

Models of the Firm: Economic Foundations of Management

1. Objectives

Understand the contribution of the different models of the firm to management research.

2. Methodology

Content

In this course we will focus our attention to the different models of the firms, their assumptions and implications for management research. The following program is just tentative and we will adjust it as we go along, adding new sessions when necessary to cover the assigned material.

Description of the methodology

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

Outline (2 sessions per day)

SESSION	DESCRIPTION	CASE/ACTIVITY
Day 1	THE ORGANIZATIONAL ECONOMICS FRAMEWORK	<p>Readings:</p> <ul style="list-style-type: none"> • Mahoney, JT, <u>Economic Foundations of Strategy</u>, Sage Publications, 2005, Chapter 1 • DGN 478 E Organization Design: The Intellectual Heritage • Milgrom, P. and J. Roberts, <u>Economics, Organization, and Management</u>, Prentice Hall, 1992. Chapters 1 to 2. <p>Do:</p> <ul style="list-style-type: none"> • Exercises 1, 2, and 3, chapter 2.
Day 2	ORGANIZATIONAL ECONOMICS (II)	<p>Readings:</p> <ul style="list-style-type: none"> • F.A. Hayek, "The Use of Knowledge in Society", <u>American Economic Review</u>, 1945. 015286 • A.S. Grove, "Breaking the Chains of Command", <u>Newsweek</u>, Oct. 3, 1983. 015287 • DGN 479-E "Organizational Design: Conceptual Elements". • Milgrom, P. and J. Roberts, <u>Economics, Organization, and Management</u>, Prentice Hall, 1992. Chapters 3 to 4. <p>Do:</p> <ul style="list-style-type: none"> • Exercise 2, chapter 3.
Day 3	TRANSACTION COST ECONOMICS	<p>Readings:</p> <ul style="list-style-type: none"> • Mahoney, JT, <u>Economic Foundations of Strategy</u>, Sage Publications, 2005, Chapter 2. • Coase, "The nature of the firm", <u>Economica</u>, 1937 • Williamson, "Economics and Organization: A Primer", <u>California Management Review</u>, Vol 38, n.2, winter 1996. • Baumol, "Williamson's The economic institutions of capitalism", <u>Rand Journal</u>, vol 17 no. 2, Summer 1986 • T.H. Chiles and J.F. McMackin, "Integrating Variable Risk Preferences, Trust, and Transaction Cost Economics", <u>Academy of Management Review</u>, Jan. 1996. 015303 • O. Williamson, "Calculativeness, Trust, and Economic Organization", <u>Journal of Law and Economics</u>, 36, 453-486

Day 4	INCOMPLETE CONTRACTING and PROPERTY RIGHTS & THE PROBLEM OF ASYMETRIC INFORMATION	Readings: <ul style="list-style-type: none"> Milgrom and Roberts, Chapter 9. Mahoney, JT, <u>Economic Foundations of Strategy</u>, Sage Publications, 2005, Chapter 3. Akerlof, "The Market for Lemons", Quarterly Journal of Economics, 89 pp. 488/500, 1970
Day 5	THE PROBLEM OF ASYMETRIC INFORMATION & AGENCY PROBLEMS	Readings: <ul style="list-style-type: none"> Milgrom and Roberts, Chapter 5 and 6 Spence, "Job Market Signaling " Quarterly Journal of Economics, August 1973 015291 Do: <ul style="list-style-type: none"> Exercises 1, 2, 4 and 5, chapter 6. 9-192-012 Agency problems and corporate jets.
Day 6	AGENCY PROBLEMS	Readings: <ul style="list-style-type: none"> Milgrom and Roberts, Chapter 7. K.J. Arrow, "The economics of agency", Chapter 2 in: <u>Principals and Agents: The Structure of Business</u> (Research colloquium / Harvard Business School) - February, 1991 Edited by John W. Pratt and Richard J. Zeckhauser Mahoney, JT, <u>Economic Foundations of Strategy</u>, Sage Publications, 2005, Chapter 4. Do: <ul style="list-style-type: none"> Exercise 3, chapter 7.
Day 7	CONVENTIONAL ECONOMIC MODELS OF THE FIRM	Readings: <ul style="list-style-type: none"> Edward P. Lazear, "Labor Economics and the Psychology of Organizations", <u>Journal of Economic Perspectives</u>, V.5, N.2, 1991. 015295 Baker, Michael C. Jensen y Kevin J. Murphy, "Compensation and Incentives: Practice vs. Theory", <u>Journal of Finance</u>, V. XLIII, N.3, 198-015302 D.M. Kreps, 1990, "Corporate Culture and Economic Theory", in J. Alt and K. Shepsle, eds., <u>Perspectives on Positive Political Economy</u>, Cambridge, England, Cambridge University Press Baker, George, Robert Gibbons, and Kevin Murphy, "Informal Authority in Organizations", <u>Journal of Law, Economics and Organization</u>, vol 15 no 1, 1999- 015308 Gibbons, Robert, "Incentives in Organizations", <u>Journal of Economic Perspectives</u>, vol 12 no. 4, Fall 1998, pp. 115/132 - 015298

