Journal of Management and Governance **4:** 149–168, 2000.
© 2000 *Kluwer Academic Publishers. Printed in the Netherlands.*

Allocation of Rights and the Organization of Transactions: Elements of a Generative Approach to Organizing*

HUSEYIN LEBLEBICI
Department of Business Administration, University of Illinois at Urbana-Champaign, 1206 S. Sixth Street, Champaign IL 61820 (e-mail: hleblebi@uiuc.edu)

Abstract. This paper is an attempt to articulate in a systematic fashion how different patterns or forms of organizing are achieved and how one can talk about the variety in and the transformation of these forms. The paper argues that one way to address this fundamental question is to look at how resources and rules can be used in transactions to develop a generative grammar of organizational forms. The theoretical perspective developed in the paper incorporates the nature of interdependencies among social actors in defining their relationships and the nature of resources being transacted in these relations. As a social system, any organizational form that involves regularized relations of interdependence between social actors, requires resources in some form or another. Whether they are characterized as goods transacted in an exchange situation, human or social capital of actors in a productive act, or collective control of productive skills, they are the necessary components of organizing because they give the social actors the capability to develop their strategic conduct. In addition to resources, any organizational form must also possess a set of rules that define the nature of the transaction among the social agents.

The first part of the paper introduces the logic and the elements of the generative grammar for organizational forms. The second part applies these ideas to organizational governance structures especially the relationship between the owners and the managers in order to show how different forms of governance structures can be generated based on the allocation of rights among various parties involved. The paper concludes with the suggestion that markets versus hierarchic governance are very gross categorization that cannot satisfactorily show the diversity of variations in forms of governance in organizations.

One of the most intriguing questions of the last decade in organization theory can be stated as follows: If all patterned interactions in a society or economy are organized what is the nature of their organization and what are the differences among these alternative forms of organizing?” Whether one is concerned with population ecology, network model of organizations, transaction costs economics, or institutional theory, most of our contemporary perspectives are interested in explaining variance in organizational forms and thus directly or indirectly address this ques-

* For the memory of Gerald R. Salancik. The ideas presented in this paper are the product of our collective effort.

tion. Even though its original objective was to address the topic of variation, the question itself also opens up the discussion on the meaning of organizing itself.

This question captures both the essence and the objective of this paper. It highlights the need for alternative conceptualizations for the study of organizations. We need to conceptualize organizations not as a teleological object of study, or simply a social context in which individual behavior can be observed but as a verb describing the relationships among a set of agents. It also specifies the objective of the paper. The paper is an attempt to articulate in a systematic fashion how different patterns or forms of organizing are achieved and how one can talk about the variety in and the transformation of these forms.

Most lexical definitions of the term "organization" focus on the verb rather than the noun. For instance, in O.E.D. to organize is defined as "to form into a whole with mutually connected and dependent parts; to give an orderly structure to; frame and put into working order." It is clear from these definitions that organization is associated with some order. Unlike physics, mathematics, or biology, the subject matter of organizational studies assumes the existence of order. In physics, for instance, order is seen in contrast to disorder. For organizational studies, on the other hand, the focus is more on the comparative differences between alternative orders because it is implicit that some form of order exists between the elements constituting a social arrangement. Thus, the subject matter of organizational studies is not to compare order with disorder but compare alternative forms of organizing.

This objective in organizational studies so far has been achieved by developing models that are homologous with the existing observed regularities within a society but with a definite price. Much of contemporary organization theory appears to lack the quality which can be called generative potency. Generative potency can be described as the capacity of a theoretical perspective to challenge prevailing assumptions regarding the nature of social life and to offer fresh alternatives to contemporary patterns of social conduct (Gergen, 1978). Lack of generative potency can be traced back to two fundamental qualities of organizational studies: the first is the acceptance of organizations as facts or real entities and the second is a common disregard to the temporal nature of social patterns. As Braverman (1974) put it aptly some time ago, social sciences including organization studies consider "all that is real as necessary, all that exists as inevitable, and thus the present mode of production as eternal" (p. 16).

Organization theory has implicitly or explicitly assumed that organizations are just like biological or physical entities. They are even considered to have teleological qualities with collective goals and boundaries of action. The other reason for the generative deficiency is our assumption that observed patterns are not purely temporal but have enduring or permanent qualities. This is partly the reason for our continuous search to identify permanent structural dimensions of organizations.

These two blind spots of organization theory together with our accepted biological metaphors limit our ability to offer fresh alternatives to contemporary patterns

of conduct. New alternatives of organizing ranging from matrix organizations to joint ventures and network organizations become part of our language only after they are part of established practices.

One mechanism to address these deficiencies is to alter the way we think about organizations and change the metaphors we use to describe organizations. One such metaphor that can infuse generative potency to organization theory is language. A unique quality of language is that even though it is a product of two finite sets, – a set of lexica and a set of grammatical rules, it is capable of generating nearly infinite combinations in the form of sentences. Furthermore, it is *not* necessary to know (or observe) all the sentences to understand how the language works. For the participants of a language community, language is a product of their collective effort but at the same time exists independent of this community as an objective fact. Of course, language is not the only metaphor we can use to think generatively. Mathematics, organic chemistry, or even the chess game can be thought of having generative qualities.

In order to highlight the generative characteristics of organizing and to develop a perspective based on this premise, we need to identify its fundamental components and relate them to existing organizational theories. In other words, the objective of a generative approach is not to offer another esoteric theory but to facilitate the integration of diverse perspectives developed in organization theory, economics, sociology, and law. Even though it provides an alternative conceptualization of forms, it has to be built upon the wealth of insights offered by these perspectives. In this sense, a generative approach is not a substantive theory per se but a vehicle to express organizational phenomena in a more systematic fashion.

