

Index

- adaptation cost (AC) theory, 3, 16–26
 - academic literature on, 34–37
 - asset ownership and, 22–24
 - benefits of, 54
 - common law test in, 76
 - communication within/between firms and, 24–25, 33–34, 54
 - contractual adaptation costs, 4
 - delegation of decision rights in, 25–26
 - differentiation between firms and, 287
 - empirical tests for, 47–50, 54
 - employment mechanisms and, 17, 26, 33, 38–44, 146
 - extensions in, 41–43
 - motivation in, 38
 - static model for, 39–41
 - employment relationship in, 7, 46–53
 - between employer and employee, 301–2
 - incentive systems theory and, 46
 - legal definitions of, 46–47
 - PRT and, 46
 - evidence in, 44–53
 - ex ante bargaining mechanisms and, 146
 - firm heterogeneity and, 272
 - future research on, 221
 - incentive system theory and, 36
 - low-powered incentives in, 25
 - price lists and, 17–18, 54
 - productive adaptation costs, 4
 - PRT and, 16, 35–36
 - RBV and, 21–23
 - sales force organization in, 47
 - scope of firm and, 21–23, 27
 - sequential contracting mechanisms and, 17
 - specialization of firms and, 302
 - sub-additive bargaining costs and, 4, 54, 302
 - TCE and, 16
- adaptation costs, 19, 22–23, 33–34, 54, 58, 83, 85, 97, 205, 213–14
- adaptation frequency
 - in AC theory, 201–2
 - computational difficulties in, 202
 - data analysis, 205–8
 - economic research in, 207
 - integration studies, 206
 - Likert-type scales, 207
 - on production systems, 206–7, 224–25
 - data requirements and, 202
 - employment relationship and, 203–4
 - hypotheses for, 202–5
 - internalized, 212, 227
 - production systems and, 201–2, 204–5
 - cluster analysis of, 211
 - comparisons between, 217–19
 - data on, 206–7, 224–25
 - descriptive statistics by, 208, 226
 - estimation techniques for, 209–16
 - firm-level estimation, 217–19
 - optimization model for, 213–16
 - at pair-by-pair level, 209–11, 226
 - pooled models, 227
 - SSR by alternative models, 219–20, 228
 - testing of, 211–13
 - sequential contracting mechanisms and, 203–4
 - technology and, 204
 - time consumed during bargaining, 203–4
- aspirational bargaining model, 194–96
- asset ownership
 - AC theory and, 22–24
 - through asset-specific human capital investments, 234–35, 246
 - in carpentry trade, 231
 - efficiency gains from, 229, 236
 - empirical data on, 236–48
 - asset-specific human capital investments, 246
 - efficiency gains, 245–46
 - employees' incentives, 244

