This special issue of *Industrial and Corporate Change* contains a selection of papers submitted as part of a celebration of Oliver Williamson’s 70th birthday. Along with this issue and a book to be published by Oxford University Press, the occasion was commemorated with a conference held in Berkeley, CA, on October 26, 2002. Attendance at the conference included many of Oliver’s present and former colleagues, teachers, students, admirers and friends; many who were unable to attend also sent testimonials to Oliver’s scholarship and friendship. As the conference program announced, more than marking just an anniversary, the conference and these publications celebrate “the richness of Oliver’s many lasting contributions not only to economics but also to organization theory, public policy, law and economics, and business administration.”

It is customary to use the introduction to a collection like this to review the honoree’s work and accomplishments. In this case, however, the contributions are so profound and well-known that the author has become eponymous with the theory; “Williamsonian” is widely recognized to refer, not just to a body of work, but to a distinctive framework, an approach or, as Williamson terms it, a *lens* through which to view problems of economic organization. Furthermore, I have previously had the opportunity to describe Williamson’s insights and contributions, at considerably greater length than is permissible here, in an essay for a book titled *American Economists of the Late 20th Century* (1996; reprinted in *Transaction Cost Economics and the Influence of Oliver Williamson*, 1999). Lest I do injustice to my subject now with too brief a review, or insult my audience by repeating the familiar, I have decided to depart slightly from custom and use this space, first, to describe some of the personal and professional qualities of Oliver Williamson and, second, to attest to the continuing vitality of the intellectual program that Williamson has set motion. Being (or having become) an empiricist, I draw on personal recollections of my relationship with Oliver to support the former; the papers that make up this issue stand in evidence of the latter.

*October 11, 2004. The following was written as the introduction for the special issue of *Industrial and Corporate Change* in honor of Oliver Williamson (13(6), 2004) but was rejected by the journal editors as too collegial and personal for the journal. An abbreviated introduction appears in the journal in its place.*
1. A personal appreciation

Because I came to know Oliver first as a teacher and advisor, my perceptions of his many qualities — his judgment, perceptiveness and generosity, in particular — were formed in that context. Others, such as his patience and sense of humor, I came to appreciate fully only over time.

I first set eyes on Oliver Williamson on September 6, 1979, in room 395 of McNeil Hall, a seminar room in the University of Pennsylvania’s economics department. I was a third-year graduate student, and it was the first session of Williamson’s graduate Industrial Organization course. My attraction to Williamson’s work, and my motivation for taking his course, grew out of an interest in markets and hierarchies at the level of economic systems rather than of the firm: My principal field in graduate school to that point had been Comparative Economic Planning, although I also had an abiding interest in law and economics, which I had studied as an undergraduate but which Penn did not at the time offer as a course of study. I had read *Markets and Hierarchies* on my own the previous year and had perceived in it (though rudimentarily on my part) a conceptual framework that seemed to organize and unify concerns running throughout both the comparative systems and law and economics literatures with which I was familiar.

The industrial organization in Williamson’s course was not the IO that I had been exposed to (and was unexcited by) as an undergraduate. Together with the concurrently run Transaction Cost Economics Workshop (nee the IO Workshop, renamed under terms of a Sloan Foundation grant, I believe), Williamson’s course was far and away the most influential experience of my academic life. Even the traditional topics of IO — oligopoly pricing, entry deterrence, regulation — were revealed in a new light. But it was the treatment of the firm and vertical relations, and particularly Williamson’s newest article, “Transaction Cost Economics: The Governance of Contractual Relations” (1979), which the class read in galley form, that really grabbed me. Here was an approach that integrated the subjects of (and my interests in) economics, organization and law. I dropped Comparative Economic Planning as my primary field (fortuitously, it turns out, in light of the subsequent collapse of the Soviet Union and, with it, the field itself) and turned my attention to this new, emerging subject matter.

