Application of Organizational Economics in Organizational Management

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Abstract: Organizational economics is a new theoretical paradigm which applies the analytical tools of economics to the field of management and has made remarkable achievements. However, the origin of organizational economics determines its dual disciplinary nature: on the one hand, it inherits the liberal tradition; On the other hand, it focuses on the management behavior of the "visible hand". This nature also leads to various contradictions and conflicts in the field of management of organizational economics. This paper focuses on the analysis of the three aspects of problems arising from the different analytical levels between individualism and systematism, the narrow behavior hypothesis and the negative moral evaluation of human nature.

1. Introduction

Economics and management, as two different analytical paradigms, are like a gap between them. They are basically isolated and closed to each other. Although a series of efforts have been made to correct the neoclassical enterprise theory to the direction of the real world, the gap between economics and management has not been effectively closed. The development of new institutional economics makes the paradigm of economic analysis permeate into its surrounding disciplines and has the potential of forming an economic empire. Under this trend, organizational economics has successfully penetrated into management by using transaction cost as an analytical tool and become an important part of modern management.

2. Duality of organization economics

Theoretical system of economics and management are two different structure and paradigm, Kuhn think a scientific paradigm represents a specific community members of the Shared beliefs, values, technology and so on constitute the overall (Kuhn, 2003), under the guidance of paradigm in the researchers' attention in some fields, like wearing a pair of eye, the view and research limitations in specific analysis framework. Economists and management scientists view the real world through two different paradigms, which determines their different attitudes towards the world. Economists focus on how to achieve the optimal state of social structure through the free activities of economic actors in the market economy. Adam Smith, the founder of modern economics, is a defender of liberalism and a staunch opponent of absolutist monarchy. [1] Today, mainstream economics still holds the banner of liberalism, supports free market economy and opposes government regulation and policy intervention. When economics adhering to the liberal tradition infiltrates into enterprises, especially large bureaucratic enterprises, it is easy to treat the economic activities of enterprises as the activities of a country, that is, enterprises are regarded as miniature models of a country, so there is usually a critical tendency. In traditional economic analysis, an enterprise consists of capital, labor and an entrepreneur, and there is no mention of management and management personnel. The usual questions in economics are: why are there larger and more complex businesses in an ideal economy than small owner-occupied enterprises? Why is not all economic activity organized within the market mechanism, where small and medium-sized owner-occupators trade freely according to the market price signal system? In such a thinking perspective, there is no place for management through the "visible" hand of management, so there is no need for management bureaucracy to exist.

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Both agency theory and transaction cost theory have their disciplinary roots in economics, and their success lies in that they broaden the perspective of economic analysis and bring the management activities within enterprises into the framework of economic analysis. Such as Williamson to Simon's limited rational thought, the thought of Barnard's coordination, and chandler enterprise development are brought into his transaction cost theory, thus on the basis of coase enrich the theory of transaction cost, formed a comprehensive theoretical system, is people to become "Williamson synthesis (Wliilamson short)" (Pitelis, 1991). But in essence, organizational economics is more neoclassical than other competing paradigms. [2] The characteristics of this neoclassical tradition are obviously manifested in the agent theory and transaction cost theory. Arrow-debrugh model is the core structure of neoclassical economics, which is a strict and general formulation of neoclassical ideas. If information asymmetry, transaction costs and other factors are introduced into this model, moral hazard and adverse selection problems concerned by agency theory will appear (Roger gessnelli, 1992). The solution of agency theory to these problems, that is, the design of the most effective incentive mechanism, is just a modification of the core structure of neoclassical economics. Coase theorem, as the core proposition of transaction cost theory, returns the liberal tradition to the analysis of externality. Williamson believes that enterprise behavior is linked with transaction cost saving, and transactions with different attributes should be matched with corresponding governance structure to be an efficient institutional arrangement. He thinks that it is inappropriate to simply regard vertical integration and joint enterprise as anti-competitive and anti-social strategic actions (Williamson, 1999). According to the analysis method and viewpoint of transaction cost theory, dugo believed that transaction cost theory is not "institutionalism" at all, but "more realistic and mature neoclassicism". (Dugger, 1983) on the other hand, organizational economics focuses on the role of the visible hand. According to organizational economics, there are some transactions that are different from spot transactions in the market and can be carried out more efficiently if they are carried out within the same enterprise (Coase, 1937). Therefore, different from the cognition rules of traditional economics, the conclusion of organizational economics is that management plays an important and active role in the process of economic operation. To be explained by the transaction cost theory, the transaction of some attributes has difficulties due to the inability to obtain credible commitments, which is that one party of the transaction cannot obtain the reliable commitment of the other party to deliver the goods with guaranteed quality and quantity in a certain period in the future according to the contract (Williamson, 1985). [3] These difficulties stem from human characteristics: one side of a deal can be opportunistic, seeking its own advantage at the expense of the other, or even through fraud. Opportunism is a central problem in most of the literature on organizational economics. In both agency theory and transaction cost theory, managers are economic actors with fraudulent (de-ceitful) and shirking tendency. Within the enterprise, the opportunistic behavior of the economic actor imposes on the owner of the enterprise; In the course of transactions between enterprises, the management team of one enterprise engages in fraudulent activities against another management team. Therefore, in the theory of transaction costs, management becomes necessary when the market mechanism fails. Because economic agents is not trust, a manager of the team's opportunism is likely to damage another manager team, such as between a supplier and a buyer of this kind of opportunism will force them to vertical integration, let the third team managers --, a higher level than their managers to control the two management team. In agency theory, a large modern company has a large number of dispersed shareholders, the separation of ownership and managerial authority principal-agent problems, due to the limitation of the free market relations, namely in a large company because of too big, entrepreneurs can't direct guidance and management, management as a free market in capitalist society, a social system is developed.