1. Elements of a Generative Approach to Organizational Forms

I call the approach presented here a generative grammar of organizational forms. The term "generative" signifies the idea that any observed organizational form is a product of a set of rules and social resources. As in the case of a natural or formal language that can generate a large or infinite set of sentences through the application of a finite set of grammatical rules on a set of similarly finite lexica, a set of organizational forms can be generated by the application of organizing rules and the employment of finite but critical resources necessary for organizing. The term "grammar" signifies the idea that there exists a finite set of rules available to the organizing parties to generate a particular form. As in the case of a chess game, there exists a finite set of rules of organizing that both constitute and regulate the behavior of the participants (Giddens, 1979, p. 64).

The generative grammar of organizational forms is based on the conviction that an understanding of an exiting organizational form requires an understanding of the rules through which this particular form is generated. Such an argument requires the following premises:

1. An empirically observable organizational form is a member of a class of forms.
2. This particular class of arrangements can be generated by the application of the same set of finite rules.
3. The forms generated by the application of these rules should include not only what can be observed within a particular time-space but also what can be feasibly imagined within the existing social understanding of what is being organized.

In other words, a generative grammar of organizational forms can ask more systematically how a particular form is selected among equally feasible arrangements rather than finding rationalizations for the existence of particular forms which we observed.

For any organizational form to be generated, we need to identify three critical elements of the grammar within a given social sector or interorganizational field. The first element is the identification of a primary unit of analysis that can incorporate *fundamental interdependencies* among a set of social actors. Any organizing scheme is a product of an interdependency that must be managed. Such interdependencies are more easily identifiable in the case of transactions or exchange relationships and can incorporate not only transactions in organizations but also in markets or even in an interorganizational settings. Any set of patterned transactions must be organized to address the fundamental interdependencies among social actors and the same basic principles must be relevant to describe the nature of this organization. Thus, *transaction* is the primary unit of analysis. Such a view is consistent with recent description of organizations as nexus of contracts (Fama and Jensen, 1983; Williamson, 1993).

The second element is the *resources*. As a social system, any organizational form that involves regularized relations of interdependence between social actors, requires resources (Giddens, 1979). Whether they are characterized as goods transacted in an exchange situation, human or social capital of actors in a productive act, or collective control of productive skills, they are the necessary components of organizing because they give the social actors the capability to develop their strategic conduct.

The final element of organizing is the *generative rules* of organizing. We identify four subsets of critical rules. They are: the rules of causal order; the rules of membership; the rules of allocation; and, the rules of social discourse. The rules of causal order specify the technical (or natural) limitations on possible sequences or grouping of activities that are included in organizing. The rules of membership specify who can be party to a given transaction and thus control the capabilities each party can bring to an exchange. The rules of allocation deal with the allocation of rights and responsibilities among the parties whose actions are organized. Finally, the rules of social discourse specify the meaning of the organizing activity in its idealized form. The concepts of “family”, “elementary school”, or “restaurant” furnish collectively understood or institutionalized practices for the

organization of these social or economic relationships. These meanings, however, are not permanent but are continuously changing.

The evolution and transformation of organizational forms is the product of the choices with respect to these classes of rules as well as the exogenous forces impinging upon these choices. In the rest of the paper each of these elements will be described and the relationship between the rules and resources will be presented in more detail below.

1.1. THE UNIT OF ANALYSIS: TRANSACTIONS

The term "exchange" plays a critical role both in economics and sociology. Whether one is concerned with rational choice models in economics, social stratification and division of labor, the study of interorganizational relations, or the institution of gift giving, the concept of exchange is usually employed as a frame of reference. While there are major differences between the way the economists and sociologists view exchange (e.g., efficiency of transactions vs. power relations), these two research traditions also share a common view of this social relationship. It is a two-sided, mutually contingent, and mutually rewarding process involving transactions (Heath, 1976). Other than this commonly shared meaning of exchange, however, a strong controversy between economists and sociologists exists on the question of whether or not different disciplines should develop their own exchange theories. For instance, economists argue that their discipline provides a fairly well developed theory of exchange and what sociologists or anthropologists basically do is to borrow concepts but make no fundamental theoretical contributions. Sociologists, on the other hand, argue that economists provide only a model of individual choice rather than a model of exchange itself. The analytic virtues achieved through a simplified market assumption fail to deal with those exchanges between interdependent actors when there is no specific pricing mechanism available. They also argue that economists tend to explain what people may do given the existing norms and institutions, but fail to account for the characteristics of these exchange institutions themselves (Emerson, 1976).

My general premise in this paper is that we need to deal with the question of exchange not as an individualistic and ahistorical account provided by the neoclassical economics but as a historical and collective activity. But this should not be done at the expense of eliminating choices available to human or corporate agents. However restricting the social institutions might be, social agents must always have choices with respect to exchange within the limits of opportunities and resources available to each transacting party. Exchange is not an outcome of an instantaneous transaction of a unidimensional good but only a final outcome of organized interactions between a network of social actors. In other words, we need to concentrate on transactions and their organization rather than the isolated individual participants and their choices in an exchange situation.

The concept of transaction and its organization have been an important theme in economic (Alchian, 1979; Goldberg, 1980; Williamson, 1975, 1979; North, 1984), sociological (Stinchcombe, 1986; White, 1985), and organizational (Ouchi, 1980) studies. This transactional perspective on organizational forms and market structures is not new but is an outgrowth of earlier traditions in institutional economics (Commons, 1924), social exchange (Blau, 1964), and models of social organization (Barth, 1966). Beyond these deep roots in economics, sociology, and organization theory, new social theories dealing with the central issues of institutional analysis, power, and social change parallel some developments in their use of transactions as a unit of analysis (Giddens, 1979; Luhmann, 1982).