The influence of Williamson and his framework on me was such that, over the course of the semester, I found myself taking increasingly more provocative positions with my classmates. One such incident — illustrating a lesson on the usefulness of tautologies I learned from Williamson — occurred at the weekly post-workshop dinners we doctoral students held to discuss the workshop presentations among ourselves. After one particularly stimulating seminar, I felt emboldened to make the claim that “all interesting issues in
Here is Mike Waldman’s version from a June 21, 2000, e-mail to me:

This is how I remember the exchange. You challenged me and Tom [Ross] to come up with some “interesting” issue in economics that is not fundamentally a transactions cost topic. We suggested a number of topics each of which you successfully argued was a transactions cost topic. I then suggested the topic of comparative advantage at which point you hesitated and then replied that comparative advantage is not interesting. I am still not sure who “won” the argument.

My first direct personal experience with Oliver’s foresight and good judgment on matters of research was a rather painful one. In Penn’s department, as in most economics departments, formal theory rested at the top of the academic pecking order. Consistent with this, the most often-heard criticism of Williamson’s framework while I was in graduate school was its lack of formalization. Inspired partly by some then-recent work on modeling damages for contract breach, I decided to make the modeling of Williamson’s theory of vertical integration the subject of my thesis. After several months of work, I produced a model that I thought captured the essential features of the Williamson framework. Proud of myself for a job well done, I sent Williamson the manuscript, organized in chapters, and arranged a meeting to discuss his reaction, expecting to schedule a thesis defense date after, perhaps, some minor revisions. What I heard instead was “This is fine but how are you going to test it?”

WHAT? Test it? Everyone knew that you could not test such a theory! There were no data available on firms’ procurement decisions much less on explanatory factors such as “asset specificity,” “complexity” and “frequency of transactions.” Impossible, I told him. His response: “Then what else do you propose to do to complete your dissertation?”

I spent the next two weeks in my apartment, stewing. If I hadn’t before, I now fully internalized the meaning of “relationship-specific investment” and “ex post opportunism.” Finally, swallowing my pride (particularly tender after two weeks of stewing), I made another appointment with Williamson. He provided me with a letter of introduction to the General Manager of General Electric’s Reentry Systems Division, which happened to be located in West Philadelphia just off the Penn campus, where GE produced the reentry
vehicles for the Minuteman ballistic missile under contract with the U.S. Air Force. Over the course of several visits, I received tours of the production facilities, introductory lessons from the procurement staff on the intricacies of Defense Acquisition Regulations, and a set of completed surveys on their make-or-buy program, including characteristics of components. I entered the data (on punchcards!) and, lo and behold, the theory worked. Time passed, my formalization of the “make-or-buy” decision languished, and the empirical analysis became my best-known work. What I regarded as opportunism at the time turned out to be the best advice I ever received.

The reception given transaction cost analyses in those relatively early years was not always warm, and Williamson warned me to expect some resistance. (Twenty percent will already accept the argument; twenty percent will be certain that it is nonsense; the sixty percent in the middle is who you need to concentrate on convincing, I remember Williamson telling me before I went out on the job market (although I may be off on the percentages).) The Williamsonian framework was still fairly new and involved a significant departure from orthodox assumptions and an investment in some new terminology. And let’s face it, Oliver’s syntax didn’t necessarily make it easier. But if others sometimes struggled with Williamson’s style, it could very well have put a premature end to my academic career. As many of you know, Oliver spends time most summers in his much-beloved, native Wisconsin. I had agreed to housesit one such summer (1981) and was invited to dinner at the Williamsons’ suburban-Philadelphia home to become acquainted with the house and review my responsibilities. Things went reasonably well until, responding to some minor infraction of table manners by one of the twins, Dean and Oliver (who were then in their early teens), Williamson reprimanded the offending offspring — using the same inimitable (actually, that’s not true; a number of us could do pretty darn good Williamson impersonations back in those days) manner he would use expounding on, say, the adaptive properties of hierarchical governance. On hearing this, I nearly spewed my dinner across the table. Needless to say, this attracted some attention from the family. I tried my best to apologize, explaining my surprise in hearing Professor Williamson speak to his children the same way he spoke in class. Seeing my embarrassment and taking pity on me, Dolores Williamson offered a reassuring remark, but it was no use. My career flashed before my eyes.