304 Index

- asset ownership (cont.)
 - employers' asset deployment strategies, 245–46
 - rank-order correlation, 245
 - risk sharing, 246
 - robustness checks, 247–48
- by employees, 45
 - through asset-sharing, 236, 245–46
 - empirical data on, 244–46
 - incentives for, 229, 233, 244
 - for multiple employees, 236
 - through risk sharing, 235–36
- by employers
 - deployment strategies for, 233–34, 245–46
 - empirical data on, 245–46
 - through risk sharing, 235–36
- evidence variables with, 122–24
- ex ante bargaining mechanisms, 24
- ex post bargaining mechanisms, 24
- externality argument for, 116–22, 125
 - depreciation variances in, 120–21
 - employee ownership and, 120–22
 - for risk-averse players, 121
- incentive system and, 36–37, 115
- manager surveys for, 123–24
- PRT and, 36–37, 44–46, 115, 125
- through risk sharing, 229, 235–36
- empirical data on, 246
 - for employers compared to employees, 235–36
- asset services, 43–44
- assets
 - economically divisible, 102
 - inalienability property and, 102
 - as resources, in RBV, 301
 - scope of firms and, 102
- asymmetric equilibria, 272
 - compatibility advantages of, 273
- asymmetric information, 25, 64, 150–51, 154–55, 157, 259
- authority, 25, 35–37, 43, 166, 175, 269
- Bain, Joe, 5
- bargaining bins, 64–65, 87–88
- bargaining costs. *See also* ex ante bargaining mechanisms; ex post bargaining mechanisms; sub-additive bargaining costs
 - bilateral mechanisms and, 61
 - Coasian, 14
 - communication costs as, 24–25, 33–34
 - communication within/between firms as, 24–25, 33–34, 128–30
 - in contracts, 254–55, 268–69
 - of decision-making, 165
 - employment mechanisms and, 62
 - fixed, 15
 - for fixed firms, 87–88
 - frictionless models, 14–15
 - frictions in, 14, 16
 - market mechanisms and, 61–62
 - pooling of, 15
 - pre-play information and, 61
 - scope of firms and, 85, 93–94
 - sequential contracting mechanisms and, 62
 - service specialization and, 60
 - trade and, 61
- bargaining efficiency effect, 129
- bargaining power effect, 131
- bilateral contracts, 253
 - renegotiation of, 253–54
- bilateral mechanisms
 - bargaining costs and, 61
 - market mechanisms and, 71
 - service specialization and, 58–59
- binding contracts, 64
- boundary of the firm, 12, 110
- business specialization, switching costs in, 60
- carpentry trade, 230–33
 - client contracts in, 231
 - productive assets in, 230–31
 - ownership of, 231
 - projects in, 232–33
 - wage contracts in, 231–32
- charitable organizations, decision-making in, 164
- client contracts, in carpentry trade, 231
- Coasian bargaining, 14
- common law test, 76
- Common Sequence of Events, 65, 73
- communication costs, 33–34, 37–38, 53, 175, 190, 269
- communication within/between firms. *See also* language theory
 - in AC theory, 24–25, 33–34, 54
 - as bargaining cost, 24–25, 33–34, 128–30
 - bargaining efficiency effect and, 129
 - bargaining power effect and, 131
 - in equilibrium models, 275–79
 - ex ante bargaining mechanisms, 129–30, 133–35
 - ex post bargaining mechanisms and, 129–30, 133–34, 135–40
 - efficiency of, 140
 - ex ante bargaining mechanisms compared to, 140

- in heterogeneous firms, 281–82
- incentive transfer effect, 129, 131–32
- symmetric equilibrium models, 277–79
- competition, differentiation between firms and, 284–85, 291–92
- competitive advantage, 281, 294
- competitive effects, in reporting rules, 288–89
- complementarity theories, 44–45
- Condorcet Jury Theorem, 165
- contingencies. *See* unforeseen contingencies
- contracting regimes
 - robust, 150
 - analysis of, 154–55
 - defined, 154–55
 - dynamic extension of, 155–57
 - efficiency of, 151
 - ex interim information in, 152, 155
 - incentives in, 150–51
 - limitations of, 157–58
 - negotiations in, 153–55
 - production and payoff in, 156
 - renegotiation mechanisms in, 155–56
 - spot contracting regime as inferior to, 159
 - static model for, 152–55
 - spot, 150
 - analysis of, 153–54
 - defined, 153–54
 - dynamic extension of, 155–57
 - efficiency of, 151
 - ex interim information in, 152, 155
 - incentives in, 150–51
 - limitations of, 157–58
 - negotiations in, 153
 - production and payoff in, 156
 - renegotiation mechanisms in, 155–56
 - robust contracting regime as superior to, 159
 - static model for, 152–55
- contracts
 - bargaining costs in, 254–55, 268–69
 - binding, 64
 - in carpentry trade
 - client contracts, 231
 - wage contracts, 231–32
 - completeness of, 253–54
 - decision-making for, 255–56
 - employment mechanisms as, 43
 - incomplete, 45
 - academic literature on, 256–58
 - complexity category of, 257
 - exogenous, 256–57
 - hold-ups for, 266–68
 - implicit, 257
 - model for, 258–68
 - renegotiation of, 253–54, 257, 260–68
 - strategic category of, 257
 - out-of-equilibrium cases, 255
 - contractual adaptation costs, 4
 - contractual control, in decision-making, 173–74
 - control, 46, 101–2, 131, 163, 173–74
 - cooperative behavior, of employees, 41
 - cooperatives, decision-making in, 164
 - Core Competencies, 5
 - customer loyalty, as resource, 105
- data analysis
 - of adaptation frequency, 205–8
 - economic research in, 207
 - integration studies, 206
 - Likert-type scales, 207
 - on production systems, 206–7, 224–25
 - on asset ownership, 236–48
 - asset-specific human capital investments, 246
 - efficiency gains, 245–46
 - employees' incentives, 244
 - employers' asset deployment strategies, 245–46
 - rank-order correlation, 245
 - risk sharing, 246
 - robustness checks, 247–48
 - decision rights, delegation of, 25–26
 - renegotiation threats and, 26
 - decision-making
 - for contracts, 255–56
 - in large organizations
 - abdication of, 164
 - academic literature on, 163–66
 - bargaining costs of, 165
 - changes in, 171–73
 - for charitable organizations, 164
 - contractual control in, 173–74
 - in cooperatives, 164
 - delegation of, 162–63
 - employment relationships and, 163, 175
 - intermember bargaining and, 167
 - joint payoffs and, 175
 - management compared to, 165–66
 - by managers, 162
 - model of, 166–70
 - renegotiations in, 172
 - repeated, 175
 - through threatened protest, 170–75
 - unchangeable decisions, 173–74

