

**THE ORGANIZATION OF THE COMPANY**  
**IN AN GLOBAL ECONOMY**

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## 1. - THE ENTREPRENEURIAL ENVIRONMENT. CHANGES AND CONSEQUENCES

The large changes happened in the entrepreneurial environment throughout the past can be summarized in:

- The growing globalization of the economies.
- The modifications in demand.
- The scientific and technological development.

The impact of these changes and the possible consequences of the same demand a deep review of the traditional models of entrepreneurial organization in an adjustment attempt, for the competitiveness and survival of the companies. In fact, these three factors are conjugated mutually in a very complex way, provoking important modifications in the objectives as well as in the structures of the organization.

### 1.1. - The Globalization of the Economies

The globalization emerges from the growing interrelationship and integration between the different national markets due, between other factors, to the homogenization of the needs of the consumers, the extensive use of the communication technologies and the commitment liberalization and deregulation of the different governments.

Thus, the interdependence of the economies impacts notably in the competitive level between companies, globalization, this way, the markets. Furthermore, this interdependence is product, in good part, of the technological and cultural development, since the current products and services are basically world wide, since the technologies are transferable, communicable, appropriate, shared and compatible.

As this globalization is produced, many companies find advantages upon integrating their operations at a superior geographical level to which has been happening with precedence and, before the initial companies movement that globalize their operations, it has a chain reaction that has modified "the bases of the international competition" (Porter, 1986).

To be able to compete, the companies have to become alliances - even between competitors -, subscribe cooperation agreements, and even be organized in company nets. The traditional competitions are no longer sufficient, because for power to participate in a given activity require more knowledge, competitions and various technologies, to reach concepts much more "multi" than "mono". All this requires, no doubt, strategies and organizational structures that answer to the presented changes.

## 1.2. - Demand of the Consumers

The structure of demand has experimented, equally, a spectacular change: each time becoming more variable. It is no longer enough to produce, as before, huge series of similar products, but, on the contrary, face up to a flexible demand, variable, adapted and to produce, consequently, in small series.

Since the cultural values of the persons and, even, their exigency level have varied considerably, the organization has to satisfy the demand and the preferences of the consumer in the same moment in which the change is observed and the choice in consumption. From here, that the markets are diversified and it will be necessary to have a communication and production logistics based on sophisticated technologies, to take advantage of the information on the trends of the market.

The organization has to adapt its structures, integrating the flexibility in it and becoming appropriated of capable technologies of manufacturing small series that, will also be profitable. We approach ourselves, therefore to, companies where they have to outweigh the specific knowledge of its members, the design, the marketing and the distribution.

## 1.3. - The Scientific and Technological Development

The scientific and technological explosion in the one which the company is submerged and its massive diffusion, natural consequence of the globalization of the markets, it has increased the mass critical knowledge that is needed for the development of its activities in a competitive efficient way. This happens, however, by increasing the quantity of resources intended for the acquisition of this knowledge, internally or through market. The determination of which are activities to maintain in the interior of the company, is based on a double analysis of the chain of value and the capacities of the company, and of the potential transaction costs on those which can be incurred to the exteriorize the operations.

The technological development has favored, also, the links existence between sectors and previously separate companies, through the processes and components standardization of final products, as in the electronic area and of the multimedia. Furthermore, it has increased the dependency of the company regarding the foreign, by the dispersion of the technology that it must master and that it can not develop to the complete internally.

The incidence in the production has come of the hand of new manufacture systems, that permit a great flexibility in its organization, reducing the efficient scale, which has favored companies of small dimension.

From the perspective of the relationships between the members of the organization, the current computerized systems of communication permit an easier dialogue and free-flow between the persons of the different hierarchic levels or with other services and departments, breaking, thus, the old movement principles of the information. Also, the organization of the work and its control can be registered in these systems, eliminating the figure and the time devoted to controlling others work.

Finally, since the training and culture level of the workers has been increased notably, this makes possible the technologies managing more complex, awakening in the workers on activity much more satisfying, for them as well as for the company.

All these changes authorize to think about a break of the previous balance between the company and their environment and those organizations that want to survive and be competitive have to adapt and modify their structures, eliminating the aspects that hinder the adjustment to the new circles .