Although I experienced no immediate repercussions — Williamson kept me on as his research assistant for another year, supervised my thesis to the end, and supported my job search — I nevertheless worried about this incident for years afterwards. Only as my career progressed without obvious detriment did I gradually conclude that maybe my dinner indecorum had not left as big an impression on Williamson as it had on me. Then, out of
the blue, I received a nice, handwritten Christmas card from Dolores relating how, while visiting family in New England, one of Olly’s young nieces observed, “Uncle Olly talks funny,” to which Dolores appended the comment “and I thought of you.” The fact that I had not been not immediately and permanently exiled back to the Comparative Economic Planning gulag following that dinner is a sure sign of Oliver’s kindness and forgiving spirit.

Since those days, I have had many other opportunities to observe Williamson’s grace, patience and wit. On one occasion, a conference in Europe, I saw Williamson sit patiently while a pair of panel members debated whether his writings revealed him to be an “Aristotelean essentialist” or an “accidental historical rhetorician.” (I forget the conclusion.) Later in the conference, two professors argued over what Williamson meant by a certain passage in Markets and Hierarchies — with Oliver sitting in the audience not three meters (it was Europe) in front of them. (A less patient Keith Crocker leaned over to me part way through the exchange and asked, “For crying out loud, why don’t they just ask him?”) But even Oliver has his limits. Having received faulty directions to a restaurant from a local conference participant, a small group of us ended up lost in a decidedly seedy part of the city. The next day at the conference, that same individual gave a presentation that was as inaccurate about transaction cost economics as his dinner advice had been the night before. I passed a note forward to Oliver informing him that this was the fellow who had given us “the bum address” the previous evening. Oliver passed the note back with his response (see Exhibit A), triggering the interruption of yet another occasion by inappropriate laughter.

Exhibit A: “To top it off, this is the guy who gave us the bum address last night.”
“And indigestion today.”
Finally, no one accomplishes what Oliver Williamson has without taking some risks and without certain amount of luck. Again, I can attest that Oliver is a risk taker. Being unfamiliar with the relevant statutes of limitations, I will not describe my proof in detail other than to say that it involved Paul Joskow, Keith Crocker and myself, international borders, and two rental cars with Oliver and Dolores alternately at the wheel of one. As for luck, no more evidence is needed than Oliver’s good fortune in having met and married Dolores, who is simply the nicest person one could ever hope to know.

2. A Research Testimonial

While many of us owe personal debts to Oliver Williamson, it is for his professional contributions that, in the end, we owe the most gratitude. The breadth and quality of the papers in this issue, whose authors range from Z to A (Zhu to Aoki), testify to the Williamson’s intellectual influence on now three generations of scholars: his contemporaries, his students and, increasingly, his students’ students.

Tian Zhu’s paper is representative of continuing efforts to formalize transaction cost arguments. Although numerous attempts have been made over the last two decades to model Williamson’s theory of vertical integration, those efforts have ultimately been frustrated by the absence of satisfactory models of two central premises of that framework: bounded rationality and costly ex post bargaining. Nevertheless, models like Zhu’s have increasingly succeeded in capturing elements of the theory and its central tradeoffs. Despite the challenges, efforts to model transaction cost arguments continue provide important checks on the theory’s logic as well as offering structural guidance to empirical researchers.

Whatever the difficulties of modeling transaction costs, they have not prevented progress testing the theory, the success of which has been much noted. Even industries in which standard transaction cost concerns are not initially apparent have turned out, on closer inspection, to be organized in accordance with transaction cost principles. One such industry is freight hauling. Transportation assets generally, and trucks in particular, have long been used as a quintessential example of non-specific assets. Yet the governance of trucking and other transportation transactions supported by these assets varies considerably. Arruñada, González-Díaz and Fernández review recent attempts to resolve this puzzle and show that organization of the trucking industry in Spain, as in the U.S., appears to have transaction cost determinants related to the characteristics of trucks and the cargos they carry.