306 Index

- decision-making (cont.)
 vertical division of labor as influence on, 164
- delegation, 25–26, 163, 174, 254, 257, 268
- descriptive statistics, by adaptation
 frequencies, 208, 226
- Design Structure Matrix, 202
- differentiation, between firms
 AC theory and, 287
 competitive, 284–85, 291–92
 in equilibrium, 292–93
 informational implications for, 286–87
 reporting errors, 288–89, 293–95
 by specific firm, 288–89
 intuitive arguments for, 286–89
 local environments as factor in, 290
 model philosophy, 289–90
 number of employees and, 295–96
 organizational change as result of, 285
 organizational processes as factor in, 290–91
 product, 286
 in reporting rules, 288
 competitive effects, 288–89
 resource effects, 288–89
 through specialization, 286–87
- distribution of needs, 94–95
- division of labor, 75, 79–80, 85, 164, 286
- doubly-specialized employees, 301
- dual-service businesses, 89–91
- Dynamic Capabilities theory, 5
- economic theory of languages, 274
- economically inalienable, 5, 12, 22, 97, 101–3, 301
- economically indivisible, 102
- efficiency treatment (ET) studies, 187
- empirical tests
 for AC theory, 47–50, 54
 for incentive system theory, 49–50
 for PRT, 50
 for sales force organization and management, 51–53
 correlation coefficients in, 52
 Kendall Rank correlations in, 51
 t-values in, 52
- employee ownership, of businesses, 120–22
- employees
 asset ownership by, 45
 through asset-sharing, 236, 245–46
 empirical data on, 244–46
 incentives for, 229, 233, 244
 for multiple employees, 236
 through risk sharing, 235–36
 component fit mistakes by, 297
 cooperative behavior by, 41
 differentiation between firms based on number, 295–96
 doubly-specialized, 301
 in everyday language, 46–47
 as firm resource, 104
 in incentive system theory, 36, 45
 incentive transfer effect and, 147
 incorrect time allocation by, 297
 legal rules for, 41
 level of work quality by, 297
 relationship with employers, in AC theory, 301–2
 reporting errors by, 285
- employers
 asset ownership by
 deployment strategies for, 233–34, 245–46
 empirical data on, 245–46
 through risk sharing, 235–36
 PRT and, 125
 relationship with employees, in AC theory, 301–2
- employment mechanisms, 69–70. *See also* sales force organization and management
- in AC theory, 17, 26, 33, 38–44, 146
 extensions in, 41–43
 motivation, 38
 static model, 39–41
- bargaining costs and, 62
 defined, 16, 69
 efficiency components of, 79
 ex ante bargaining mechanism as, 145–46
 for human asset services, 43–44
 as an implicit contract, 43
 incentive systems theory and, 42
 internal coordination within firms, 44
 for large entrepreneurs, 74–75
 market mechanisms compared to, 71
 payoffs and, 70
 performance variables for, 79
 price lists and, 18
 proof of propositions in, 78
 proof of theorem for, 78–80
 PRT and, 145–46
 repeated trade and, 70
 sequential contracting mechanisms and, 43, 71
 service specialization and, 59
 for small entrepreneurs, 73–75
 TCE and, 42
 testable implications for, 75–76
- employment relationships, 7, 46–53
 adaptation frequency and, 203–4