		<p><u>Optional Reading</u></p> <ul style="list-style-type: none"> • Edward P. Lazear, "Personnel Economics and Economic Approaches to Incentives," <i>HKCER Letters</i> 61 (Sept/Oct 2000): 1-8. George P. • Michael C. Jensen y Kevin J. Murphy, « CEO Bonus Plans: And How To Fix Them », HBS Working Paper 12-022. • Jacquart, P., and Scott Armstrong, J, "The Obudsman: Are Top Executives Paid Enough? An Evidence-Based Review" (and replies that follow), <i>Interfaces</i> 43(6) pp. 580-604.
Day 8	ALTERNATIVE APPROACHES TO DECISION MAKING IN ORGANIZATIONS	<p>Readings:</p> <ul style="list-style-type: none"> • H. A. Simon, "Organizations and Markets", <i>Journal of Economic Perspectives</i>, Spring 1991. 015304 • Schelling, Thomas, "Economics or the art of Self-Management", <i>The American Economic Review</i>, vol 68 no. 2, May 1978. 015309 • 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. 015300 <p><u>Optional Readings</u></p> <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 • 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 • O'Donoghue, Ted and Matthew Rabin, "Doing it Now or Later", <i>The American Economic Review</i>, vol 89 no. 1, March 1999
Day 9	ALTERNATIVE APPROACHES TO DECISION MAKING IN ORGANIZATIONS II	<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 -DI-654-E • Rosanas, Josep M., "Organizational Decision-Making", Palgrave, 2013, caps 4-7. • Pérez López, J.A., "Foundations of Management", mimeographed, IESE. (optional reading)

Day 10	TRUST AND THE LIMITS OF ECONOMICS	<p>Readings:</p> <ul style="list-style-type: none"> • Mahoney, JT, <u>Economic Foundations of Strategy</u>, Sage Publications, 2005, Chapter 6. • S. Ghoshal and P. Moran, "Bad for Practice: A Critique of Transaction Cost Theory", <u>Academy of Management Review</u>, Jan. 1996. 015311 • O. Williamson, "Economic Organization: The Case for Candor", <u>Academy of Management Review</u>, Jan. 1996. 015297 • S. Ghoshal and P. Moran, "Theories of Economic Organization: The Case for Realism and Balance", <u>Academy of Management Review</u>, Jan. 1996. 015299 • C. Portales, JE Ricart and JM Rosanas, "Understanding Trust to Build Strong Relationships in Organizations", in <u>Managing Strategically in an Interconnected World</u>, Ed. By MA Hitt, JE Ricart and R.D. Nixon, SMS Series, Willey, 1998. DI-360-E • 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 <p><u>Optional Readings</u></p> <ul style="list-style-type: none"> • Ferraro, F. & Pfeffer, J. & Sutton, R.: 2005. Economics Language and Assumptions: How Theories May Become Self-Fulfilling. <u>Academy of Management Review</u>, 30 (1), 8-24. DI-530-E • Ghoshal, S.: 2005. Bad Management Theories are Destroying Good Management Practices. <u>Academy of Management Learning & Education</u>, 4 (1) 75-91.
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3. Grading

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.

4. Competencies

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.