Business History: a lantern on the stern?

Decio Zylbersztajn [1]

Caroline Gonçalves[2]

Abstract: How can the economics of organization evolve to be useful as an approach to business history? The answer depends on its capacity to handle the diversity, origin, and evolution of particular institutional arrangements observed in particular industries. The ad hoc and purely descriptive approach to the behavior and evolution of specific enterprises, industries, and business practices runs the risk of tautological explanations, which is the main reason to choose some theoretical support for the analysis. This is what motivates this work: first, to contribute to smooth the interface between the vaguely-defined field of business history and the yet-to-be-consolidated field of economics of organization; and second, to contribute to the discussion of the micro-dimensionality of firms from a historical perspective, with a focus on uncertainty.

Key-words: business history, history and economic organization

[1] Professor of Economics of Organization at the School of Economics, Business and Accounting, University of São Paulo. Email: dezylber@usp.br

[2] PhD candidate at the School of of Economics, Business and Accounting, University of São Paulo. Email: goncalves.caroline@usp.br

Business History: a lantern on the stern?

1. Introduction

For a newcomer to the field of business history, it is somewhat difficult to decide from which door to enter the arena. After some reflection, the visitor makes his choice, only to perceive that the different doors all lead to the same internal garden, although cultivated in very different shapes and inhabited by distinct species. The incentives that direct our attention towards this field are threefold:

First, the literature in the Economics of Organization that addresses the institutional arrangements observed in particular industries and seeks to explain the origins, diversity and pattern of changes frequently recalls some historical perspective. In this particular approach, two papers by Oliver Williamson, "The Corporation and Industrial Evolution" (s.d.) and "Business History and the Economics of Organization: the governance perspective" (2005) suggest that business history and economics share a common grounding in the theory of the firm as they approach the need to perform positive analysis. He proposes a contractual approach to the study of business history. The work of Lamoreaux, Raff and Temin (2002), "Beyond Markets and Hierarchies: toward a new synthesis of American business history", states that the field treats the history of institutions of coordination in the economy. They propose that the study of changes in the population of coordination mechanisms over time lies at the core of the field of business history.

The second intellectual incentive is moved by questions about the nature and limits of the field of business history. Having had some grounding in the field of Law and Economics, we were—and remain—convinced about the necessity of applying consistent efforts to evolve a positive theory of business firms under the historical perspective. A question behind the present paper is: What should business history accomplish that economic history and the economics of organization are unable to achieve?

The third incentive, fundamental to the present essay, is outlined by the work of Yoram Barzel (1997), Avinash Dixit (2007), and Grandori and Furlotti (2012). These authors brought to our attention the relevance of the property rights approach to contracts (Barzel), the relevance of observing the tensions of protection and capture of value (Dixit), and the mechanisms of contracting under highly uncertain conditions (Grandori). We are convinced that a useful, though unexplored, perspective on business history is to consider how firms take decisions under highly uncertain conditions. In other words, the aim is to explore an ex-post analysis of strategic

decisions that involved capture and protection of value in a highly uncertain environment.

The question of what can we learn from the past is not new in the economics of organizations. North (1999) argues that there are non-ergodic aspects of the world, which creates a problem in defining theories that allow one to learn from the past. He states that there are many lessons in history, but we have to be careful about them. The impossibility of learning from the past in every aspect of human society is explored in his essay dealing with the non-ergodic characteristic of the world.

Beyond scientific thought, perhaps poetry can help us shape our thinking. The poet Samuel Taylor Coleridge (1772-1834) stated: *"If men could learn from history, what lessons it might teach us. But passion and party blind our eyes, and the light which experience gives is a lantern on the stern, which shines only the waves behind us."* (Coleridge,1835)

Science must be able to create knowledge from this lantern on the stern, by finding regularities and theoretically robust explanations for phenomena. We can ask ourselves how the fields of economics, managerial sciences, and history have performed in providing answers to the evolution of firms, sectors, and society as a whole. The neoclassical approach to economics does not offer this perspective. If we consider a Coasian perspective of the firm, it is possible to say that the period from 1980 through 2010 has been rich in providing explanations for the existence and evolution of firms. It has been definitively realized that firms as a nexus of contracts—or as Coase (1991) defined them, the institutional structures of production—are complex, show a variety of profiles, and change over time. The dynamic characteristics show a variety of patterns of change yet to be explained. It seems that the literature of the economics of organization has been creative in explaining the existence of and identifying diversity, as well as patterns of evolution. However there is a gap between the identification of patterns and providing robust explanations for the observed patterns and diversity.

