

Organizational Economics and Organizational Capabilities: From Opposition and Complementarity to Real Integration

Guest Editors

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Introduction and Motivation

Two broad strands of literature have emerged as particularly central to organizational strategy and the theory of the firm: organizational economics and the capability (or resource-based) literature. While organizational economics highlights organizational efficiency and has clear implications for the organization of transactions, it has been criticized for saying very little about organizational heterogeneity and therefore (sustainable) performance differences. Meanwhile, the capabilities literature has been lauded as a theory of organizational heterogeneity and sustainable performance differences, but criticized for an inability to address the organizational forms and governance arrangements that create these capability differences.

The discussion and debate between these two literatures has persisted for at least fifteen years and seems to have evolved through three distinct stages: 1) *opposition* — with scholars arguing that organizational economics and the capability literature are fundamentally different and even opposed; 2) *complementarity* — with scholars arguing that the respective theories deal with distinct but complementary aspects of organization and strategy; and 3) *emerging integration* — an emerging stage in which some scholars now argue that the two views are more than complementary and that they can genuinely be integrated. However, despite the promise of this integration, the two literatures continue to be juxtaposed rather than meaningfully integrated.

The purpose and explicit goal of this special issue, then, is to encourage and highlight work that effectively and systematically integrates the organizational economics¹ and organizational capabilities-based literatures. Overall, we submit that significantly deeper integration of these two literatures will lead to important insights into organizational behavior, particularly the relationships between various organizational and inter-

¹ Overall, for this special issue we define “organizational economics” broadly and thus are interested in research that links organizational capabilities with: transaction costs, agency theory, property rights, and information economics. While some integrative links have been made between these approaches and organizational capabilities, the links have remained sparse and underdeveloped.

organizational forms and arrangements on the one hand, and capability building processes and outcomes on the other.

To illustrate potential links between organizational economics and the capabilities-based literature, several areas seem promising. For example, capability development and resource acquisition fundamentally are decisions related to organizational boundaries — and, these decisions might be better understood if integrated with insights from transaction cost and property rights theories. Furthermore, capability development also implicates matters of governance; thus, a key opportunity for future research is to explicate effective governance forms and organizational designs and decision-making structures for capability development. Much work is also needed on the emergence of new organizational forms, and the role of transactions in capability development in entrepreneurial settings. Moreover, organizational capabilities may be developed through alliances and other inter-organizational relationships, and organizational economics and the capabilities literatures can further be integrated to generate key insights about these governance forms as well.

Numerous other areas also suggest that the integration of these literatures might yield important insights. For example, a central part of organizational capabilities is human capital. The sourcing of human capital services and, for example, how such services are called forth by organizational incentives suggests that some promising insights might be gained from further integrating agency theory and other theories of motivation with the capabilities literature. Furthermore, understanding central issues related to human capital may help us to better understand the patterns of rent appropriation associated with capability development and organizational performance. Importantly, insights from psychology, social psychology and organizational behavior should also help us further understand the nexus of organizational boundaries and the development of capabilities.

In all, these matters seem to call for work that goes significantly beyond merely contrasting or juxtaposing organizational economics and capabilities-based views. This special issue, then, is a direct call for research that meaningfully integrates the two perspectives in an effort to better understand organizational design, organizational behavior and performance.

Key Questions and Themes

Integrating organizational economics and capabilities-based ideas may proceed from research questions that are theory as well as phenomena-driven:

Theory-driven Research Questions:

- How is a theoretical view of organizational capability development enhanced by understanding the governance of transactions?
- Is transacting itself a learned capability?
- How does the transacting capability evolve? How is it developed by the firm?
- What organizational forms and associated decision-making structures best govern knowledge creation and capability development?

- What insights from organization theory might help us meaningfully bridge and extend economic and capabilities-based reasoning? For example, what organizational designs and forms might help us further understand organizational boundaries and capabilities?
- What possible extensions are needed to transaction cost economics, specifically to better understand capability development?
- What insights from psychology or organizational behavior might help us understand organizational boundary decisions as they relate to organizational capabilities?
- Where do transactions come from? If transactions are taken as given, where do alternatives and understandings about transactions come from?
- What role does cognition and learning play at the nexus of organizational economics and capability development?
- Where do new organizational capabilities come from? How are new markets created and how do transactions and property rights play into this type of new capability development?
- How are subjective perceptions about asset specificity aggregated in nascent organizations? What is the relationship between asset specificity and capability development in new markets?
- What organizational forms best capitalize on the development of capabilities in new markets? How are activities related to new capability development governed?
- What is the relationship between human capital, organizational boundaries and organizational capability development?
- Can concepts of fit and complementarity (from the capability literature) be related to, and integrated with, concepts of asset specificity and co-specialization (from organizational economics)?
- What insights from information economics might enhance our understanding of organizational capabilities and knowledge production? For example, information asymmetries abound both across and within firms, how do these impact the development of capabilities and the creation and governance of knowledge?

Phenomena-driven Research Questions:

- What is the relationship between firm boundary decisions and capability development? For example, while interfirm networks have been highlighted as central to (or the locus of) capability development, what are the relevant boundaries of the firm and how is capability development implicated? Do organizational boundaries matter?
- What are the underlying sources of firm heterogeneity from a transaction cost point of view? For example, different firms may face different costs of transacting; how does this influence their sourcing decisions and their processes of building capabilities? Can (some types of) heterogeneity be traced to transaction costs?
- What is the role of contracts in capability development?
- What is the role of contracts and associated transactions in highly dynamic and uncertain environments?

- How do theories of organizational capability and heterogeneity need to evolve to account for increased globalization, increased access to information technology, and the increased moves to knowledge work?
- How do theories of the firm and capability development need to evolve given increased organizational disaggregation?
- How do property rights impact capability development or knowledge production?
- What role does knowledge accumulation play in capability development, boundaries, and the theory of the firm?
- What is the role of decision-making structures in capability development? For example, how do insights from agency or organizational theories help us understand the critical decisions related to the development of capabilities?

The above questions are meant to be illustrative, though not comprehensive, of the types of questions that we hope are explored in this special issue. Also, we are interested in both theoretical work and all varieties of method: econometric, ethnographic, historical, formal modeling and simulation.

Submissions:

Manuscripts for this special issue of *Organization Science* may be submitted between October 1, 2009 and October 30, 2009. Manuscript submission is handled electronically via Manuscript Central: <http://mc.manuscriptcentral.com/orgsci>.

Conference:

After the first round of review, the authors of the most promising manuscripts will be invited to a special issue conference. (Additional conference details will be provided later.)

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