In a word, since the discipline of organizational economics is rooted in economics, its attitude towards management is deeply contradictory -- on the one hand, it follows the tradition of liberal economics, on the other hand, it focuses on the function and operation of the visible hand. This contradiction not only shows the coordination efforts between economics and management, but also shows the problems that organizational economics tries to integrate into management theory.

3. Contradictions and conflicts caused by organizational economics in the field of management

Since the discipline of organizational economics is rooted in economics, it inevitably leads to contradictions and conflicts with the original theories and analytical methods when it enters the field of management. Compared with other theories in the field of management, economics has the advantage of having analytical tools by which concise and verifiable conclusions can be drawn (Morgan, 2003). These tools make traditional economics a closed theoretical system based on logical deductivism. On the contrary, the original management theory from the real economic life of the summary of business activities and management practice produced and formed on the basis of ascension, directly facing the complex economic and social phenomenon and the characteristics of diversification, so compared to management and economics is a relatively decentralized and open theoretical system. The following part mainly analyzes the contradictions and conflicts of two different theoretical systems interwoven in methodology, premise hypothesis and moral tendency.

3.1 Methodological individualism

Neoclassical economics is a social science based on methodological individualism. In its analytical perspective, all social and economic phenomena are generated by the activities of individual consciousness. Economists are reluctant to analyze economic activity beyond the individual level, especially when the organization of a business is the unit of analysis. However, many management theories take organization as their analysis subject. For example, how does corporate strategy lead to the change of corporate structure? [4] How does the company plan affect the profitability of the company? In management theory, organization is usually regarded as a system with purpose, structure, material and information input and output, and interacts with and relates with other organizational systems in the whole economic system environment.

Under the influence of methodological individualism, economics believes that the systematic level analysis commonly adopted in management theory will not achieve clear theoretical results. In under the guidance of such an idea, organizational economics is a combination of criticism in aspects of sociology and psychology (Donaldson, 1985), a breakthrough in the new classical microeconomic theory on the basis of enterprise behavior analysis of the level, insisting that the behavior of the individual as the basis of economic analysis, shell and go deep into the analysis perspective breakthrough in enterprise's organization, there is no doubt that this is a big development of the new classical theory of the firm. Agency theory emphasizes the individual agent is the basic units of analysis “(Jensen, 1983), according to the individual economic actors, they always use the rational economic man hypothesis to analyze the organization system, pay attention to the benefit of every economic behavior person to pursue, and how an economic actor's interests and the interests of the other economic agents of conflicting, which is the conflict of interest between principal and agent. In the transaction cost theory, Williamson, influenced by cummins, took transaction as the basic unit of analysis and further dimensionalized it to investigate transactions with different (mainly to save transaction costs) ways of adjusting different attributes through various governance mechanisms.