We are yet scratching the surface of the subject, and the business historical perspective is positioned as a field with a potential contribution. That is the particular reason why the business historical perspective reveals its importance. The diversity of approaches is aligned to what has been observed in the field of economics of organizations in a broader sense. This is what motivates this work: first, to contribute to smooth the interface between the vaguely-defined field of business history and the yet-to-be-consolidated field of economics of organization; and second, to contribute to the discussion of the micro-dimensionality of firms from a historical perspective, with a focus on uncertainty.

This paper proposes that the common element of different approaches to looking back in time to explore observed trends is not the mere description of facts, but the possibility of finding explanatory reasons. Our proposal here is to explore an approach consistent with the different explanations for the analytical structure of firms, which are the mechanisms of dealing with uncertainty. The economics of organization offers governance and the evolutionary theories that are competing approaches to firms. In order to reach the objective, Section 2 begins with a description of selected approaches of business history. Section 3 places the focus on the property rights approach to organizations, mainly the dynamic models that explain the allocation of property rights. Section 4 highlights the role of uncertainty in the process of organization change, and finally Section 5 presents concluding remarks.

2. The many paths of business history

What are the issues that motivate business historians? In what aspects do these issues differ from the perspective embraced by historians, economists, sociologists, and managerial scientists' perspectives? As stated by Lamoreaux (2007), business historians try to understand the behavior and evolution of specific enterprises, industries, and business practices. As an organized academic program, the field of business history was born at Harvard in 1927, approaching a positive view of business evolution. In 1948 the Center of Entrepreneurial history was organized at Harvard with notorious Schumpeterian influence. Being organized in a business school, the field underwent a certain amount of isolation from the related fields of history and economic history. However, the key contributions to the foundations of the field have been developed by economists outside the strict range of business schools, and offer varying perspectives.

Perspective 1: Historical perspective of industrial sectors. How specific sectors evolve in time and why they grew in specific areas of the world. This perspective was adopted by Alfred Chandler (1962). His approach to the evolution of the railroad industry in US and related aspects of the scale and scope of firms was directed at the emergence of large corporations in US. The economic approach backing this analysis is the neoclassical paradigm, mostly of a descriptive nature, and aims to explain the emergence of large corporations. This approach is found in studies of the history of agriculture, medicine, and architecture, reflecting the interest in business practices over time.

Perspective 2: Historical perspective of firms´ growth. This perspective was also influenced by Chandler (1977,1990), mainly examining the managerial revolution that took place in large corporations as well as explanations for growth based on scale and scope economies. As stated by Lamoreaux (op. cit), Chandler was influenced by Edith

Penrose (1959) and her theory of the growth of firms, her focus on why and how specific firms grew, and particularly why the pattern of growth differs among firms. The role of mechanisms of accumulation of knowledge and capabilities are theoretical trends derived from this approach. Chandler explored the study of new internal forms of organization in large corporations, especially the reasons why firms adopt unitary or multi-departmental forms of organization to control agency problems. This study was relevant to Oliver Williamson in the development of the governance paradigm. However. Chandler's arguments are totally distinct from the transaction cost perspective later developed by Williamson.

Perspective 3: Historical perspective of business leaders, exploring their human profile in terms of the impact of their ideas and how they influenced business activity outside the scope of a specific firm. Studies of Du Pont by Chandler, and cases of Rockefeller, Rothschild, and in the 21st century Microsoft, Apple, and Facebook, are examples from among many studies focused on the human profile of business leaders. Collins and Porras (1994) also explored the profile of centenarian firms in terms of the impact of their founders. Here the perspective adopts more of a narrative structure, highlighting the role and relevance of specific actors, and in some cases considering the institutional environment where they performed. Studies have been done in management departments in different countries, focusing on the relevance of local business leaders. The case studies performed by Marcovitch (2003) describing business leaders in Brazil is an example of this vein.

Perspective 4: Historical evolution of specific firms, aiming to describe cases of success of organizations through time. Studies of the Hudson´s Bay Company, founded as a joint stock company in 1670, is developed by Newman (1988), who explores the example of a long-lasting initiative of a transnational company. Other examples, including the East India Company, Disney, Du Pont, and GM can be found in the literature. Studies of companies relevant to specific countries are abundant, such as the case of the initiative by US entrepreneur Daniel Keith Ludwig in the Brazilian Amazon region, the Jari Project, described by Lins (1990). This approach has interfaces with the studies of business leaders, since in many cases the company carries characteristics molded by the founder. The method is mostly narrative, based on case studies, and lacks theoretical underpinning. In other cases the relevance of such approaches are concerned with organizations' technological innovation, as is the case with the East India Company as well as the flexible structure of the Silicon Valley cluster in the 20th century. Here the focus is on new forms of doing business, including the territory and network of agents connected by social ties.