The new organization of the company has to note, therefore, to anticipate the demand or, at least, adapt quickly to it. The adjustment to this variable demand implies the need of maintaining a communication with the extremely active environment. Furthermore, this new reality compels to mobilize and integrate the knowledge of all its members establishing formal and informal communications, with the purpose of developing a flexibility in their adjustment to the environment.

## 2. - THE ORGANIZATIONAL STRUCTURE. OF THE HIERARCHY TO THE FORM "N"

Once established the need of new organizational forms, the immediate reflection is centered in which models of organization can be designed to give response or to facilitate from the interior of the company the rapid and flexible adjustment to the changes of the environment, to know, the interdependence of the economies, the structure of demand and the scientific and technological development.

As it has been noted, these changes compel the company to be provided and take advantage efficiently of the knowledge owned by its agents - members and to give flexibility its organization. That flexibility and good use of the knowledge implies motivation, participation of the personal, initiative and creativity, which carries us to the need of an excellent internal communication and with the environment, while the new technologies induce to plans, also new, of organizing the company.

For this, we will make a revision of the sequence followed in the study by the organizational forms behalf of the Contractual Economy by the Organizations. This sequence is summarized in: simple forms, including the "team" of Alchian and Demsetz (1972) and the " simple hierarchy" of Arrow (1974); and complex forms, with, mainly, the "form U" and the "form M" (Williamson, 1975, 1985), (Jacquemin, 1989), (Labourdette, 1993), (Cuervo (dtor.), 1994), (Peris, 1995). Currently, they are being giving the previous steps for the study of a plan more evolved than the form M, known with the name of "form N" or structure in net, whose positions are found in the author projects as Ostroff and Smith (1993), Ollinger (1994), Hedlund (1994) and Osterman (1995).

## 2.1. The Simple Structure. Team and Hierarchy

Williamson (1975) notes that the simplest alternative to the autonomous contracting is the team<sup>1</sup>, in addition to that the call simple hierarchy will emerge when the organization present equipment problems. The equipment, since, is characterized because their members perform a solidary and cooperative activity, furthermore, of witting and, of this manner, there is an absence almost total of subordination and the allotment of the yields is in function of the effort and of the individual contribution.

Certainly, the benefits of the association are palpable, but the difficulties of carrying it to practice, also. Williamson (1975) notes that the team can have attractive properties facing the market, at least for some individual, however, it also presents very real limitations, since, in relationship to the market and the hierarchies, the equipment is much more vulnerable to the abuses because their forms from measurement result quite, in addition to that the collective decision-making processes are relatively expensive.

To surpass these drawbacks, Alchian and Demsetz (1972), present as solution, on one hand, that a central processing unit is specialized in the tasks of guarding<sup>2</sup>, so that this agent responsible of the effort or quantity of resources that provide the other, and, additionally, a change in the structure of property and decision rights of the group, since the supervisor contracts separately with each one of the teammates the remuneration according to the effort that provide, being of their the difference between the result obtained by the group and the sum from the committed remuneration. Thus, the supervisor has incentive in accomplishing the maximum effort in his task.

Of this manner, certain structural features of the company find their justification as of the thesis of Alchian and Demsetz, between them, the central agent condition in all the contractual relationships that confers to him, obviously, the possibility of checking and rescinding the contracts. This prerogative permits to him to select the members most adequate and to remunerate them in terms of their productivity, what will carry to modify the incentive of their members to reduce the yield. Furthermore, the yield of the equipment depends, also, on the performance on this agent; he, at the same time, it must find incentives to perform its labor of coordination, between other, to perceive the residual revenue or the possibility of alienating its position in the production equipment.

Holmstrom (1982), as far as he is concerned, it demonstrates that the efficiency can be obtained without attending to a supervisor that controls directly the effort that the teammates accomplish, through an alternative organizational design that assigned to an additional agent the capacity to define and implant an incentives system based on the result of the group. The fundamental decision of this agent is to determine the remuneration function that, logically, it will depend on the result of the group, since, without supervision, it is the only variable observable.

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<sup>1</sup> Williamson (1975, 1980, 1985) uses the terms of "group of equal" or "group of colleagues", while Alchian and Demsetz (1972) employ the denomination of "production in team" when attempted to explain what is understood by team and how is generated a contractual form called company. Also, Marschak and Radner (1972) and Marschak (1974) studied the team as a set of individuals that pursue a same objective but that, each one, has part the relevant knowledge, therefore its preoccupation is directed mainly to analyze the problems of communication and informative structures, forgetting the derivatives from the motivation.