- decision-making and, 163, 175
- defined, 91
- incentive systems theory and, 46
- independent contracting and, 182
- legal definitions of, 46–47
- PRT and, 46
- entrepreneurs. *See also* scope, of firms
 - distribution of needs and, 94–95
 - in dual-service businesses, 89–91
 - in fixed firms, 86–89
 - bargaining costs for, 87–88
 - degrees of specialization for, 87
 - strategies for, 88–89
 - large, focal mechanisms for, 74–75
 - small, focal mechanisms for, 73–75
- equilibrium models
 - asymmetric, 272
 - compatibility advantages of, 273
 - differentiation between firms and, 292–93
 - global maxima and, 279–80
 - in labor markets, 76–77
 - local maxima and, 279–80
 - resource allocations in, between members, 275–79
 - symmetric, 272
 - communication within firms and, 277–79
 - compatibility advantages of, 273
- estimation techniques, for adaptation frequencies, 209–16
- ET studies. *See* efficiency treatment studies
- ex ante bargaining mechanisms, 24
 - AC theory and, 146
 - communication within firms and, 129–30, 133, 134–35
 - ex post bargaining mechanisms compared to, 140
 - as employment contract, 145–46
 - incentive alignment in, 145
 - PRT and, 145–46
 - renegotiations in, 140–43
 - for sellers, 143
 - TIOLI offers, 141–43
- ex interim information
 - in robust contracting regime, 152, 155
 - in sequential contracting mechanisms, 25
 - in spot contracting regime, 152, 155
- ex post bargaining mechanisms, 24
 - communication within firms and, 129–30, 133–34, 135–40
 - efficiency of, 140
 - ex ante bargaining mechanisms compared to, 140
 - price adjustments in, 144
 - renegotiations in, 140–43
 - for sellers, 143–44
 - TIOLI offers, 135–38, 140
- excess capacity, 5, 12, 22, 83, 85–86, 96–97, 103–4, 301
- existence studies, for sub-additive bargaining costs, 186
- exogenous incomplete contracts, 256–57
- externality argument, 116–22, 125
- depreciation variances in, 120–21
- employee ownership and, 120–22
- for risk-averse players, 121
- face-to-face bargaining, 189
- firms. *See also* adaptation cost theory; communication within/between firms; resource-based view; specialization, of firms
 - component fit, mistakes with, 297
 - defined, 125
 - expansion of, 110
 - exploitation and development, 109–10
 - fixed, 86–89
 - bargaining costs for, 87–88
 - degrees of specialization for, 87
 - strategies for, 88–89
 - heterogeneous, 26–28
 - AC theory and, 272
 - communication within/between, 281–82
 - intuitive arguments for, 286–89
 - inalienability property, 101–2
 - incorrect time allocation by, 297
 - internal coordination within, 44
 - level of work quality, 297
 - product portfolio theory and, 109
 - resources of, 102–5
 - customer loyalty, 105
 - defined, 102–3
 - efficient groups of employees, 104
 - exploitation and development of, 109–10
 - exploitation of learning curve, 106–10
 - management of, over time, 105–10
 - during mergers and acquisitions, 106
 - product matrix for, 103
 - production capacity, 104–5
 - production experience, 105
 - sequential entry of, 106–9
 - technological leads, 105
 - scope of, 93–95
 - AC theory and, 21–23, 27
 - bargaining costs and, 85
 - distribution of needs, 94–95
 - excessive productive capacity as factor in, 83–85