Perspective 5: Historical perspective on organizations, aiming to study how governance mechanisms develop in response to complexity. The growth of firms and the innovation process are related to the increase in complexity, raising the problem of

coordination as central topic. This approach is the basis of Williamson's work (1979,1981), in turn influenced by Chandler´s work on strategy and structure of firms and by Fama and Jensen's study (1983) of separation of ownership and control of firms. Here the key aspect is the study of the evolution of governance of business forms, particularly the multi-departmental form of organization, in contrast to the uni-departmental form. The increase in the complexity of firms is studied in terms of the managerial adjustments necessary in order to cope with the complexity of large, multinational firms. In his book *Economic Institutions of Capitalism*, Williamson (1985) presents a study of the Japanese model.

Perspective 6: Historical perspective of innovation as the driver of firms and organizations. This perspective is rooted in Schumpeter and explores not the scale and scope of firms—therefore not adopting a Chandlerian approach—but rather focusing on the innovation process that occurs both within firms and among different firms. This approach therefore deals with incentives to promote innovation through cooperation, leading to alternative models of inter-firm cooperation. Complex coordination mechanisms that are not hierarchical lie at the core of this approach. This perspective relates to the sociological approach, introducing elements of gender, culture, race, and ideology. The dialogue between business firms and societal beliefs and needs is relevant in understanding the drivers of business forms that emerged in the 21st century, including the beauty industry, marketing to senior citizens, the genetically modified food industry, and others.

The topology of approaches presented is surely subject to criticism. In fact, one can find other acceptable ways to organize and describe the field of business history. The point that is more widely accepted is that the field has focused on a few key aspects: first the study of sectors, second the study of large corporations, and third the study of the economics of organization of production. However, interpretations about the determinants of the boundaries of the field of business history, the key subjects of study, and the predominant method are far from convergent.

The origin and evolution of the field is presented by Lamoreaux (2007), referencing the work of Edwin Gay in the 1920s, followed by the activity at Northwestern University in the 1950s, Chandler´s 1962 book *Strategy and Structure*, and the first conference of Business Historians in 1971. The positive view of business history reportedly received its impulse at Harvard in 1927. It is my perception that the initiative to organize the field in US has given the authors a very parochial perspective, leading them to ignore work done elsewhere such as the initiative organized by Jacques Marcovitch (op cit) and Ruy Gama (1987) in his work on the history of technology.

Business historians are gathered in specific associations and conferences—such as the Association of Business History in the UK, the European Business History Association, the Japanese Business History Society, the American Business History Association—and

publish in specialized journals like the Business History review, Business & Economics History, and American Business History. However, university departments of business history practically do not exist; instead, the scholars work in departments of Economic History[3] , History, Business, and Economics. The field's lack of identity poses some problems to young Ph.D. students that prefer to introduce themselves as economists, historians, or organization scientists.

The literature is more creative in discussing what business historians do than in defining who they are. Jones (2003) considers that business historians study companies and systems of innovation, production, and distribution. Galambos (1975) shows that the tension between state and big business is at the center of the debate. The many paths to explore business history present a problem of method. How can business history be approached in the best way? For instance, how can inductive and deductive approaches be balanced, and how can business cases be blended with cliometric approaches to evolution? The poorly defined boundaries might in fact be seen not as a problem, but rather as an advantage to explore, in the sense that the business historical perspective seems to enable authors to introduce a new and innovative approach into the different fields.

Since none of the authors referenced in the handbook of business history (Jones and Zeitlin, 2007) as being active in the international societies of business history have presented an undisputed definition of the field, we will not do it. We prefer to approach business history in the same manner as in the fields of law, economics, and organization (Zylbersztajn, 2005). It is safe to consider business history as an interdisciplinary field with many doors to choose from. A sociological perspective is relevant to understanding many forms of business organizations over time, and can combine with other approaches such as political science, public policy, and industrial economics. Most relevant to this work is the economic perspective on business history of organizations, which we will explore in the next section.

3. Business History in Economics of Organization

Considering that positive analysis of business history does not rely on a specific theory, one can instead choose among alternative approaches that highlight how institutional arrangements change over time. A potential vein yet to be explored links the business history approach to the family of theories of the firm, ranging from evolutionary approaches to the transaction cost view. The adoption of the lenses provided by Economics of Organization is supported by Lamoreaux (op. cit) and Williamson (op. cit), with the intention of reinforcing the need to study how firms change over time. The choice of the existing family of theories of the firm does not preclude the

[3] Such as Naomi Lamoreaux, head of the Department of Economic History in Yale.

possibility of anchoring a positive analysis of business history in historical or sociological theories. The choice to focus on the economics of organization merely reflects our familiarity with the theory.