In order to integrate these diverse perspectives into a meaningful whole, a general definition of transactions is necessary. The usual conceptualization of transaction as an outcome of two social agents in an exchange situation is only useful in describing a completed transaction; it is insufficient as a conceptual definition. Commons (1924, 1934) proposes a more complete definition of the concept. As an institutional economist, he argues that for a transaction to be completed a minimum of five parties are necessary. In a market situation, for instance, we need at least two buyers and two sellers to determine the future value of a transaction and to understand the process of exchange within the limits of opportunities and powers of each exchanging party. In a typical transaction, each party is in a position to evaluate alternatives and the degree of power which can be exerted within the limits of these alternatives (Commons, 1924, p. 67). Since every actual transaction is an outcome of a potential transaction, every transaction requires at least these four parties. They are necessary to determine the future value of the exchange and to insure an efficient allocation of resources. In terms of Pareto optimality, future exchange value indicates an equilibrium point where the expectations of the four parties converge.

While four separate parties are needed to establish the value of a transaction, they are insufficient for constituting a transaction. Because any transaction involves future values and future behavior, and because the transacting parties are assumed to be self interested participants with conflicts of interest and uncertain foresight, any agreement reached by the parties lacks the needed quality of being self-enforcing. Whenever parties are able to enter into (and out of) transactions freely, all transactions possess an element of uncertainty. Such uncertainty makes transactions unstable and thus logically unworkable. There needs to be a fifth party, a guarantor, who is able to "decide and settle the disputes with the aid of the combined power of the group to which the five parties belong" (Commons, 1924, p. 67). Therefore, a transaction is not a product of exchange between two parties but a product of the collective action of five parties, itself limited by the collective rules of the group. The existence and evolution of these rules indicates both the recurrence of similar interactions under the conditions of future uncertainty and successive adaptation of these rules to guarantee the continuation of similar transactions. Thus, in this paper the concept of transaction will be defined as a process

by which the future value of exchange is determined, the resources available to the exchange parties are allocated, and the rights and obligations of the parties with respect to their future behavior are specified within a framework of collective rules which constitute and regulate social and economic exchanges. If all organizations are a nexus of contracts that regulate exchange relationships among various agents ranging form owners to employees, it becomes feasible to argue that transactions are a core feature of organizational forms.

1.2. Resources and the nature of goods

If transactions generate value to the exchange parties who provide unique resources, how are these resources exchanged and how is the value of this exchange determined? Two interdependent concepts, value (price) and goods, are necessary in order to understand how the value of an exchange is established. It is curious that neither sociology nor conventional economics have critically investigated the nature of goods. It is usually assumed that if there is some form of exchange, the goods themselves are exchangeable. Even though satisfaction, for instance, has a utility but as a good it cannot be exchanged. Even in sociology where the institutions, norms, and values are included in describing exchange, practices such as gift giving, doing favors, or establishing domination are assumed to be similar in character and are exchangeable.

One major source of critical ideas about the nature of goods is the political economy literature (Hargreavesheap and Hollis, 1984). At least two streams of ideas on the nature of goods can be identified in this literature. The most traditional one is the distinction between public and private goods based on property rights. The other is the distinction between goods which have use value and goods which have exchange value. This second distinction plays a critical role especially in debates over the labor theory of value between the classical and Marxist political economists.

In its simplest form, the public and private good distinction is based on two characteristics of goods: nonrival consumption and nonexclusion. Briefly, when there is non-rival consumption, i.e., given a level of production, consumption by one agent does not diminish the quantity consumed by anyone else, the good is said to have public good qualities. The second characteristic, nonexclusion, means that it is impossible or prohibitively expensive to confine the benefits of the good to some specified agents. In other words, a person can benefit from the production of a public good regardless whether or not he/she pays for it. Both conditions imply that such transactions are problematic because they prohibit establishing the future value of these transactions.

Following the earlier work by Samuelson (1954, 1958), the distinction between these two types of goods has been developed through a process of successive debates and refinement. It has become common practice in welfare economics, public finance, and the economics of law to identify goods with public charac-

teristics of non-rivalness and non-excludability as likely candidates for collective provisions. Much of the path breaking work on the topic was concerned with the existence of externalities, free-rider problems, and efficient legal allocation of rights. The basic debate still centers on how the private versus collective methods of producing and distributing public goods change the efficient allocation of resources. Even though the debate is by no means resolved, it has contributed to our understanding of the intricate relationship between legal, economic, and political institutions. It demonstrates how property right considerations can be used to enrich traditional price theory and political economy.

In addition to the public-private distinction, goods are also classified in terms of their use and exchange values in the classical as well as in Marxian political economics. The theory of value has always been a key feature of the disciplinary matrix of economists whatever views they have taken on the scope, objectives, or the analytical methods of their discipline. Even though the theory of value is critical for a multitude of economic questions varying from distribution of income to measurement of value in operational terms, the relationship between value considered as some intrinsic attribute (utility) of a good and its market price (whether expressed in money terms or in terms of some other good), has been central to the distinction between goods.

Both in Classical and Marxian political economy the distinction between use and exchange value occupies a critical role. For instance, Adam Smith states the problem as follows:

> The word value, it is to be observed has two meaning, and sometimes expressed the utility of some particular object, and sometimes the power of purchasing other goods which the possession of that object conveys. The one may be called 'value in use', the other 'value in exchange'. The things which have the greatest value in use have frequently little or no value in exchange; and on the contrary, those which have the greatest value in exchange have frequently no value in use. (Smith, 1981)

Similarly, Marx wrote in his Critique of Political Economy that every commodity has a twofold aspect, that of 'use value' and 'exchange value'.... In possessing use value, a commodity is in no way peculiar. Objects of human consumption in every age and in every form of society likewise possess use value. Use value is an expression of a certain relation between the consumer and the object consumed. Political economy, on the other hand, is a social science of the relations between people. It follows that "use value as such lies outside the sphere of investigation of political economy" (Marx, 1911, p. 21).