<sup>2</sup> These authors understand by "to monitor", in addition to their disciplinary connotation, the valuation of the productive yield, the remuneration assignment, the behavioral observation of the factors in the estimate of their marginal productivity, the work assignment on what to make or how to make it and the authority to cancel or check contracts.

A vision, in way, different from the outlined is provide by Marschak and Radner (1972) and Marschak (1974) in his typology on economic organizations. Taking as variable the objectives of the members and his degree of knowledge, establish three possible situations identified with the equipment terms, foundation and coalition. In the designated organization equipment, all the members pursue the same objective, we speak of foundation when exist differences between the objective of the organization <sup>3</sup>and the objectives of their/its members and of coalition supposing solely are given objective for each one of the individual participating.

In what here it concerns, we center ourselves in the designated organization equipment that, under the noted considerations, they are organizations that operate without conflicts, without friction and without divergences between their members, therefore, initially, the incentive problem outlined by Alchian and Demsetz is not given. In an organization where all share the same objective, even the knowledge asymmetry, that in other conditions can result an important problem, it will not be relevant because each member will be prepared to pass the knowledge that they possesses and fulfils willingly and gladly the part that corresponds to them of any agreement, since with this they will obtain the proposed objective (Salas, 1987).

However, the transmission and comprehension system of that knowledge to use it efficiently will be determinant, from here, the importance that the design of the organizational structure there has granted to these systems, as meaningful part of the coordination problem, that becomes an incentives issue before the presence of discretion in the execution of the activity. As professor Salas (1987) keeps noting, the crucial problem of the organization where coincidence exists in the objectives of its members and the knowledge is abnormally distributed between them, it will be designed communication systems that transmit the knowledge to each other to the smallest cost possible.

When such thing is not possible, that is to say, that the transmission costs of the knowledge surpass the benefits to those which give place, there will have to appeal to forms more participate in the decision-making. In this case, since, the coordination of the activities will be the principal center of attention for the efficient operation of the organization. We do not forget, however, other important issue related to the knowledge that is possessed, possibly, it will not be sufficient. The design of the operation of the equipment model of Marschak (1974) takes as data the degree of interdependences between the actions of the members of the organization to which is has to be added the uncertainty on the values that they can take variable not controllable by the members, but can influence in its objective (Salas, 1987) .

It is observed, that the size of the equipment, from the variable referred to the knowledge, it is conditioned by the limits that the processing of such knowledge imposes. From here, as supports Williamson (1975, Page 65), "it is not possible to communicate everything to everyone and to arrive to decisions together without preempting of a valuable time that would be employed for other end". Or, in terms of Jacquemin (1989), when the scale economies justify, somehow, an team size superior to the appropriate dimension it may be that the optimum structure of the organization will be the simple hierarchy. Thus, the fact that the communication channels of the knowledge increases

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<sup>3</sup> This reference to the objective of the organization perhaps it will not be more correct, since the same as authors opinions as Cyert and March (1965), Cuervo (1979), Salas (1987) and other more, the organizations, as abstract entities and contractual links to those which are linked the persons, they can not have their own objectives that are not those of some person or group. Only the needs, desires and the objectives of the persons have ethical meaning (Milgrom and Roberts, 1993).

more than proportionally regarding the number of members that form the team, implies that it increases the coordination costs and, in this case, is justified the simple hierarchy.

The substitution, of this multiple channels net of communication additionally in the one which each agent is linked only to a central processing unit, permits, judgement of some authors as Arrow (1974), savings in the transmission of the knowledge - exist many less channels and, to the supreme, such channel is double - and in the decision-making, among other things, because the hierarchy reduces considerably the necessary communications. However, we should note that the minor cost of knowledge transmission that advocate the simple hierarchy can arrive to not compensate the inefficient decision results, precisely for lack of specific knowledge and by not arriving on time. In any case, the intention now it is to recognize this form of organization, on the other hand, quite customary in the companies.