308 Index

- firms. (cont.)
 for multiproduct firms, 85–86
 productive efficiency and, 85
 sharing of assets and, 102
 sub-additive bargaining costs of, 101–2
 Five Force Analysis, 4–5
 fixed bargaining costs, 15
 fixed firms, 86–89
 bargaining costs for, 87–88
 degrees of specialization for, 87
 strategies for, 88–89
 focal mechanisms. *See* employment
 mechanisms; market mechanisms;
 sequential contracting mechanisms
- global markets, defined, 91–92
 governance, 21, 38, 75, 84
- heterogeneous firms, 26–28
 AC theory and, 272
 communication within/between, 281–82
 intuitive arguments for, 286–89
- hold-up, 266–68
 human capital investments, asset ownership
 through, 234–35
- implicit contracts, 257
 inalienable, 97
 incentive system theory
 AC theory and, 36
 asset ownership and, 36–37, 115
 efficiency gains from, 229
 risk sharing and, 229
 empirical testing of, 49–50
 employees in, 36, 45
 employment mechanisms and, 42
 employment relationship and, 46
 incentive transfer effect, 129, 131–32
 employees and, 147
 incentives
 in ex ante bargaining mechanism, 145
 low-powered, 25
 in robust contracting regime, 150–51
 in spot contracting regime, 150–51
 incomplete contracts, 45
 academic literature on, 256–58
 complexity category of, 257
 exogenous, 256–57
 hold-ups for, 266–68
 implicit, 257
 model for, 258–68
 renegotiation of, 253–54, 257, 260–68
 strategic category of, 257
 independent contracting, employment
 relationship and, 182
- indivisibility, 5, 22, 86, 102
 Industrial Organization economics, 5
 information
 in Design Structure Matrix, 202
 differentiation between firms and,
 implications for, 286–87
 reporting errors, 288–89, 293–95
 by specific firm, 288–89
 ex interim
 in robust contracting regime, 152, 155
 in sequential contracting mechanisms,
 25
 in spot contracting regime, 152, 155
 pre-play, bargaining costs and, 61
 reporting strategies for, to management,
 288
 sub-additive bargaining costs and, 184
 integration, 47, 147, 206
 internalized adaptation frequencies, 212, 227
 intuitive arguments, for differentiation
 between firms, 286–89
- joint payoffs, in decision-making, 175
- Kendall Rank correlations, 51
- labor markets, equilibrium models, 76–77
 language theory, 273–74
 economic, 274
 organizational, 281–82
 large entrepreneurs, focal mechanisms for,
 74–75
 large organizations, decision-making in
 abdication of, 164
 academic literature on, 163–66
 bargaining costs of, 165
 changes in, 171–73
 for charitable organizations, 164
 contractual control in, 173–74
 in cooperatives, 164
 delegation of, 162–63
 employment relationships and, 163, 175
 intermember bargaining and, 167
 joint payoffs and, 175
 management compared to, 165–66
 by managers, 162
 model of, 166–70
 renegotiations in, 172
 repeated, 175
 through threatened protest, 170–75
 for unchangeable decisions, 173–74
 vertical division of labor as influence on,
 164
 Likert-type scales, 207
 local markets, defined, 92

- low-powered incentives, in AC theory, 25
- managers
 decision-making by, 162
 information reported to, strategies for, 288
- market failure, 5, 22, 85–86, 102
- market mechanisms, 65–66
 bargaining costs and, 61–62
 bilateral mechanisms compared to, 71
 efficiency components of, 79
 employment mechanisms compared to, 71
 for large entrepreneurs, 74–75
 performance variables for, 79
 proof of theorem for, 78–80
 sequential contracting mechanisms compared to, 71
 for small entrepreneurs, 73–75
 switching costs and, 66
 testable implications for, 75–76
- mergers and acquisitions, firm resources during, 106
- Moore-Rupello mechanisms, 6–7
- multilateral mechanisms, service specialization and, 58
- multiproduct firms, 85–86
- negotiation-as-needed, 52
- negotiations
 in robust contracting regime, 153–55
 in spot contracting regime, 153
- ontologically indivisible, 12, 86, 102
- organizational change, differentiation between firms, 285
- organizational language, 281–82
- organizations. *See also* large organizations
 charitable, 164
 sales force, 47
 correlation coefficients in, 52
 empirical testing for, 51–53
 Kendall Rank correlations for, 51
 t-values in, 52
- out-of-equilibrium cases, 255
- ownership, 115, 120, 122–23, 239. *See also*
 asset ownership; employee ownership; employees, asset ownership by; employers, asset ownership by
- payoffs
 in decision-making, 175
 employment mechanisms and, 70
 in robust contracting regime, 156
 in sequential contracting mechanisms, 67–68
 in spot contracting regime, 156
- pooling, of bargaining costs, 15
 sub-additive studies on, 186–89, 191
- Porter, Michael, 4–5
- pre-play information, 61
- price adjustments, in ex post bargaining mechanisms, 144
- price determination, 17, 23, 58, 61, 65, 67, 69, 83, 89, 96
- price list mechanisms
 AC theory and, 17–18, 54
 employment mechanisms and, 18
 service specialization and, 59
- product differentiation, 286
- product matrix, 103
- product portfolio theory, 109
- production systems, adaptation frequency and, 201–2, 204–5
 cluster analysis of, 211
 comparisons between systems, 217–19
 data on, 206–7, 224–25
 descriptive statistics by, 208, 226
 estimation techniques for, 209–16
 firm-level estimation, 217–19
 optimization model for, 213–16
 at pair-by-pair level, 209–11, 226
 pooled models, 227
 SSR by alternative models, 219–20, 228
 testing of, 211–13
- productive adaptation costs, 4
- Property Rights Theory (PRT)
 AC theory and, 16, 35–36
 asset ownership and, 36–37, 44–46, 115
 empirical testing of, 50
 employee ownership and, 120–22
 employer ownership, 125
 employment relationship and, 46
 ex ante bargaining mechanisms and, 145–46
 externality argument, 116–22, 125
 depreciation variances in, 120–21
 employee ownership and, 120–22
 for risk-averse players, 121
- protests, in decision-making, 170–75
- PRT. *See* Property Rights Theory
- RBV. *See* resource-based view
- renegotiation mechanisms
 for bilateral contracts, 253–54
 decision rights and, 26
 in decision-making, 172
 in ex ante bargaining mechanisms, 140–43