The relevance of economic theory to the field of business history aims to move towards a positive analysis as a complement to the narrative approach. The studies of behavior and evolution of specific enterprises, industries, and business practices, and the historical perspective on organizations which aims to study how the governance mechanisms develop in response to agency problems, reinforce the necessity of choosing from among the family of theories of the firm, with an emphasis on the dynamic approaches. It is not a matter of offering a report or a narrative of how firms change through time, but to test alternative hypotheses of how and why firms adopt specific strategies in response to external factors. The identification of dynamic elements is a key point in moving towards a historical perspective.

There are at least three aspects to be considered in this endeavor. First, the analytical focus of economic studies of business history; second, the two main streams of literature that support the debate; and third, the predominant methodological approaches that prevail at each stream.

First let us consider the analytical focus. In an essay entitled "Opportunities for Business History," Chandler (2007) discusses the influence of Schumpeter on economic theory, mainly studying the process of innovation and the determinants of business cycles. The contributions of Schumpeter and Chandler have been keystones for the study of firms. They support the analysis of innovation and the study of economic sectors and industries. As developed in the Chandlerian perspective, the study of big corporations is a particular case. Other authors, such as economic historians Douglass North and Robert W. Fogel, Nobel Prize winners in 1993, have been more interested in studying the impact of institutions on economic development, more aligned to the field of Economic History. North´s contribution proved relevant to the study of business history due to the relation between institutions and organizations, later explored by Williamson. The analytical focus that prevailed under the dominant Chandlerian paradigm focused on the relationship between the strategy and structure of firms, primarily dealing with large enterprises, business bureaucracy, and innovation.

The studies that approached the internal organization of firms as well as inter-firm relations evolved to explain the increasing complexity of large corporations and their impacts on the internal governance. Managerial studies focused on the evolution of the internal structure of corporations as a solution to agency problems are examples of the Chandlerian paradigm. The other perspective is based on the Coasian view of the firm as a nexus of contracts, seen as institutional structures of production which seek to control the costs of performing transactions within and among firms. This approach

supports the property rights roots of transaction cost analysis, under two perspectives: measurement costs, and governance. A third perspective is rooted in the evolutionary approach, anchored in the importance of knowledge and routines developed within and between firms. The leitmotif here is to promote changes and innovation based on resources and knowledge. Departing from the neoclassical analysis, the two bodies of literature evolved. The evolutionary perspective rooted in Nelson and Winter (1982) introduced the relevance of knowledge embodied in specific routines, inspired in Penrose and focused on dynamic explanatory factors of firms' changes. The governance paradigm, rooted in the contractual perspective of the firm based in Coase and Williamson, represented an alternative explanation for the boundaries of the firms. While Nelson and Winter were interested in changes, Williamson was focused on the efficient choice of governance mechanisms.

The evolution of the family of theories of the firm, while by no means exhausted, brought an important breath to the historical perspective of firms. First, it deepened the Chandlerian perspective of internal organization. Second, it evolved towards the study of technological change, how firms build specific and differentiated resources and competences through time, with learning as a key variable. Third, it opened the possibility to study inter-firm cooperation and complex contractual arrangements. The criticisms of the static version of transaction cost economics, as stated by Langlois (1992), brought important movement to how the key variables considered in transaction cost economics change through time. The main emphasis was placed on asset specific investments as the factor that produces incentives to protect value, thereby changing the governance structure of organizations. The key aspect, usually neglected by the critics of transaction cost economics, is that Williamson considers explicitly the contract as a mini-society that develops its own rules, and the theory of relational contracts is one of the pillars of transaction cost economics. Therefore, it is useful to study organizations through time.