Arrow (1974), summarizes the advantages of the centralization of the knowledge, under the following argumentation: 1) since the activities of the individuals interaction mutually and, often, they compete by limited resources, the shared decision will be superior to the separate decisions, 2) the optimization of these shared decision depends on how the knowledge found is distributed between the members, 3) is recognized that the transmission of the knowledge is costly and, because of this, it results more efficient to centralize the knowledge in a basic unit than to distribute it between the individuals and 4) of equal manner, is considered less costly that a unit take the collective decision and communicate it, that to transmit all the knowledge that requires the decision. Thus since, it is envisaged the hierarchy as natural response to the processing, certainly complex, of knowledge and, of this manner, all the relevant knowledge is centralized, economized in communication costs.

Perhaps, this centralization proposal of the knowledge could have some sense in time in which the author studied it; at present, with individual, in general terms, qualified and owning of relevant knowledge and with a drastic change of pace, such aspects are becomes very problematic. The challenge does not consist of dividing extremely the tasks, but, on the contrary, to establish the auspicious framework so that the new activities could be executed from the combination and adjustment of the knowledge that are needed.

## 2.2. The Complex Structure. Forms "U" and "M"

With the Economy of the Transaction Costs (Coase, 1937) we introduced ourselves in the structural U and M forms (Williamson, 1975). we Recall that this proposes an approach that carries out transactions or economic exchanges supposes some costs and that these " transaction costs" depend not only on the character or nature of the transaction, as well as the form in which they are organized. As, the efficient form is referred to the most adequate organizational designs than will achieve to reduce the transaction costs (Pfeffer, 1987).

The essence, of this position can be following, continued the indications of Williamson and Ouchi (1981), in which the opportunities of increasing the efficiency always suppose an incentive for the restructuring, except when there are improper behaviors associated with foundation process or when the strategic position of some member of the organization permits him to preempt of future earnings. The restructuring is not outlined, adding or modifying some of the dimensions traditionally considered by the Theory of the Organization, but is translated in the adoption of new

structural configurations, whose typology depends on the different informative properties that are possessed.

Of this manner, the response of Williamson (1975) to the structural design is faced, logically, from a perspective of internal transaction costs with the intention of obtaining organizational forms capable from minimizing them. Thus, it distinguishes three basic types for the organizational structure: the unitary or functional, called form U, the holding or form H and the multidivisional or form M.

The form U has the following relevant attributes (Chandler, 1977), (Williamson, 1970, 1975): a) is a design that emerges and is extended in practice of the entrepreneurial world around the end of XIX century for the middle size companies, generally, mono-produces; b) these companies are found specialized functionally, according to the classic business functions, which permits, in principle, scale economies and take advantage of the advantages of the activities specialization and c) their/its structures are based on the centralization and in the principle of command unit.

With the growth of the company, however, is increased the effect called "loss of control" (Williamson, 1975), because transmitting the knowledge by a multilevel hierarchy can appear problems associated with the manipulation and intentioned distortion of the knowledge, as consequence of the opportunism of the individuals and of the limited rationality. This is, an expansion process of the company, by scale economies and/or internal division of the work, runs the risk of generating a high level of internal inefficiency join to a loss of control, in addition to the supposed of the limited rationality carries implicit a limit to the management of the maximum number of transmission channels that, once saturated, it must be considered the possibility of subdividing responsibilities and to delegate part of the supervision.

The form M emerges, then, as valid alternative to the problems outlined by the structure in U form , in this manner, represents, in words of Jacquemin (1989, Page 14), "the bottom line of a selection process that favors the internal efficiency". Thus, the most efficient organization– the most capable one to reduce the costs than generate the transactions - will be the one which maintains. The most outstanding characteristics of the form M can be summarized in <sup>4</sup>: 1) the general direction is responsible of the strategic decisions, while the directors divide - these areas are structured, normally, as benefit centers – they are occupied of the operative decisions, 2) the general direction accomplishes advice and monitoring functions, assuring a regular control of the divisions and 3) the distinction between general address and operative divisions permits a greater commitment and a compatibility between the objectives of both parts.

For Milgrom and Roberts (1993) the form introduces multidivisional mechanisms that assure that the decisions could be decentralized by taking advantage of the knowledge of the individuals and permitting, furthermore, the development of the necessary incentives, as well as its coordination. In fact, the form M can obtain that the decisions adopted in the inferior levels by who counts on the relevant knowledge are well coordinates and guided by adequate incentives. Of this manner, the authors emphasize that the organizational multidivisional designs procures more knowledge - and better -, the same as for the coordination, the control and the incentives and a superior management capacity in various businesses.