The critical distinction between the Classical and Marxian perspectives, however, is their emphasis on one or the other characteristic of goods. For instance, Marx excludes use value (utility) from the field of political economy on the grounds that it does not directly embody a social relation. He argues that the categories used in economics must be social categories representing relationships between individuals. This perspective is in sharp contrast with the one developed in modern

Table I. A typology of goods

	Value of goods	
	Use value	Exchange value
Private	Goods with private/use value μ Examples: Satisfaction utility	Goods with private exchange value χ Examples: Any private good in economic analysis
Public	Goods with collective/use value α Examples: Pure public goods in economics	Goods with collective/exchange value β Examples: Trade secrets Insider information

neo-classical economic theory, in which use value or utility takes a central position. As Robbins (1984) pointed out, the economic system is regarded as a series of interdependent but conceptually discrete relationships between men and economic goods.

These two distinctions made between goods are not independent but are the by-products of the same social and legal institutions. It is a precondition that a good must be socially and legally defined as transferable or exchangeable before it can be exchanged. For instance, unless slavery is legal, human freedom has no exchange, but only use value.

When these two basic dimensions are combined, a more comprehensive classification of goods can be generated. As Table I shows there are at least four types of goods that can be identified using these dimensions. Private-exchangeable goods (cell #2) exist in a world where there are complete markets in contingent claims. Everything of relevance is owned by someone and is tradable. In this neo-classical paradigm, property rights are essentially private. Rights are assumed to be well defined, unambiguously assigned, transferable, and enforceable. It is also necessary that the exchange contracts which specify the allocation of rights with respect to a good exist in variety of forms because the contracts entered today have to specify what is to happen in any future state of the world. If and when these conditions are not met, market failures begin to emerge.

Within the domain of private goods, however, not all goods are transferable due to legal, normative, or technical limitations (cell #1). Individual utilities, for instance, are one of those goods, for which its exchange, in and of itself, is physically impossible. Human will, satisfaction, and other psychological states in themselves are not directly exchangeable. As a result there can be no market within which these goods are traded, and thus no exchange value (i.e., price) can be assigned.

Collective-use value goods (cell #3), represent the classic public goods. Because of non-rival consumption and non-exclusivity, there can be no specific exchange value established within a given collectivity for such a good even though its value is assumed to be nontrivial. Outside of the collectivity, on the other hand, its value is assumed to be trivial. As in the classic lighthouse example, however useful the service might be for ship owners, its direct value for those on shore is considered to be irrelevant.

Certain collective goods, however, may have exchange value outside the collectivity itself. In other words, the value of the good for those outside of the group is non-trivial (cell #4). For instance, inside information about a merger is a collective good which may have use value only for those who are included in the collectivity (e.g., the top management of the organization), but is also exchangeable with outsiders. Because the value of the good is non-trivial for those outside of the collectivity, it becomes necessary to specify more clearly, either within private enforceable contracts or public law, who the members of the collectivity are, and what constitute the rights and obligations of the members with respect to the good itself.

This typology of goods provides a simple and more explicit specification of the conditions under which exchange is possible. Whether a good has the property of use-value or exchange-value is a matter of the technological and social considerations that govern the definition of the good. It is a matter of human capabilities and enforceable social regulations. A good cannot be divorced from its context and any theory of exchange – economic or sociological – cannot be formulated without taking this context into consideration.

Goods take an exchange value when it is possible (technologically within the realm of individual capabilities) and allowable (socially enforceable) to transfer the capabilities it endows to its possessor. If such endowment cannot be transferred, the good has no exchange value. Thus, utility is not exchangeable because it cannot be transferred. While a person may be able to experience artistic satisfaction at a concert, for instance, but his/her satisfaction cannot be given to another to experience it.

The elemental properties that permit goods to be exchangeable are that parties in any exchange must possess the capability of "putting down" and "picking up" an entity for which exclusive property rights can be assigned. In the case of both collective and private exchange value goods, all of the conditions can be met. For private goods with use value, however, a market exchange is not possible because the party possessing it cannot put it down. Utility can only be consumed, not exchanged. For pure collective goods, even though transfer is possible (anybody who has the capability to pick it up can receive the good) exchange is still not possible because of non-exclusivity of property rights.

This classification does not imply that goods have certain intrinsic qualities. On the contrary, the nature of goods is a function of human capabilities and institu-

tional rules. Both the value and the nature of goods are socially defined. They are the products of human interactions.

Two examples can illustrate how goods change their character as a result of changes in human capabilities (both technical and social) and the institutional framework. Surrogate-motherhood has become an acceptable activity in recent years where a fertile female agrees to be artificially pregnated and give birth to a baby who will then be given to another party for a price. Before the availability of this practice, motherhood or pregnancy was considered to be a private good, which had only use value and was not exchangeable. Changes in social norms, and the technical feasibility of artificial insemination, now transformed this good into a private-exchangeable one (Arrow, 1997).

Both radio and television broadcasting are typically considered to be a collective good with use value because of non-rivalry and non-exclusivity. Changes in broadcasting technology such as cable systems, jamming, and metering devices make exclusivity possible and as such transform a collective – use value good to a private – exchangeable one.

