review</i>, Jan. 1996. O. Williamson, "Economic Organization: The Case for Candor", <i>Academy of Management Review</i>, Jan. 1996. S. Ghoshal and P. Moran, "Theories of Economic Organization: The Case for Realism and Balance", <i>Academy of Management Review</i>, Jan. 1996. C. Portales, JE Ricart and JM Rosanas, "Understanding Trust to Build Strong Relationships in Organizations", in <i>Managing Strategically in an Interconnected World</i>, Ed. By MA Hitt, JE Ricart and R.D. Nixon, SMS Series, Willey, 1998. DI-360-E
20	IDEM 17 th November 2016	

21	SUMMARY AND FINAL DISCUSSION 17 th November 2016	<ul style="list-style-type: none">• Rosanas, J. M.: 2004. Bounded rationality, value systems and time inconsistency of preferences as rational foundations for the concept of trust, IESE Business School, Working Paper no. 567. DI-567-E• Ferraro, F. & Pfeffer, J. & Sutton, R.: 2005. Economics Language and Assumptions: How Theories May Become Self-Fulfilling. <i>Academy of Management Review</i>, 30 (1), 8-24. DI-530-E• Ghoshal, S.: 2005. Bad Management Theories are Destroying Good Management Practices. <i>Academy of Management Learning & Education</i>, 4 (1) 75-91.
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