310 Index

- renegotiation mechanisms (cont.)
 - in ex post bargaining mechanisms, 140–43
 - for incomplete contracts, 253–54, 257, 260–68
 - in robust contracting regime, 155–56
 - in spot contracting regime, 155–56
 - stages of, 141
- repeated decision-making, 175
- reporting errors
 - by employees, 285
 - informational implications for, 288–89, 293–95
- reporting rules, 288
 - competitive effects, 288–89
 - resource effects, 288–89
- resource allocations, in equilibrium models, 275–79
- resource effects, in reporting rules, 288–89
- resource position barriers, 104
- Resource-Advantage Theory, 6
- Resource-Based Theory, 5
- resource-based view (RBV), 3–4
 - AC theory and, 21–23
 - assets as resources in, 301
 - Five Force Analysis, 4–5
 - human-resource management in, 4–6
 - marketing and, 4–6
 - operational strategies in, 4–6
 - team production and, 95–97
- resources
 - assets as, in RBV, 301
 - defined, 12, 102–3
 - of firms, 102–5
 - customer loyalty as, 105
 - defined, 102–3
 - efficient groups of employees, 104
 - exploitation and development of, 109–10
 - exploitation of learning curve, 106–10
 - management of, over time, 105–10
 - during mergers and acquisitions, 106
 - position barriers, 104
 - product matrix for, 103
 - production capacity, 104–5
 - production experience, 105
 - sequential entry and, 106–9
 - technological leads, 105
- risk sharing, asset ownership and, 229, 235–36
 - empirical data on, 246
 - for employers compared to employees, 235–36
- risk-averse players, externality argument for, 121
- robust contracting regime, 150
 - analysis of, 154–55
 - defined, 154–55
 - dynamic extension of, 155–57
 - efficiency of, 151
 - ex interim information in, 152, 155
 - incentives in, 150–51
 - limitations of, 157–58
 - negotiations in, 153–55
 - production and payoff in, 156
 - renegotiation mechanisms in, 155–56
 - spot contracting regime as inferior to, 159
 - static model for, 152–55
- sales force organization and management, 47
 - empirical testing for, 51–53
 - correlation coefficients in, 52
 - Kendall Rank correlations in, 51
 - t-values in, 52
 - sequential contracting mechanisms and, 49
- scope, of firms, 93–95
 - AC theory and, 21–23, 27
 - bargaining costs and, 85, 93–94
 - distribution of needs, 94–95
 - excessive productive capacity as factor in, 83–85
 - for multiproduct firms, 85–86
 - productive efficiency and, 85
 - sharing of assets and, 102
- sellers
 - ex ante bargaining mechanisms for, 143
 - ex post bargaining mechanisms for, 143–44
 - TIOLI offers and, 143–44
- sequential contracting mechanisms, 66–69
 - AC theory and, 17
 - adaptation frequency and, 203–4
 - bargaining costs and, 19, 62
 - efficiency components of, 79
 - employment mechanisms and, 43, 71
 - ex interim information in, 25
 - for large entrepreneurs, 74–75
 - market mechanisms compared to, 71
 - matching workers in, 66–67
 - offers made in, 67
 - payoffs in, 67–68
 - performance variables for, 79
 - proof of propositions in, 78
 - proof of theorem for, 78–80
 - for small entrepreneurs, 73–75
 - testable implications for, 75–76
- sequential entry, 106–9