Organizations are usually engaged in transactions involving various types of goods and thus the variations in their forms reflect the way these transactions are carried out. The establishment of joint ventures, consortia, social networks all involves not only the exchange of well-defined private-exchangeable goods but information, knowledge, and trust (Ebers, 1997). Such organizational forms easily defy the dichotomized logic of markets and hierarchies and require a more detailed analysis of the goods being exchanged.

1.3. Collective rules

Rule based analysis is not new to social sciences. For instance, Burns (1986) argued that all human activity is organized and governed largely by socially determined rules systems. Similarly, Skvoretz and Fararo (1980) proposed that strings of human activities have language-like properties and hence a "grammar" of action exists and can be rigorously formulated.

In one formulation (Salancik and Leblebici, 1988), rules are defined as those institutionalized practices that specify an agent's relations to a particular class of goods and to other agents in an exchange relationship. They are the mechanisms by which resources and capabilities are authorized and their allocation between agents is regulated. Rules both constitute and regulate transactions. Property rights are one clear example of these rules. Four classes of rules are necessary for specifying transactions: the rules of membership, the rules of allocation, the rules of causal order, and the rules of social discourse.

Rules of Membership specify the parties in a transaction. The historical evolution of credit instruments is an interesting example of how membership rules organize transactions and facilitate exchange. The law of credit instruments in the Western world has passed through at least two critical stages: first, the stage

of enforcement of contracts; and second, the authorization of the supplementary buying and selling of the contracts themselves (Commons, 1924). In the first stage, a promissory contract was assumed to be a relationship between two specific agents and as such it was considered to be enforceable but not negotiable. It was an agreement between two specific individuals as specified by the inclusion rules of a promissory contract. After the laws of creditor and debtor had been perfected in the sixteen-century, another century was required to convert this personal relationship between the agents into a negotiable credit instrument. Just as today, at least in most societies, we cannot think that a promise to marry can be assigned by the promisee to a third party, it was equally difficult for people of the 16th century to think that a personal relationship between a debtor and creditor could be transferred to a third party who was not originally defined as a party to the transaction. In essence, membership rules specify what capabilities are going to be brought into an exchange.

Rules of Causal Order define the set of all valid or feasible sequences of acts in a transaction. As shown in the analysis of transactions in restaurant settings (Salancik and Leblebici, 1988), rules of causal order act like a syntax and only exclude those sequences that are infeasible within our existing understanding of natural laws and available technology.

Rules of Allocation specify the rights and obligations of the parties in a transaction. They authorize what parties must, can, cannot, and may do with respect to each other and the goods in a specific transaction. Within the tradition of the property rights literature, allocation rules constitute and regulate the allocation of property rights between the transacting parties (Coase, 1974, 1984). The nature of these rights and their relations to resources will be discussed in more detail in the next section.

Rules of Social Discourse loosely describe a set of collective ideas as to what can and ought to be with respect to the field of social actions, choices, and the character of goods. They define and classify goods, they explain and justify social actions, and they provide causal relations between social actions in the form of if-then statements (Leblebici et al., 1991). These rules are in some sense the expression of the prevailing ideology of a given social collectivity within which transactions take place. Because the concept of ideology is itself controversial and open to different interpretations (Larrain, 1980), we prefer to use the term of "rules of social discourse". They provide justification for why certain organizational forms are legitimate and are applicable under certain conditions. As Miles and Creed (1995) show there is a strong relationship between the emergence of new organizational forms and the transformation of managerial philosophy. New rationalizations on the part of managers for network forms of governance, for instance, require a shift from both the hierarchical control mechanisms as well as contractual mechanisms and eventually introduce a new understanding of organizations.

Figure 1 depicts the relationship among these rules and the other elements of the grammar. In order to show how these relations are relevant part of every transaction

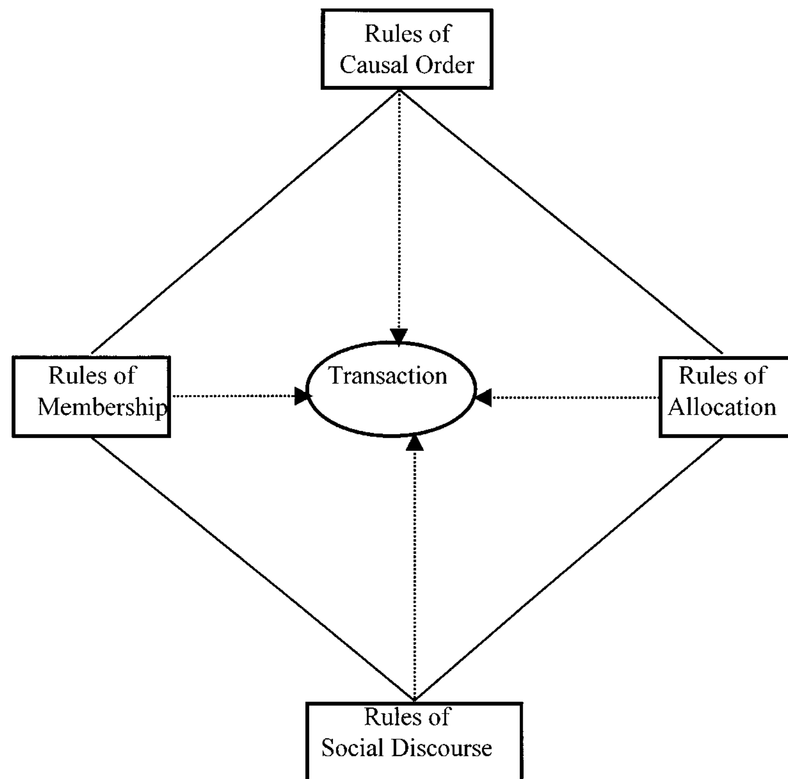

Figure 1. Rules of transactional grammar.

the next section of the paper concentrate on one particular relationship between rules and resources – the relationship between the rules of allocation and the types of goods.