Figure 1 – Business History Perspective

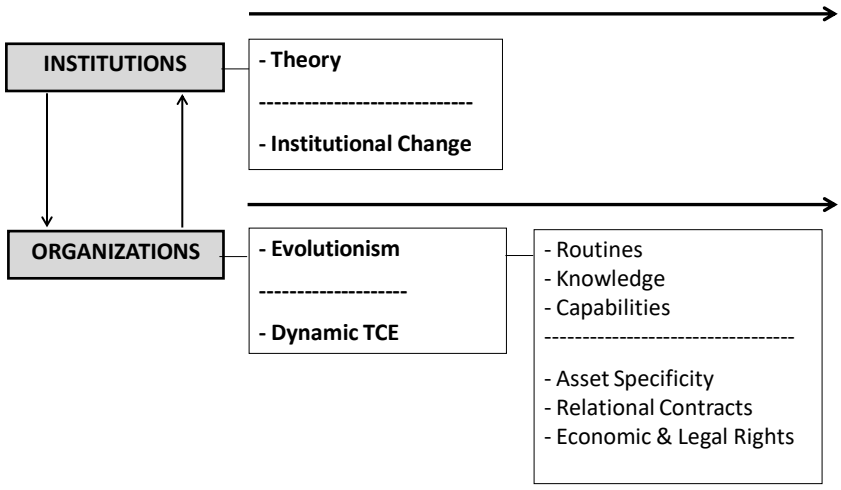

Figure 1. Business History Perspective
Source: The authors

Figure 1 highlights the basic aspects of the two approaches. First, the relevance of institutions is a key factor, since it affects the allocation of property rights. Second, the evolution of routines, knowledge, and competences introduces dynamic factors to explain the organizations. And third, relational contracts added to the changing characteristics of asset specific investments offer a vein yet to be fully explored.

The measurement cost approach is far less explored than the transaction cost approach. It offers the possibility of studying dynamic aspects that affects the allocation of property rights, namely the tension between the capture and protection of property rights. This approach is explored in Fowler de Avila Monteiro and Zylbersztajn (2012), based in the contributions of Barzel and Dixit. This model permits the evaluation of how economic and legal rights evolve through time, particularly affecting the costs of protection or capture.[4]

The main contribution to the study of business firms was the rupture with the focus on big corporations, allowing a movement towards the analysis of any kind of business firm, regardless of size, sector, or region. Other subjects such as the historical perspective of small business firms, the evolution of start-ups, and the study of networks of small firms fall under the field's purview. Since the influence of formal and informal institutions is explicitly considered in the Coasian and evolutionary

[4] This perspective opens room for study of the evolution of formal institutions such as the performance of courts, and the learning process embedded in private contractual negotiations.

approaches, new subjects have been brought to the light in the studies, notably gender, connections between small and big firms, and non-profit organizations, issues that were previously beyond the scope of scholars rooted in the Chandlerian perspective.

Both the Coasian and the evolutionary paradigms handle the historical perspective of organizations seen as institutional structures of production that change through time. They differ in terms of the main drivers of changes and in the theoretical constructs. The transaction cost approach stresses the relevance of mechanisms of protection of property rights, mainly related to quasi rents associated with asset specific investments. A different perspective appears in the dynamic approaches, where technology and innovation is at the center, based on the development of capabilities and routines.

Both perspectives are complementary and potentially useful for providing answers to the basic question posed by the field of business history, namely: understanding the behavior and evolution of specific enterprises, industries, and business practices. The evolutionary approach is rich in bringing dynamic elements, mainly related to the evolution of the firm as nexus of routines that condenses tacit knowledge. However, the theory is not yet clear on how the process of accumulation of knowledge takes place. On the other hand, while the transaction cost approach is rich in terms of offering a predictive empirical model of efficient choice, under the assumption of a stable institutional environment, the theory has not explained the pattern of changes in asset specific attributes and depends heavily on a theory of institutional change. Business history can be approached based on the key variables pointed out by the theory like the dynamic analysis of routines, evolution of knowledge, relational contractual perspective, how formal and informal institutions evolve through time, and the dynamics of specific asset investments, no longer seen as an exogenous variables.

Even if a successful convergence of approaches is made, there are variables yet to be considered from a dynamic perspective. Business history, as an integrated approach to the study of evolution of business firms, needs to unbundle the dynamic elements of adaptation in response to the increase in complexity. The next section discusses the flexibility of systems and how they face the need to contract under uncertain conditions.

4. Institutional Arrangements' Responses to Uncertainty

How firms and economic sectors change through time is a challenging question that can be viewed through different lenses. As seen in the previous chapter, the economics of organization, transaction costs, or evolutionary approaches are useful to study business history. We assume that the dynamic perspective of transaction costs

suggested by Langlois (op. cit) offers useful elements. Alternatively the evolutionary economics approach is embedded with dynamic aspects at its heart, based on the perspective rooted in Penrose (op. cit).

If one considers a contractual perspective of the firm, the aim of business historians can be restated as explaining the pattern of evolution of allocation of property rights and economic organization, treating the incentives for cooperation in conditions of imperfect information, costly mechanisms of protection of property rights, changing institutional environment, all raising the question of how to build flexible mechanisms of cooperation in economic environments characterized by high uncertainty.