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<sup>4</sup> As is detached of the projects of Williamson (1970s, 1975, 1981, 1985, 1990), Fernández and Fernández Casariego (1988), Jacquemin (1989), Mintzberg (1991), Milgrom and Roberts (1993) or Cuervo (dtor.) (1994).

Also, Williamson (1970, 1975, 1981, 1985), as well as Jacquemin (1989), maintain that the various alternative of organizational design, the form M represents an efficiency superior in relation with other alternative forms, especially, with the form U. Concretely, Williamson (1975) holds, without including explicitly no consideration of contingent type, that the multidivisional structure is the most suitable to organize a diversified company, because favors the development of a system of internal control that it can value the efficiency of the divisions, at the time that permits to assign internally the resources to the better uses.

However, these justifications have been object of critiques by authors as Steer and Cable (1978) and Armour and Teece (1978), indicating that the organizations that innovate and adopt the form M obtain temporary competitive advantages until this innovation is spread throughout all industry. Chandler (1990), as far as he is concerned, it outlines the limitations of the multidivisional form upon sponsoring this type of structures an opportunist behavior on the direction and Hitt (1990) notes its lack of efficacy for technologically complex sectors in those which are required large investments in I+D. In our country, the projects of the lectures Arruñada (1990), Fernández (1990, 1991), Cuervo (1991b) or Salas (1991), establish the limitations, so much at organizational level as well as economic, in this way of government of the transactions and coordination of the activities.

### 2.3. - Management of the Knowledge. The "N" Form

To arrive to structural forms really valid in management of the knowledge owned by the members of the organization, is emphasized the combination and resulting interactions between the different types of knowledge that they can attend, more than in the division of them. Now then, the problems related to the transfer processes and transformation of the knowledge, fully unresolved by the plans until here outlined, they are the essence for the development of a new design - form N - based explicitly on the nature and management of the knowledge that provides the integrates of the organization (Ollinger, 1994), (Hedlund, 1994), (Osterman, 1995).

Though, certainly, Williamson (1975) notes that the form M is not the latest in the assignment and government of the transactions, however, his future vision notes to forms substantially hierarchic, as a natural response to the complex problem of processing the knowledge. The position of the form N, against, suggests that the basic structure of the organization should not be a hierarchy, since effective management of the knowledge implies, in itself, the multiplication and combination idea, more than division <sup>5</sup> (Hedlund, 1994).

Of this manner, the most outstanding features of the form N is summarized in: 1) Combination of knowledge and units, in contraposition to the idea of the excessive division that ends in units almost independent the ones from the others, 2) temporary and changing groups of individuals, where the people as such they do not vary but the structural forms does <sup>6</sup>, against the permanent and unchanging structures where the only thing that changes are the people, 3) the importance of the individual of the inferior levels and their inter-functional and interdivisional connections, more than the coordination through managers and so only from the highest organizational level, 4) the dialogue and the lateral communication against the vertical sense of the same, 5) the roll of the high address as protective of the knowledge owned by the individuals and architect and catalyst of the

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<sup>5</sup> In this sense, the author notes that, mnemonically speaking, "N" is going behind "M" and is identified with "new" and "novelty", to the time that regrets that "multiplication" not begin by "N".

<sup>6</sup> For this is required to know not only what is made and how, but also who is responsible.

necessary communications, more than as controlling and assignor of resources, 6) the competitive scope based on deep economies/strategies of "niche" and combinable parts, against scale economies/diversification and quasi independent parts and 7) the basic organizational form not hierarchic more than hierarchic structures.

As notes Hedlund (1994, Page 83), the consequences of the form N constitute an integrated set all over the characteristics before noted: "if the end is the combination, it is necessary a niche strategy, which requires to experience with variable groups of individuals. To achieve some effort soundness, they are necessary investments in communication and training and the catalyst paper of the high address. At the same time, the global dispersion of the knowledge that needs of its combination, also demands to involve to many individual located in different levels and the lateral communication between them.