2. The Rules of Organizing and Organizational Governance

It is usually taken for granted that today's organizations are structured in the form of investor-owned and manager-run entities. Most of the ongoing discussions on the types of governance structures relevant for these organizations are focused on the incentive structures that can align the goals of the owners and the managers. Yet organizational forms based on the separation of ownership and control is not necessarily the only available form for organizations. Employee-owned firms play a prominent role in many industries such as law, accounting, medicine, and many other professional service firms (Hansmann, 1996). Similarly, producer or consumer owned cooperatives are very common in agriculture. Major firms such as MasterCard, Associated Press are associations formed by local businesses. Mutual Insurance companies are owned by their policyholders. This diversity of

arrangements of ownership and management of firms indicate that there exist equally diverse governance structures. But how can we describe this diversity? The previous section of he paper provided an outline for generating the diversity of forms based on rules and resources. In this section my objective is to look at the question of organizational governance by utilizing this theoretical perspective.

Within conventional wisdom of investor-owned firms, the firm's owners share two legal rights: the right to control the firm and the right to appropriate the firm's residual earnings. The role of the management, on the other hand, is to use their discretion to make decisions to increase the owners' welfare. Even within this institutionalized view of the firm (Scott, 1995), there are variations. For instance, in Venture Capital firms some owners (general partners) are also the managers who make decisions about future investments and some owners (limited partners) are the passive recipients of the firm's profits. The relationship between these two classes of owners are managed through the use of covenants that allocate specific rules for allocating rights and obligations between these parties (Gompers and Lerner, 1996). Even in traditional firms there are different voting rights given to different class of owners.

Traditionally, these variations among firms' governance structures are explained by identifying various costs of governance. These are usually described in terms of the cost of controlling managers, the cost of collective decision making, and the cost of risk bearing (Hansmann, 1996). These costs, however, are the products of the way the transactional relationships are arranged among the parties. What produces these arrangements are the unique allocation of rights and obligations, which I called earlier the rules of allocation.

2.1. AN ANALYTICAL CLASSIFICATION OF RIGHTS

Even though there are a variety of ways one can develop analytical classifications of rights and obligations (Dias, 1964; Stoljar, 1984), one particular analysis of rights developed by Hohfeld (1913) stands out as the most appropriate classification for our purposes.

Hohfeldian jurisprudence identifies four alternative categories of rights which indicate four different legal relations between transacting parties: right (or claim rights), liberty (privilege), power, and immunity. Within Hohfeldian categories each type of right must also have a corresponding obligation; they are identified as duty, exposure (no-right), liability, and disability. Table II presents the definition of each category of rights and their correlatives. As shown in Table III, four volitional verbs can be assigned to each category of rights to indicate the basic differences between these rights (Commons, 1924).

As Table III indicates, these pairs of rights and obligations can be grouped into two unique legal relations: discrete contracts and relational contracts. Discrete contracts are most common in market settings and are associated with private goods. Relational contracts, on the other hand, are more common in

Table II. The definitions of four types of rights and their correlatives

Rights	Definition	Correlatives (obligations)
Right	One's specific affirmative claim against another party in the contract	Duty
Liberty	One's freedom from the specific claims of another party in the contract	Exposure
Power	One's affirmative control over a given contractual relationship and to affect a particular legal change	Liability
Immunity	One's freedom from the control of another in some aspect of their contractual relation	Disability

Table III. The distribution of rights and obligations in discrete and relational contracts

Rights	Obligations	Volitional verb
Discrete contracts (market transactions)		
Right (claim)	Duty	Must
Liberty	Exposure	May
Relational contracts (hierarchic transactions)		
Power	Liability	Can
Immunity	Disability	Cannot

organizational settings and are associated with collective goods. These rights and their corresponding obligations can be defined as follows:

Right-Duty Relations ("You must"): A right, in the sense of a claim, is simply an indication that another person is obligated to behave in a certain prescribed way. Beyond specific duties, there is no other relationship between these individuals. As in the example of widgets for cash, A has the duty to deliver the goods at the specified time, quantity, and place and B has the duty to pay the cash price.

Liberty-Exposure relations ("I may"): This relationship denotes the freedom a person has beyond the specific duties in the contract. So, A in the widget contract may select his/her own supplier, and may decide the method of delivery. B in this situation has no claim (or has exposure) to these privileges. Combined with rights and duties, they represent the limits one has over other's liberties and rights.

These two right-obligation pairs represent the essence of discrete contracts. Through explicit specificity, discrete contracts allocate rights and obligations for an orderly termination of the contractual relationship. In organizational governance, the use of these rights are very limited because they represent the governance mechanisms used in market transactions.

Power-Liability Relation ("I can"): Power denotes the ability in a person to alter the existing legal conditions whether of oneself or of another, for better or for worse (Dias, 1964). What distinguishes a specific claim right from power is that a claim right always signifies that some other party is required to conform to a specific pattern of conduct; power, on the other hand, is the ability to produce certain results. For instance, an elected representative has the power to pass a tax law which makes the citizens liable for possible future taxes even though the representative has made no specific promise (or more likely has made the opposite promise) of an increase in taxes. Similar to the office holder, trustees, as agents, have the power to decide when or how to act in the exercise of their positions. They have this power because all the contingencies relating to their tasks cannot be specified in advance. As trustees, they have the power to sell or manage another's estate and can submit their principals to contractual liability to a third party.