Two authors have recently proposed ten theses apiece to explain alternative approaches to business organizations. Zeitlin (2007) explores the concepts of plasticity and flexibility, suggesting that there are alternatives to institutional arrangements characterized by their capacity to adapt to external shocks. He considers uncertainty to be sudden, unanticipated impacts that have an effect on the choice of the forms of economic organization. Flexible specialization is considered the predominant hybrid form that is the rule rather than the exception. So, flexible structures of production exercise a form of control of opportunism and free riding—providing protection against capture of value—based in social mechanisms, which facilitate instead of obstruct economic adjustment. In that sense, the author does not expect convergence towards single governance forms as proposed by transaction cost economics. Learning processes based in continuous monitoring efforts added to the plasticity of organizations, replacing the alternative forms of rationality. Diversity is the rule, not the exception and governance mechanisms other than vertical integration can deal with external impacts.

A second author that explores uncertainty and flexible organizations is Grandori (2010, 2012, 2013). She considers that uncertainty changes the nature of the adaptive process, proposing that constitutional agreements and formal and informal governance mechanisms play a relevant role in explaining the incentives for engaging in joint efforts of value production under conditions of high uncertainty. Contracts are designed to offer conditional provisions on how to proceed in the face of uncertainty in place of strict models that define contingent solutions, as seen in conditions of incomplete contracts. The focus is to find ways to complete contracts and to deal with uncertainty instead of exercising authority. So, high uncertainty can coexist with non-integrated governance mechanisms.

Both authors challenge the transaction cost perspective that high uncertainty precludes contractual solutions, as proposed in the transaction cost theory that suggests that actors jump from markets to hierarchical solutions when uncertainty rises. Instead, Zeitlin and Grandori, based on different arguments, both highlight the expected contractual solutions under uncertain conditions. Both authors explore

flexible coordination mechanisms as tools for governing production under conditions of uncertainty.

The property rights model can be expanded to incorporate the condition or procedural norms and/or flexible mechanisms that explain contracting under high uncertainty conditions. Figure 2 suggests that a transaction can be decoupled in many attributes. Each attribute differs in terms of measurement costs. As suggested in Barzel (2002), easy-to-measure attributes allow for the design of external contracts enforceable by courts. Difficult-to-measure attributes are potentially handled by private arrangements, enforceable by reputation mechanisms. Part of the value created in the transaction remains unprotected and subject to capture, meaning that there are high costs of protection and low costs of capture of value. If the value that remains in the public domain is too large, it precludes the incentives for cooperation and the transaction does not happen.

The institutional structure of production, seen as a nexus of contracts, can be expressed using the concept of property rights approach. It states that each transaction transfers property rights that are protected by the law. In this case the legal rights (Lr) support the formal contracts. Private and mostly reputational mechanisms can also be in place, protecting economic rights (Er). Part of the value is rights left unprotected (Ur), subject to capture. If one considers that a given level of protection of property rights is necessary to provide incentives for joint productive efforts, one can assume that the sum Lr+Er must reach a limit level of protection.