Each and every one of the previous elements suggest that the basic structure of the form N is not a hierarchy; in its place, company conceptions closest to "work in net", to mutual interdependence between all the members, seem more appropriate and where creation, transformation and transfer of the knowledge have an important and outstanding roll. In rapid and drastic change situations as those which currently live the companies, the dispersion and the knowledge change originate a great challenge to the design of the organizational structure; it does not consist so much of dividing extremely the task so that is guaranteed a maximum individual performance, rather, it consists of assuring that the new tasks could be begun on a possible knowledge combination separated from different units of the organization (Hedlund, 1994).

The new forms of management of the knowledge in the organization and its repercussion in the design of the organizational structure introduces us in the work of Jensen and Meckling (1992), "Specific and General Knowledge, and Organizational Structure", as well as in the accomplished by Brickley, Smith and Zimmerman (1995), "The Economics of Organizational Architecture"<sup>7</sup>, and in that of Ricart and Rosanas (1995) over "Control and Incentivate in Organizational Design", these last two ideas proposed by the first.

These projects collect explicitly the problems of incentive scheme and coordination derived of the existence of knowledge and different interest between the members from the organization. Thus, departing of the fact that the individual possesses so only an almost petty portion of the knowledge that is required, idea initially noted by Hayek (1945), jointly with the agency problem that is given when exists asymmetry between the property rights the decisions and between the property and the knowledge, Jensen and Meckling (1992) arrive to the fact that by of the system prices the decision rights are assigned automatically to the agents that possess the relevant knowledge. For against, in the organizations, the assignment is not so simple, since the decision rights are not alienable<sup>8</sup>. The absence of alienability, that is to say, that the consequences of a right or wrong use of the knowledge on the part of individual do not relapse directly in him, compel to the establishment of incentive systems, evaluation and control of the performance and behavior of the individual in the application of their knowledge for the decision-making .

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<sup>7</sup> The ideas of this article collect them and widen in his book "Organizational Architecture: To Managerial Economics Approach", published in 1996.

<sup>8</sup> A right is alienable when the owner, in addition to transferring the good, relinquishes, also, the right to be made with the earnings well said (Jensen and Meckling, 1992).

In this case, the assignment and control of the rights on the decisions must be solved through the organizational structure that, in the collective use of such rights, has the huge responsibility of maximizing and taking advantage the value of the knowledge owned by the set of persons that compose the organization. Furthermore, of this manner is justified the existence of the own organization, since upon gathering scattered knowledge originating from the individuals have quite more possibilities than the market. The summary of this interesting article exposes it with great mastery teacher Azofra (1995) upon conceiving the companies as " knowledge islands in a human cooperation sea".

In fact, so that the companies will be efficient they should be structured so that promoted the use of the knowledge and economize the agency costs. So The organizational structure, is not there has of envisaging from a simple division optics and partition, but, the contrary, it is considered to achieve the intelligent combination, valuable and only of the knowledge that specifies the decision-making and count on the mechanisms of incentives and capable coordination of obtaining this purpose. The repercussions in the satisfaction of the aspirations of the individuals and in the achievement of the outlined objectives happen necessarily because of this .

### 3. - CONCLUSIONS

The new competitive situation, characterized by the internalization of the operations, the change in the paradigm of demand and the growing technological development compels to the companies to be adapted and, even, be advanced to the accelerated pace imposed by the modifications of the environment.

This adjustment can be favored by means of an adequate design of the organizational structure that permit to gather and to combine all the necessary knowledge to the smaller possible cost. The consequences of the combination, transformation and exchange of the knowledge, as already advanced by Hayek (1945), opens to the organizational structure at least two possibilities of transcendent repercussions: a) to put at the disposal of an only unit all the knowledge collected and that they have to use and b) to provide to the individuals as many additional knowledge as needed to accomplish their work in interaction with others.

Thus since, the opportunities of the person - or of any organization, understood as a cooperation activity between them - go to depend on the manner on transacting contractually the owned knowledge and, so, the success of the company is function, to a large extent, of the form in which the organizational structure exchanges, orders, adapts and integrates the knowledge that its individual possess or they can have in the future (Jensen and Meckling, 1992). The organization is converted into a relevant knowledge base to assault the changes and the structure, through its specific design, in the capable instrument of directing efficiently that set of knowledge.

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