Immunity-Disability Relations ("You cannot"): Immunity denotes the freedom from the power of another, and disability denotes the absence of such power. In the case of shareholder-manager relations, for instance, the residual claimants have no power (or have disability) to demand a higher or specific rate of return on their investments and thus the management is immune from such demands. This does not mean, however, that the management has the liberty to have a financial loss or a negative rate of return. This distinction between liberty and immunity is important to reiterate with an additional example. In an employment contract, an employee may have immunity from random drug testing and the employer cannot administer such tests. This does not mean, however, that the employee is free to use illegal drugs.

When these different categories of rights and obligations are used to define the relationship between transacting parties, it becomes clear that the legal relationships in discrete and relational transactions are qualitatively different. A right in a discrete transaction constitutes a specific claim, and therefore indicates that the other party in the transaction has a specific duty to behave in a specific predefined way. Beyond these specific duties, the transacting party is free of any other obligations and thus has liberty. Rights, liberties, and their correlatives collectively determine the relationship among the parties for the duration of their agreement; completion of the promised performance terminates their relationship. This is exactly what is meant by "contract" in neoclassical economics and in classical legal analysis. In this sense, a discrete contract is not an agency contract. Even if there are temporal differences between the commitments of the parties (e.g., one party makes an initial payment before the expected performance of the other) the market

serves as the main governance mechanism and provides an incentive structure. Under these conditions, the identity of the parties is of negligible importance and the existence of market alternatives is what protects each party against opportunism (Williamson, 1985, p. 74).

Relational contract and its associated rights uniquely define the relationship within organizational governance systems. Power in relational contracts denotes the ability of one party to choose among alternative acts on behalf of another party in a transaction to produce certain results. Power in this sense has no correlative duty but liability. For instance, an employer, in an employment contract, has the power to select a specific behavior or task from a set of permissible alternative tasks. This ability (or authority), however, does not create a duty but a liability on the part of an employee.

What distinguishes some of the generic organizational forms ranging from corporations, cooperatives, joint ventures, professional partnerships, and non-profit organizations is the governance structures that allocate ownership and management rights to different parties. For instance, in the U.S. legal firms can only be owned by lawyers who also have managerial responsibilities. In nonprofit organizations, on the other hand, managers cannot have any claims to residual earnings. In mutual companies, such as insurance, the customers must also be owners. All of these arrangements are generated by the allocation of specific rights and obligations among parties inside the organization. The evolving body of empirical research on different types of contracts ranging from franchise relationships (Dnes, 1996) to the use of covenants in venture partnerships (Gompers and Lerner, 1996) are examples of growing interest in how exchanges can be organized to govern relationships among parties.

3. Conclusions

What these analyses of rules and resources highlight is the fact that the roots of organizing principles are the same whether we are interested in markets, inter-organizational relations, or hierarchic organizations (Stinchcombe, 1986). Such a view is, of course, not completely foreign to organization theory. Organization theory literature has implicitly or explicitly dealt with these issues. For instance, Stinchcombe (1986) argued that new organizational forms emerge when there is the discovery of new ways of doing things that are not easily done under existing social arrangements. Williamson (1975) and Ouchi (1980) indicated that markets and hierarchies are alternative forms of carrying out transactions and are selected on the basis of their efficiency. Crozier and Thoenig (1976) argued that inter-organizational relations are the outcomes of a regulated, complex, and organized system rather than an outcome of interorganizational networks. Their argument is based on the premise that interorganizational networks are simply another level of organizing interdependencies and must be studied within the context of collective rules.

These views indicate that given a set of generative rules and resources, a series of organizational forms can be produced which should include not only what organizational forms are actually observed in a given spatio-temporal space but also what are possible, or potentially observable organizational forms. Within such a generative framework, it is possible to specify whether a given form can be observed as a valid organizational form in a particular social discourse. Then it becomes possible to develop theoretical arguments why a valid form is not actually observed.

Through the identification of generative rules we can understand how things are to be done, how transactions as social practices are organized through the mobilization of this knowledge, and what capabilities are necessary in the production of these practices. This is one way to answer the question of organizing and how the generative rules can facilitate our understanding of new organizational forms.

References

Alchian, Armen A.: 1979, "Some Implications of Recognition of Property Right Transaction Cost", in Karl Brunner (ed.), *Economics and Social Institutions* (Boston: Martinus Nijhoff), pp. 233–254.

Arrow, Kenneth J.: 1997, "Invaluable Goods", *Journal of Economic Literature* 35: 757–765.

Barth, Frederik: 1966, "The Analytical Importance of Transactions in Modes of Social Organization", *Royal Anthropological Institute Occasional Papers, #23*. Glasgow: Royal Anthropological Institute.

Blau, Peter M.: 1964, *Exchange and Power in Social Life* (New York: Wiley).

Braverman, H.: 1974, *Labor and Monopoly Capital* (New York: Monthly Review Press).

Bromley, Daniel W.: 1989, *Economic Interests and Institutions* (New York: Basil Blackwell).

Burns, Tom R.: 1986, "Actors, Transactions, and Social Structure", in W. Himmelstrand (ed.), *The Social Reproduction of Organization and Culture* (Beverly Hills, CA: Sage).

Coase, Ronald H.: 1974, "The Market for Goods and the Market for Ideas", *The American Economic Review* 64: 384–391.

Coase, Ronald H.: 1984, "The New Institutional Economics", *Zeitschrift fur die Gesampte Staatswissenschaft* 140: 229–231.

Commons, John R.: 1924, *Legal Foundations of Capitalism* (New York: Macmillan).

Commons, John R.: 1934, *Institutional Economics* (Madison, WI: University of Wisconsin Press).

Crozier, Michel and Jean-Claude Thoenig: 1976, "The Regulation of Complex Organized Systems", *Administrative Science Quarterly* 21: 547–570.

