

## Business History Frameworks and their Applications

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## The Nature of Business history

- A business history approach uses an analytical framework to investigate corporate behaviour and the development of firms.
- Such frameworks are useful for understanding the development of corporate structures
- They also provide an insight to the strategic growth and behaviour of modern corporations

## The Nature of Business History

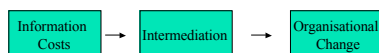
- Analytical approaches to evaluating the development of firms and markets:
  - Transaction cost economics
  - Chandler's framework
  - The Contracting paradigm
  - Evolutionary models

## Transaction cost economics

- Points to why firms adopt certain growth strategies or internalise certain processes
- Transaction costs occur because individuals do not have perfect knowledge of all the elements involved in the transaction
- The organisation which develops is the one which deals with the transaction cost most efficiently

## Information Costs

- An alternative to the transaction cost approach is apply the concept of information costs.
- Information costs determine the process of intermediation which in turn determines the structure of the organisation



- Casson, M. (1997) "Institutional Economics and Business History: A way Forward?", *Business History*, 39, pp.151-71.

## Chandler's framework

- A.D.Chandler (1977) *The Visible Hand: The Managerial Revolution in American Business*, Cambridge MA
- Strategic plans, internal organisation and lines of communication work together to shape corporate capabilities.
- Firms learn organisational capabilities and this provides for the continuous growth of enterprises and markets
- Useful in explaining the transition from U form to M form to H form enterprises



## The Contracting Paradigm

- Firms are seen as a 'nexus of contracts' ie at the centre of a divergent group of contracting arrangements with other firms and markets
- The objective of the contracting process is to devise a workable agreement at the lowest cost which ensures compliance
- The pattern of corporate development is determined by the manner in which contracts are aligned



## Evolutionary models

- Consider the institutional setting and suggest firms adapt over time in reaction to their environment
- A fundamental component of this environment is the sets of formal and informal rules under which the firm operates
- Analysis of changes in "the rules of the game" provide a key to understanding the development of firms and markets.



## Useful References

- Boyce, G & Ville S. (2002) *The Development of Modern Business*, Palgrave, New York.
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- Lee, C.H.(1990), "Corporate Behaviour in Theory and History", *Business History*, 32, pp.17-31.