On the contrary, many theories in the field of management strongly criticize the analysis units of transaction cost theory (Chandler,1992; Winter, 1988). Most system-level analyses suggest that it is not a problem for the individual members of an organizational system to reach a common will to achieve organizational goals. A prominent problem with this systems-level macro analysis is that it fails to provide convincing answers to the following questions: how can group members overcome various technical difficulties through optimal structure, systems, and planning coordination mechanisms to achieve sufficient behavioral consistency? Therefore, the individual analysis method of organizational economics is a beneficial supplement to the system level analysis based on the original enterprise theory. In psychology, sociology and politics, where human motivation, incentives and conformity are viewed differently from theories of organizational structure, strategy and planning, organizational economics finds common ground with management. But the tension between the individualist and systemalist analytical approaches raises the question of how these two levels of analysis can be adequately combined in management theory.

3.2 Narrow behavioral assumptions

This focus on individual motivation, as well as its own disciplinary roots in economics, brings further conflicts and contradictions between organizational economics and management theory. Organizational economics emphasizes the rational economic model of economic actors, in which people pursue their own interests, that is, pursue personal wealth, status, leisure or something like that, and maximize their personal utility through calculation. This narrow assumption of human nature comes from the nature of the discipline of organizational economics. The interpretation model of economic deductivism must have certain closed criteria, and the rational principle of agent behavior is the “internal condition” of closed criteria (Lawson, 1996). This assumption of individual utility maximization follows simple, unchanging laws that do not depend on the environment, requiring only that individuals react predictably to external influences as atoms do.

Economists are often criticized for their single model of human motivation. One of the most prominent apologists for economists is friedman, who argued that the validity of models in science lies not in the validity of their assumptions but in the predictive power of the theories themselves. Friedman regarded scientific principles not only as a tool of prediction, but also as a practical fiction story, that is, his “as if” models (Friedman, 1953). This view has been opposed and criticized by many economists, including some other famous economists. [5] Critics think right effective scientific theory is to clarify the real causal process --, so the theory of the effectiveness of the form of reality is clear, if a theory has the ability to predict accuracy, but it's assumptions and reality, it can provide a satisfactory prediction, but it can't explain phenomenon, it does not tell us why and how these phenomenon occurs. Therefore, in the face of the theory of human motivation that economics emphasizes on unrealistic and simplified assumptions, the methodological basis and philosophical basis have increasingly weakened its support for this methodology. Although Williamson is rooted in economics, he has absorbed many ideas of organization theory and management. Therefore, he is different from friedman in behavioral hypothesis. He believes that in order to accept the test of falsifiability, the transaction cost theory must pay attention to the importance of behavioral hypothesis (Williamson, 1989). But Williamson in behavioral assumptions in theory and in reality there is a tension between, he thinks that the behavior of the new classical economics assumes that easy operation but lack of realism, and Simon's behavioral assumptions more realistic but difficult to operate, he will attempt to transaction cost theory of behavioral assumptions based on between the two - limited rational and economical. Although agency theory has different expressions of behavioral hypothesis, they share the same hypothesis and the agent faces the same opportunity set. However, planten argues that this behavior hypothesis does not endanger the analytical framework of traditional economics, but expands the analytical scope of this framework, because this behavior hypothesis merely abandons the feasibility of complete contract behavior in traditional economics and replaces it with incomplete contract behavior (Pratten, 1997). But Mr Williamson's efforts to break through the gap between theory and reality have also undermined the inherent condition of theoretical closure, so it is not surprising to see him under attack from both economics and management.

Atomistic explanations of human behavior in economics have been criticized by realistic management theorists. [6] The behavior motivation and response pattern of real people are very complex. From the traditional point of view, human motivation is not only manifested in “theory X” or “theory Y”, but also in some more complex and more camera - dependent mixture of different types. The current study of human behavior has divided human motivation into a broad series, including the need for a sense of accomplishment, a sense of responsibility, a sense of identity, and so on, in addition to altruism, belief, respect for authority, and an intrinsic drive that essentially provides a satisfying mission. Moreover, psychologists and sociologists have pointed out that human behavior is often done unconsciously, that is to say, many behaviors are done through habit, emotion, taking for granted mentality, conditioned and unconditional reflex, subconscious impulse and so on. Although the various motivations of human behavior are not equally important and prominent in the analysis of organizational behavior, the explanation of human behavior motivation in organizational economics is relatively narrow compared with the original motivation theory of organizational behavior. Thus, how to integrate the traditional theory of organizational behavior with the emerging theory of organizational economics has become a problem to be solved.

