

Oliver E. Williamson, a Brief Summary of his Life (and how it Changed Ours)*

Sebastián Senesi and Hernán Palau

*School of Agronomy, University of Buenos Aires (FAUBA), Argentina
ssenesi@agro.uba.ar; hpalau@agro.uba.ar*

Received April 2020, accepted June 2020, available online July 2020

Oliver E. Williamson

* Acknowledgments: The authors thank the invaluable assistance of Vincent Chough in translating this document, and all the contributions to enrich the document by the staff of the Master in Agribusiness of the School of Agronomy-UBA.

In 2005, we attended one of the best classes ever about the new institutional economy. We were illuminated when we heard Negro Ordóñez. It was like watching Maradona in a Naples training session...meant only for a privileged few. That year, we participated in the ISNIE congress (International Society for New Institutional Economics) which took place in Barcelona. A large number of academics, researchers, and alumni got together under the same motto: to learn more and study about the scope of transaction costs. Among the attendees was Oliver Williamson, who four years later (in 2009) won the Nobel Prize for Economics “for his analysis of economic governance, especially the boundaries of the firm.” We were left with the pleasure of having been in the presence of a Nobel Prize winner!



Recently, we were confronted with the sad news: on the 21st of May 2020, Williamson died at the age of 87 in Berkeley, California. Studying the life of this economic genius offers many surprises. Williamson was a student of Ronald Coase and Herbert Simon. He studied at MIT and Stanford, and he completed his doctorate at Carnegie Mellon University in 1963. Williamson was a professor at the University of Pennsylvania and Yale teaching the Economics of Law and Organization. His academic career continued at the University of California where he realized the bulk of his work. Williamson remains one of the most cited authors of all time in the social and economic sciences.

Oliver Williamson left his mark on our academic and professional careers, as well as on many of the alumni of the School of Agronomy. Just like Héctor Ordóñez, and other internationally renowned professors (Decio Zylbersztajn, Jacques Trienekens, Peter Zuurbier, Mike Cook, Fabio Chaddad, Marcos Fava Neves, among others), many alumni of the Masters in Agribusiness at FAUBA have been enriched by contributions that Williamson made to the understanding and study of economic systems from the lens of transaction costs.

In each of our respective Master in Agribusiness' theses, ten scientific papers and books by Williamson were mentioned in more than 40 citations. His concepts and fundamentals were the theoretic base of defense for more than 30 Master in Agribusiness' theses between 2012 and 2020, and over 60 theses directed by us at the FAUBA Chair of Agribusiness.

Today, Williamson's legacy continues to be more relevant than ever. His contribution towards understanding how transaction attributes influence transaction costs –and how the correct governance structure selection allows for the reduction of those costs– continues to be core material in business schools across the world. Other authors, such as Claude Ménard, Decio Zylbersztajn, Sylvia Saes, Eduardo Spers, and Mario Mondelli, have used Williamson's contributions, validating or readapting his theories to local realities.



Within the new institutional economics, Williamson developed the Transaction Cost Economics (TCE) approach. It is based on Ronald Coase, who stated in 1937 that the nature of the firm has its origin in transaction costs. The analysis is focused on organizations, the exchange of property rights, the definition of attributes of transaction (frequency, uncertainty and asset specificity) and on stipulating that the governance structures (spot market, contracts and vertical integration) are the organizational means, at the micro level (“micro-institutions” of governance) to reduce transaction costs.

Two fundamental aspects lie at the heart of Oliver Williamson’s work: 1) a deep study of transaction costs and their occurrence, and 2) establishing further and improved criteria to understand how to reduce those costs. Williamson was a great student of the economic system. His objective was to study how to economize, that is, to establish adaptive organizational mechanisms that permit the reduction of transaction costs –always under the approach of efficiency and comparison with other governance structures– within a certain institutional environment.

As a disciple of Simon, Williamson’s approach was founded on the concepts of bounded rationality and opportunism. Williamson stated that detailed understanding of the influence of these two assumptions of human behavior was the key to define correct governances to minimize transaction costs. His work was strongly influenced by the notion of uncertainty. Based on the assumptions of human behavior, by definition, all contracts are incomplete. The lack of information generates costs tied to: 1) the search for information, as one prefers not to be scammed, or 2) establishing criteria that permits defining optimal contracts.