Dias, R.M.: 1964, *Jurisprudence* (London: Butterworths).

Dnes, Antony: 1996, "The Economic Analysis of Franchise Contracts", *Journal of Institutional and Theoretical Economics* 152: 297–324.

Ebers, Mark: 1997, "Explaining Inter-Organizational Network Formation", in Mark Ebert (ed.), *The Formation of Inter-Organizational Networks* (Oxford: Oxford University Press), pp. 3–40.

Emerson, Richard M.: 1976, "Social Exchange Theory", *Annual Review of Sociology* 2: 335–362.

Fama, Eugene F. and Michael C. Jensen: 1983, "Agency Problems and Residual Claims", *Journal of Law and Economics* 26: 327–249.

Gergen, Kenneth J.: 1978, "Toward Generative Theory", *Journal of Personality and Social Psychology* 36: 1344–1360.

Giddens, Anthony: 1979, *Central Problems in Social Theory: Action, Structure, and Contradiction in Social Analysis* (Berkeley, CA: University of California Press).

Goldberg, Victor P.: 1980, "Relational Exchange: Economics and Complex Contracts", *American Behavioral Scientist* 23: 337–352.

Gompers, Paul and Josh Lerner: 1996, "The Use of Covenants: An Empirical Analysis of Venture Partnership Agreements", *Journal of Law and Economics* 39: 463–498.

Grandori, Anna: 1997, "Governance Structures, Coordination Mechanisms and Cognitive Models", *Journal of Management and Governance* 1: 29–47.

Hansmann, Henry: 1996, *The Ownership of Enterprise* (Cambridge, MA: The Belknap Press).

Hargreavesheap, Shaun and Martin Hollis: 1984, "Bread and Circumstances: The Need for Political Economy", in David K. Whyness (ed.), *What is Political Economy?* (New York: Basil Blackwell), pp. 7–30.

Heath, Anthony: 1976, *Rational Choice and Social Exchange* (Cambridge: Cambridge University Press).

Hohfeld, W.N.: 1913, "Fundamental Legal Conceptions as Applied in Judicial Reasoning", *Yale Law Journal* 23: 16–29.

Larrain, Jorge: 1980, *The Concept of Ideology* (London: Hutchinson).

Leblebici, Huseyin, Jerald R. Salancik, Anne Copay and Tom King: 1991, "Institutional Change and the Transformation of Interorganizational Fields: History of the U.S. Radio Broadcasting Industry", *Administrative Science Quarterly* 36: 333–363.

Luhmann, Niklas: 1982, *The Differentiation of Society* (New York: Columbia University Press).

Marx, Karl: 1911, *A Contribution to the Critique of Political Economy* (Chicago, IL: International Liberal Publishing).

McNulty, Paul J.: 1984, "On the Nature and Theory of Economic Organization: The Role of the Firm Reconsidered", *History of Political Economy* 16: 233–253.

Miles, Raymond E. and Douglas W.E. Creed: 1995, "Organizational Forms and Managerial Philosophies: A Descriptive and Analytical Review", in L.L. Cummings and Barry M. Staw (eds.), *Research in Organizational Behavior*, Vol. 17 (Greenwich, CT: JAI Press), pp. 333–372.

North, Douglas C.: 1984, "Transaction Costs, Institutions, and Economic History", *Zeitschrift fur die Gesamte Staatswissenschaft* 140: 7–17.

Ouchi, Williams G.: 1980, "Markets, Bureaucracies, and Clans", *Administrative Sciences Quarterly* 25: 129–140.

Robbins, Lionel C.: 1984, *An Essay on the Nature and Significance of Economic Science* (New York: New York University Press).

Salancik, Gerald R. and Huseyin Leblebici: 1988, "Variety and Form in Organizing Transactions: A Generative Grammar of Organization", in Nancy DiTomaso and Samuel B. Bacharach (eds.), *Research in the Sociology of Organizations*, Vol.6 (Greenwich, CT: JAI Press), pp. 1–32.

Samuelson, Paul A.: 1954, "The Pure Theory of Public Expenditures", *The Review of Economics and Statistics* 36: 387–389.

Samuelson, Paul A.: 1958, "Aspects of Public Expenditure Theories", *The Review of Economics and Statistics* 40: 332–336.

Scott, Richard W.: 1995, *Institutions and Organizations* (Thousand Oaks, CA: Sage Publications).

Skvoretz, John and Thomas J. Fararo: 1980, "Languages and Grammars of Action and Interaction: A Contribution to the Formal Theory of Action", *Behavioral Science* 25: 9–22.

Smith, Adam: 1981 (1904), *An Inquiry into the Nature and Courses of the Wealth of Nations* (New York: Pergamon Press).

Stinchcombe, Arthur L.: 1986, *Stratification and Organization: Selected Papers* (Cambridge: Cambridge University Press).

Stoljar, Samuel: 1984, *An Analysis of Rights* (London: MacMillan).

White, Harrison C.: 1985, "Agency as Control", in John W. Pratt and Richard J. Zeckhauser (eds.), *Principals and Agents: The Structure of Business* (Boston MA: HBS Press), pp. 187–212.

Williamson, Oliver E.: 1979, "Transaction-cost Economics: The Governance of Contractual Relations", *Journal of Law and Economics* 22: 233–261.
Williamson, Oliver E.: 1975, *Markets and Hierarchies: Analysis of Antitrust Implications* (New York: Free Press).
Williamson, Oliver E.: 1985, *The Economic Institutions of Capitalism: Firms, Markets, and Relational Contracting* (New York: Free Press).
Williamson, Oliver E.: 1993, "Transaction Cost Economics and Organization Theory", *Industrial and Corporate Change* 2(2): 107–156.