In addition to the need for detailed, transaction-level knowledge of industries, the Arruñada et al. study illustrates the importance of the institutional environment on private governance. For purposes of analyzing private transactions, background legal, political and
regulatory rules and institutions can generally be treated as either constant or, as in Arruñada et al.’s analysis, exogenous. One of the most interesting applications of Williamson’s insights derives from the recognition that political actors also engage in transactions, both among themselves and with economic actors, and have an interest in influencing the institutional constraints under which they operate. This recognition has spurred research on two types of questions: the procurement of political services, and the organization of political institutions and systems. John de Figueiredo and James Kim’s study illustrates the former, and the paper by Withold Henisz and Bennet Zellner the latter. de Figueiredo and Kim argue that the decision of whether to conduct lobbying using employees or outside lobbyists can be viewed as a classic make-or-buy decision and find support for their hypothesis in the practices of telecommunication firms lobbying the Federal Communication Commission. Whereas the firms in de Figueiredo and Kim’s study lobby to affect rules within an established institutional setting, Henisz and Zellner’s analysis of general versus particularized political institutions (courts versus regulatory agencies, for example) is part of a body of research in which the institutional superstructure itself is endogenous. As Williamson anticipated, the key to understanding the structure of political institutions is an appreciation of the importance of credible commitments in protecting political and economic investments.

Of course, in addition to supplying laws and regulations, governments also purchase goods and services on behalf of their constituents. One of the earliest concrete applications of transaction cost reasoning was Williamson’s own detailed analysis of franchise bidding proposals for cable television, the first truly comparative analysis of public procurement. The papers by Anthony Boardman and Erica Hewitt and by Edward Sherry and David Teece follow in this tradition. Boardman and Hewitt examine the experience of a government-owned hospital with “outsourcing” the services of hospital orderlies to draw lessons about both the general hazards inherent to contracting for complex services and the problems peculiar to government procurement. Sherry and Teece, meanwhile, analyze the considerations going into the design of a long-term contract between the city of Long Beach, CA, and a consortium of oil companies for the development and production of offshore oil. The authors’ unusual access to documents generated during the contract formation process provides unique insights into the parties’ efforts to anticipate future contracting hazards and to craft pricing arrangements to forestall them.

Sherry and Teece conclude that, but for political considerations, the solution to pricing problems of the type faced by the transactors in their study would have been vertical integration. Howard Shelanski’s paper shows that integrating transactions within a firm may alter but doesn’t necessarily eliminate pricing problems. Looking at how transfer
prices are set in a multi-divisional firm, Shelanski finds that whether internal prices are set administratively or negotiated between divisions is sensitive to the same kinds of factors that affect organizational decisions in transactions between firms.

Last but not least, Masahiko Aoki explores how the internal structure of firms affects incentives and efficiency. In the spirit of Williamson’s original U-form/M-form analysis, Aoki analyzes how technological conditions such as attribute-complementarity, timeliness and system value affect the optimal design of a firm’s internal architecture. Aoki concludes his essay with some thoughts on the interactions between the institutional environment and private governance that touch on a number of the themes running through the papers in this issue and suggests directions for future research.

These papers, and the many more that are published every year, show that the research program that Oliver Williamson began roughly thirty years ago continues to inspire and succeed.

Acknowledgments

Many people contributed to making the conference and publications a success. James March and David Teece were the principal organizers of the conference. Mie Augier was my tolkach in California, the person I could confidently turn to when I really needed something done. Brian Silverman and Jackson Nickerson donated their incomparable comedic writing skills.

The papers ultimately selected for this issue were put through a rigorous refereeing process, and I would like to thank the many referees, who, though I cannot identify them by name, were crucial to the success of this issue. I am grateful also to Howard Shelanski for his early contributions to putting this issue together, and to Josef Chetry, who, as managing editor, was responsible for a series of adaptive sequential deadline extensions. Last but not least, I would like to give special thanks to the authors for contributing their papers and especially for their agreeableness and hard work in satisfying my sometimes idiosyncratic demands.

References