Figure 2 – Uncertainty and Allocation of Property Rights

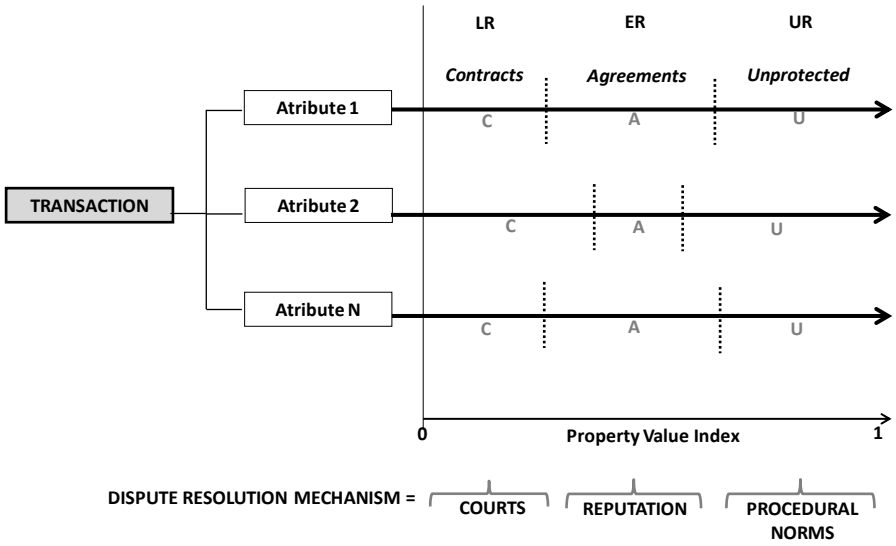

Figure 2. Uncertainty and Allocation of Property Rights
Source: The authors

However, the model can be redesigned based on Zeiltin and Grandori's arguments. The question is how much of the unprotected value can be handled either by procedural norms and/or by flexible specialization mechanisms, allowing certain transactions to be performed under highly uncertain conditions. The relevance of uncertainty and the flexibility of organizations as a vein to be explored in business history relies on two aspects. First is the impact it has on the evolution of the study of organizations, particularly considering a dynamic evolutionary process. If conditions of uncertainty that prevailed in the past, when an organization decided its strategy, are unbundled, one can learn from the process of decision to illuminate future episodes. Second, it permits an understanding of new forms of specific assets, distinct from the transaction cost sense, that are flexible enough to be adapted when unexpected external shocks occur. It is a proposal of endogenous development of asset specific attributes.

Knowledge-intensive industries might be good examples of the human-specific assets, usually co-specialized, necessary to originate innovative production efforts. It might be possible that later phases of production cycle will demand specific assets, suggesting that start-ups might be more flexible and can handle high uncertainty, even if this condition changes in later stages of production. Knowledge-intensive activities associated with innovation might suggest higher capture and lower protection costs for property rights. A hypothesis derived from this view can be stated as: Flexible mechanisms associated with innovation and procedural norms represent new forms of protection of property rights acting as safeguards to promote cooperation. In later stages of production, asset specificity might play a role. The new forms of safeguards can be seen in democratic societies as based in connectivity and powerful mechanisms to promote informal enforcement tools based on reputational effects.

5. Connecting Business History

How can the economies of organizations evolve to be useful as an approach to business history? The answer depends on its capacity to handle the diversity, origin, and evolution of particular institutional arrangements observed in particular industries. The ad hoc and purely descriptive approach to the behavior and evolution of specific enterprises, industries, and business practices runs the risk of tautological explanations, which is the main reason to choose some theoretical support for the analysis.

Furthermore, based on the concepts treated in the previous section, it is possible to consider that part of the unprotected rights are in fact regulated by other mechanisms, what Grandori (op. cit.) called contracts of society and Zeitlin (op. cit) considered as flexible mechanisms that avoid its capture. The key aspect here is that the theory permits an analysis of the decision process through time that provides incentives to

engage in joint production efforts, particularly related to the mechanisms to deal with uncertainty. These mechanisms are expected to raise the costs of capture and control the costs of protection. This perspective opens a vein yet to be explored from the perspective of the evolution of the institutional arrangements through time.

The perspective of flexible theories of the firm that incorporate uncertainty is a landmark for the evolution of modern economics of organization, with impact on the business history perspective. There are three points to consider under the perspective of property rights and incentives: First, the way contracts evolve through time depends on how the measurement costs change. This might be due to the technological change affecting the measurement costs of valuable attributes. The contracts can also change due to the learning of the actors in dealing with specific transactions, whether the courts or the agents engaged in the transaction. Second, how agreements evolve over time. This depends on several aspects related to the evolution of social connections among the agents behind the nexus of contracts. The literature on networks can provide interesting elements to enrich this dynamic process that are different from path dependence arguments. In addition to trust, reputation, and relational mechanisms, the evolution of the social mechanisms behind the contracts of society is a vein to be further developed. The third point is related to how unprotected value can be transacted even in highly uncertain conditions. Flexibility and alternative procedural mechanisms that control the costs of capture of value are yet to be considered in the literature of business history.

The three perspectives offer a promising platform from which to study business history. The empiric possibility to evolve is likely to focus on the trilogy; society, sector, and organizations through time. This might bring new life to the business history perspective, redesigning how organizations can learn from the past.

References:

Barzel, Y. 1997. The Economic Analysis of Property Rights. Cambridge University Press.

Barzel, Y. 2002. A Theory of the State. Economic Rights, Legal Rights and the Scope of the State. Cambridge University Press. 289pp.

Barzel, Y. 1982. Measurement Cost and the Organization of Markets. Journal of Law and Economics, April.

Chandler, A. Strategy and Structure. MIT Press. 1962.

Chandler, A. The Opportunities for Business History. In Jones, G; Zeitlin, J. The Oxford Handbook of Business History. New York: Oxford University Press, 2007.