- service specialization
 advantages of, 63–64
 bargaining costs and, 60
 bilateral mechanisms and, 58–59
 employment mechanisms and, 59
 multilateral mechanisms and, 58
 price list mechanisms and, 59
 size as influence on, 59
- small entrepreneurs, focal mechanisms for, 73–75
- Smith, Adam, 58, 63, 75
- specialization, of firms, 286–87
 AC theory and, 287, 302
 competitive, 284–85, 291–92
 differentiation through, 286–87
 in equilibrium model, 292–93
 in fixed firms, 87
 informational implications for, 286–87
 reporting errors, 288–89, 293–95
 by specific firm, 288–89
 intuitive arguments for, 286–89
 local environments as factor in, 290
 model philosophy, 289–90
 number of employees and, 295–96
 organizational change as result of, 285
 organizational processes as factor in, 290–91
 product, 286
 reporting rules and, 288
 competitive effects, 288–89
 resource effects, 288–89
 for services
 advantages of, 63–64
 bargaining costs and, 60
 bilateral mechanisms and, 58–59
 employment mechanisms and, 59
 multilateral mechanisms and, 58
 price list mechanisms and, 59
 size of firm and, 59
 switching costs in, 60
- spot contracting regime, 150
 analysis of, 153–54
 defined, 153–54
 dynamic extension of, 155–57
 efficiency of, 151
 ex interim information in, 152, 155
 incentives in, 150–51
 limitations of, 157–58
 negotiations in, 153
 production and payoff in, 156
 renegotiation mechanisms in, 155–56
 robust contracting regime as superior to, 159
 static model for, 152–55
- SSR. *See* Sum of Squared Production system Residuals
- strategic bargaining, 194–96
 in aspirational bargaining model, 194–96
- Strengths, Weaknesses, Opportunities, and Threats (SWOT), 103
- sub-additive bargaining costs, 14–16
 AC theory and, 4, 54, 302
 in aspirational bargaining model, 194–96
 defined, 182
 economics and, 6–8
 exchanged offers and, 190–91
 experimental design analysis of, 183–86
 face-to-face bargaining, 189
 of firms, 101–2
 frequency of settling times, 200
 information and, as investment, 184
 Moore-Rupello mechanisms and, 6–7
 pooling prices, 190–91
 reduced form model of, 182–83
 strategic bargaining and, 194–96
 studies on, 186–91, 197–99
 anonymity in, 189–90
 ET, 187
 existence, 186
 with increased stakes, 187–88
 number of bargains, 188
 pooling costs, 186–89, 191
 time savings, 188–89
- Sum of Squared Production system Residuals (SSR), 219–20, 228
- switching costs
 in business specialization, 60
 market mechanisms and, 66
 for workers, 65
- SWOT. *See* Strengths, Weaknesses, Opportunities, and Threats
- symmetric equilibria, 272
 communication within firms and, 277–79
 compatibility advantages of, 273
- take-it-or-leave-it (TIOLI) offers, 64–65, 132
 ex ante bargaining mechanisms and, 141–43
 ex post bargaining mechanisms and, 135–38, 140
 sellers and, 143–44
- TCE. *See* Transaction-Cost Economics
- team production, RBV and, 95–97
- technological leads, as resource, 105
- technology, adaptation frequency and, 204

312 Index

- thought worlds, 274–75
- time consumed during bargaining, 203–4
- time savings studies, for sub-additive bargaining costs, 188–89
- TIOLI offers. *See* take-it-or-leave-it offers
- trade
 - bargaining costs and, 61
 - employment mechanisms and, 70
- Transaction-Cost Economics (TCE), 5
 - AC theory and, 16
 - employment mechanisms and, 42
 - unforeseen contingencies, 45
- vertical division of labor, 164
- Vikings, decision-making among, 164
- wage contracts, in carpentry trade, 231–32
- workers
 - in sequential contracting mechanisms, 66–67
 - switching costs for, 65