# The boundary between organizations and markets: different approaches within organzational economics

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Since Coase (1937) in the classic article "The Nature of the Firm" raised questions of why does a firm emerge at all in a market economy, and why some transactions are organized within a firm rather than being handled in the market, a number of theories and conceptions within organizational economics try to determine what the organization is and what distinguishes the organization from the market.

The definition of the boundary between the organization and the market (or the proof of its absence) is a conceptual thing that is one of the main research questions within organizational economics. Moreover, the definition of the terms "organization" and "market" and the definition of the boundary between them allows maintaining the research progress within institutional economics, in general, and within organizational economics, in particular.

Several points of view on markets and organizations and on the boundary between them have been developed within organizational economics. C. Menard (1995) argues that such important concepts as "institutions", "markets" and "organizations" have ambiguous meaning and it undermines the progress of research not only within organizational economics but within any research program that intended to deal with these conceptions widely. The author states that these three concepts are mixed between each other (for instance, the author offers different research when as organization it is understood firm, institution or institutional arrangement, variant of market activity; market sometimes is described as specific organizational form, as institution, as a type of governance structure). The author supports the point that both organizations and markets can be viewed as institutional arrangements and develops the definitions of each of these three categories – institutions, markets and organizations – through the term "institutional arrangement".

The term "market" C. Menard defines as an institutional arrangement consisting of rules and conventions that make possible a large number of voluntarily transfers of property rights regularly, these transfers enforced through a specific mechanism of regulation – the competitive price system. The "organization" is defined as an institutional arrangement that exists in order to make possible the conscious and deliberate coordination of activities within determined boundaries, in which members interact on a regular basis through a set of agreements and aimed on common purpose of creating or allocating resources and capabilities by cooperation.

Another point of view on organizations and markets has been presented by A.A Alchian and H. Demsetz (1972). The authors state that firms, households and markets are nongovernmental organizations and that any organization, no matter be it the market or the firm, exists for the allocation of rewards to resources in accord to their productivity. Further, the economic organization at the article is described as such a mechanism through which the owners of inputs cooperate in order to use better their comparative advantages for receiving gains according to the productivity of factors owned by them. The authors describe both markets and organizations as the types of cooperative production at the economy. The firm as organization is aimed on the gathering, collating and selling input information and is served as a highly specialized privately owned surrogate of market that compete with an ordinary market which is considered as a public or communal market.

H.H. Baligh (1986) offers to describe organizations and markets as the sets of people who are connected together by the logical orders of decision rule and transaction respectively. The nature of connections ("wires") between any two persons in a set, as the author states, determines whether the wired set is an organization, a market, an economy and so on. From this point of view the essence of market and organization is different. The author points out that the organization as a set of people can be determined by decision rules which are defined as the logical orders (the basis of an arrangement of people) that arrange people and consist of functions, relations, goals and so on. A market is defined in terms of the concept of the transaction. Two economic agents may be ordered by the transaction or the exchange of goods or services between them. A market contains transactions between person and person, person and organization, organization and organization. Organizations are arrangements of persons while markets are arrangements of organizations and persons.

The analysis of different points of view allows to state that a boundary between the organization and the market exists. First, it should be considered that the organization performs different from the market functions. The main function of the market is the realization of exchange while the organization is actually operates in order to maintain the exchange on the market. Further, the organization is able to make transactions between economic agents with fewer costs in comparison with costs of these transactions at the market. For instance, huge transnational corporations organize the internal markets of resources in order to reduce costs: it can be cheaper to trade between different departments of one organization than between two different organizations (if we mean the firm under the term "organization") or, even more generally, between two different nations (by the way, we can think about the nation as organization too).

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