Coase, H.R. 1991. The Institutional Structure of Production. Nobel Prize Lecture.

Coleridge, S.T. 1835. Specimens of the table of Samuel Taylor Coleridge. www.xxxx???

Collins, J., Porras, J.I. 1994. Built to Last: successful habits of visionary companies. Harper Business.

Dixit, A.K. 2007. Lawlessness and Economics: Alternative Modes of Governance. Princeton University Press. 167pp.

Fama,E.F. and Jensen,M.C. 1983. Separation of Ownership and Control. Journal of Law and Economics, vil XXVI, pp:301-325.

Fowler de Avila Monteiro and Zylbersztajn ,D. 2012. A property rights approach to strategy. 10(4) 366-383.

Galambos, L. 1975. The public image of big business in America, 1880-1940:a quantitative study in social change. John Hopkins Press, Baltimore.

Grandori, A. 2010. Asset commitment, constitutional governance and the nature of the firm. Journal of Institutional Economics 6,3:351-375.

Grandori, A., and Furlotti, M. 2012. Contracts as Organization: Designing Flexible Formalization. (unpublished). SSRN=2130866.

Grandori, A. Ten theses on the firm as a democratic institution. ISNIE Conference, 2013. (unpoublished).

Gama, Ruy. 1987. A Tecnologia e o Trabalho na História. Editora da Universidade de São Paulo- Edusp. 239 pp.

Greif, A. 1993. Contract Enforceability and Economic Institutions in Early Trade: The Magrhobi Traders Coalition. American Economic Review., 83,3, pp 525-548.

Lamoreaux, N,R., Laff, D.M.G., and Temin. P. 2002. Beyond Markets and Hierarchies: toward new synthesis of American business history. NBER working paper series – wp 9029.

Lamoreaux, N., Raff, D.M.G., Temin, P. Economic Theory and Business History. In Jones, G; Zeitlin, J. The Oxford Handbook of Business History. New York: Oxford University Press, 2007.

Langlois, R. N. 1992. Transaction-Cost Economics in Real Time. Industrial and Corporate Change 1(1): 99-127.

Lins, C. Jari: 70 anos de história. DATAFORMA Ed. Rio de Janeiro.

Macneil, 1978. Contracts: Adjustments of long term economic relations under classical, and neoclassical contract law. Northwestern University Law Review, 72, 854-906.

Marcovitch, J. Pioneiros e Empreendedores – A saga do desenvolvimento no Brasil. São Paulo. Editora da Universidade de São Paulo – EDUSP, 2003.

Masten, S.E.1998. Contract Choice. Encyclopedia of Law and Economics. Edited by Boukaert, B and Geest, D, de. Elgar.

Masten, S.E. and Saussier,S.2002. The Economics of Contracts: Theories and Applications. Edited by Eric Brousseau and Jean-Michel Glanchant. Cambridge University Press.

Monteiro, G.F. A.; Saes, M. S. M.; Caleman, S. M. Q.; and Zylbersztajn,D. 2012. The Role of Empirical Research in the Study of Complex Forms of Governance in Agroindustrial Systems. Revista de Sociologia e Economia Rural, *forthcoming*.

Nelson, R.R. and Winter, S.G. 1982. An Evolutionary Theory of Economic Change. Harvard College.

North, D.1999. Dealing with a non ergodic world: institutional economics, property rights, and the global environment. Duke Environmental Law & Economic Policy Forum. V. 10:1, fall.

Ostrom, E.1990. Governing the Commons: The Evolution of Institutions for Collective Action. New York,NY: Cambridge University Press.

Ostrom, E. 2010. Beyond Markets and States: Polycentric Governance of Complex Economic Systems. American Economic Review, 100, june , p. 1-33.

Penrose, E.T. The Theory of the Growth of the Firm. New York. Wiley, 1959.

Schumpeter, J. The Theory of Economic development. Harvard University Press. 1934.

Williamson, O.E.1996. The Mechanisms of Governance. Oxford University Press.

Williamnson, O.E. 2005. Business History and the Economics of Organization: the governance perspective.

Williamson, O.E, 1985. The Economic Institutions of capitalism: firms, markets and relational contracting. New York, Free Press.

Williamson, O.E. The Modern Corporation: origins, evolution, attributes. Journal of Economic Literature. 19-4. December.1981

Zeitlin, J. 2007. The Historical Alternatives Approaches. In: Jones,G; Zeitlin,J. The Oxford Handbook of Business History. New York: Oxford University Press.

Zylbersztajn, D; Sztajn, R. (Editors). Direito e Economia. Rio de Janeiro. Elsevier, 2005.