4. Negative moral evaluation

In economics, people's morality is always faced with negative evaluation standard, and organizational economics also adopts the evaluation tone of this economist, which is even more extreme. Therefore, the controversy in the management of organizational economics is also one of the profound controversies in economics. From Adam Smith's discussion on the egoism of human beings in the wealth of nations, there have been numerous moral censures. Even in Smith's own works, there is a puzzling “Smith problem”, which has caused a protracted debate on the principle of self-interest. If the economic man hypothesis is to blame, then the contractual man hypothesis in organizational economics is even harder to bear. Because the economic man pursues the principle of egoism, but is honest; However, the inventors can violate any prohibition when pursuing their own interests (Williamson, 1985).

In organizational economics, a business manager is considered to be a person with inherent responsibility discharge, opportunistic tendency and even use fraudulent means to maximize his own interests, whose behavior often hides moral hazard. In our society, this kind of language often produces very negative comments. The question to be asked when examining really economic behavior in this language is: how many of these types of management behavior are in real life? How often and how serious are these problems? Because organizational economics lacks a description of what works well in practice (such as altruism, loyalty, the pursuit of ethical standards, intrinsic incentives to find satisfaction in the job, etc.), it is hard to distinguish, in organizational economics terms, what doesn't work so badly. Since opportunism is one of the most basic and rationalistic assumptions of organizational economics, rather than treating this behavior in a camera and empirical way, all managers are assumed by organizational economics to act in this way no matter what situation they are in. [7] Organizational economics provides a theoretical framework within which managers engage in opportunistic behavior without including all other types of behavior. Therefore, organizational economics actually creates and repeatedly emphasizes an allegory of anti-organizational and anti-social management behavior.

Human nature is too complex to be adequately summed up by opportunism. Respect for human dignity, the cultivation and development of trust in interpersonal relationships, the interaction among team members, the pursuit of moral standards, social pressure, cultural environment and customs, etc. all have important influences on human nature and even human behavior. Ignoring the reality of this diversity of motivations and focusing only on opportunism raises some questions about management theory: what effect does an organization based on opportunism have on those who do not act on opportunism? How to coordinate the relationship between economic man, contract man and social man hypothesis?

Therefore, organizational economics brings various problems to the relationship between management theory and management experts on how to deal with the original theory, how to integrate management theory and its reality, over-simplification, effectiveness and evaluation color. Nevertheless, there should be a well-meaning and supportive attitude towards a new and growing paradigm and an opportunity for these new theories to show what they can contribute. The development of future knowledge cannot be predicted (Popper, 1945), so the potential theoretical contribution of organizational economics cannot be automatically denied or affirmed, and only when this analytical paradigm is fully developed in its field can it be clearly shown. And to the extent that managers actually behave in the way that organizational economics assumes, out of respect for the facts, management theory should accurately reflect this. [8]

The management of enterprises should not be carried out blindly. It is necessary to know the real needs of enterprises, the risks they need to avoid, and how to get through the risks smoothly, so as to enable enterprises to enter the economy of The Times. Today's economic development is like a flood beast, steady sailing in the flood can make the economy run at high speed. End of the twentieth century became a part of the world trade organization (WTO), China companies have to pay and income uncertainty, people more and more value the utility of economic management, the development of the enterprise has been inseparable from the economic management, the old thinking companies operating in China, but if didn't make a change according to actual condition, these enterprises can only be eliminated by the time the economy, in order not to be winnowed out, should actively promote the transformation of enterprises, grasp modern wisdom, quick and effective management of the operation of the property, many aspects of reform of personnel training and change, keep up with The Times the speed of economic operation, has the most effective management means, Fundamentally improve the vitality of enterprises, but also let the domestic economic development and the world economic development can be in line. Like the production of a batch of FMCG, the first to know the product in the market saturation, as well as the products are complements and similar replacement products, secondly to predict each time when good sales price float, at the beginning of the sales first formulate a highest expectations of price, along with the selling and the elasticity of demand of people, in the range of reasonable price movements.

5. Summary

Based on the above analysis, the future development of organizational economics needs to solve two problems: on the one hand, the relationship between methodological individualism in motivation and benefit research and systematic analysis methods in the structure of effective coordination of teams; On the other hand, the relationship between the simple explanation of human behavioral motivation provided by organizational economics and the diversified understanding of human behavioral motivation in organizational behavioral theory. These problems challenge the integration of economics and management, and point out the direction for the development of organizational economics.

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