Williamson’s contributions were crucial for generating a change of paradigm. He argued that ***“the proposition of the firm is a production function to which a profit-maximization objective has been assigned has been less illuminating of the organizational theory purposes than for economics. Even within economics, however, there is a growing realization that the neoclassical theory of the firm is self-limiting.”***

In his 1981 work, “The Economics of Organization: The Transaction Costs Approach”, Williamson pioneered the idea that the unit of analysis is the transaction (not products or companies), and efforts should focus on understanding how to minimize those transaction costs. ***“Applications of this approach require that transactions be dimensionalized and that alternative governance structures be described,”*** Williamson expands on this when he mentions that the theory of transaction costs is essential to understand the different forms of organization. Thus, there are so many different types of organizations because transactions differ so greatly, and efficiency is only realized if governance structures are tailored to the specific needs of each type of transaction.

Here we can explore another concept that Williamson developed in his work: The asset specificity (Williamson, 1991; 1996). The fundamental factor here is that a transaction carried out by an organization is based on the investment of specific assets. These assets may be physical (e.g. a slaughterhouse), specialized human assets (derived from specific training and processes), specificity of place (by proximity or singularity), dedicated assets (business continuity investments), brands, as well as temporal specificity (perishability). This reality can generate vulnerability, for providers and buyers alike, since the possibility of changing a transaction may imply the loss of value.

In the face of this situation, a simple spot market governance can generate high transaction costs for both parties, thus moving governance to a contract type model (which can include sanctions, controversy solution mechanisms, safeguards, etc.). In the last instance, the vertical integration (“unified property” as per Williamson, 2002) is formulated as the risks of bilateral dependency accumulate successively. Adaptation is considered to be the main purpose of the study of economics, where the necessary combination of autonomous adaptations and coordinated adaptations varies between transactions. Specifically, the need for coordinated adaptations accumulates as the specificity of assets deepens due to bilateral dependency and the need to maintain the transaction.

The concepts reviewed –found in the works of Williamson– are more relevant than ever in the reality of today’s agribusiness industry. Uncertainty is high due to institutional, organizational, technological, and commercial shocks. On the other hand, there is a need to invest in increasingly specific assets due to the sophistication of demand and the need for dedicated assets. The effort of the organization is to establish efficient governances that allow reducing current transaction costs and possible future costs for new contingencies. As Williamson says, the need for coordinated adaptations is a reality and economic actors must promote it in order to reduce transaction costs and generate efficiency.

In conclusion, a reduced version of Oliver Williamson's CV is provided below. His work continues to generate great interest in the study of organizations and forms of governance. Our initiative is to continue teaching his theories, so that the 10,000+ students who passed through the FAUBA classrooms –who studied agribusiness applying Williamson’s concepts– will be joined by thousands more. Oliver Williamson will continue to be a beacon for finding superior designs to improve the productivity of economic systems.

Oliver E. Williamson

Professor at the Graduate School and Professor Emeritus at the University of California, Berkeley Business, Economics and Law School.

Education

- S.B., Massachusetts Institute of Technology, 1955
- M.B.A., Stanford University, 1960
- Ph.D., Carnegie-Mellon University (Economics), 1963



Awards and Distinctions

- Nobel Prize for Economics in 2009
- Named Doctor Honoris Causa 10 times in different universities around the world
- Honorable member of the American Economic Association, the American Academy of Political and Social Science, the American Academy of Arts and Sciences, and the Econometric Society.

Academic Exercise

- Co-editor of the *Journal of Law, Economics, and Organization*
- Member of the Honorable Founding Editors group of the *Journal of Law, Economics, and Organization*
- Associate editor of the *Journal of Economic Behavior and Organization*
- Member of the Scientific Committee of the Erasmus Project in Law and Economics
- Member, President and Director of the International Society for New Institutional Economics
- Member and President of the American Law and Economics Association

Main Works and Published Books

- *Markets and Hierarchies: Analysis and Antitrust Implications*, 1975
- *The Economics of Organization: The Transaction Cost Approach*, 1981
- *The Economic Institutions of Capitalism*, 1985
- *Economic Organization*, 1990
- *The Nature of the Firm: Origins, Evolution, and Development* (co-edited with Sidney Winter), 1991
- *The Mechanisms of Governance*, 1996
- *Why Law, Economics, and Organization?* 2000
- *The New Institutional Economics: Taking Stock, Looking Ahead*, 2000
- *The Theory of the Firm as Governance Structure: From Choice to Contract*, 2002
- *The Economics of Governance*, 2005
- *The Transaction Cost Economics Project: The Theory and Practice of the Governance of Contractual Relations*, 2013