The fisher-gm case study

Education

For Klein, much emphasis was placed on the presence of specific investments as an explanation of the hold-up between Fisher Body and GM such that the physical assets Fisher Body employed were highly specific for GM thus, making it costly for transactors to switch partners. However, a limitation to this account is thefailureto see its human-specific asset as equally, if not more, important to the Fisher-GMcase study.

In fact, Coase claims that such 'holdup never occurred' but rather, there was 'the desire to acquire and retain the specialised knowledge and services' (Freeland 2000: 40) of Fisher Body to prevent competitors, like Ford, from using Fisher's services. This is true when the demand for closed metal automobiles increased and since 'General Motors lacked both the knowledge and the facilities necessary for manufacturing closed bodies' (Freeland 2000: 40) there was fear that Ford, one of its major competitor, would have snatched the baton first.

So where Klein's explanation of the acquisition of Fisher Body by GM as a way of reducing transaction costs and overcoming the hold-up problem, Coase on the other hand believes that human asset specificity played a major role in the lead up of the acquisition of Fisher Body. Coase argues that it was crucial for GM to acquire the human assets of Fisher Body, namely the Brothers1, which is why they had entered into a contract at the start.

The contract contained 'powerful financial incentives designed to induce the Fishers to stay and manage body operations' (Freeland 2000: 43) which shows that GM had a far more interest in Fisher Body than just supplying its bodies. Thus, the objectives andmotivationfor GM to enter into a contract deal with Fisher Body was much more complex than simply reducing incentives of opportunistic behaviour.

On drawing up the contract between Fisher Body and GM, the Fisher Brother's 'requested an option to leave Fisher if they became unhappy with the agreement,' (Freeland 2000: 44) and on compromising, they agreed that the Brothers had to remain with Fisher Body for 5 years. Whilst they had entered into a ten years contract with a cost-plus deal, there was however the pressure for GM to devise a way of securing Fisher Body's human assets once the 5 years service obligation was coming to an end.

As a result, 'it was the threatened expiration of these provisions, not holdup, that was the primary source of contractual difficulty between GM and Fisher. ' (Freeland 2000: 44) Along with these limitations as stated by opposing economists such as Coase and Freeland, further dispute was made to the validation of a hold-up in the Fisher body-GM case study.

These include accounts of how Fisher Body's decision to move its plants away from GM was in fact not true (Freeland 2000), and it was also stated by Coase (2006: 265) that Fred Fisher, one of the Fisher brothers, became a director of GM in 1922 thus, making it inconvincible that Fisher Body adopted an inefficient production process. But what is important to note is not the number of arguments presented by either opposition, rather Transaction Cost Economics provides one of the many theories associating with industrial organisation.

The classical example of Fisher Body and GM is one that illustrates the potential and explanatory power of the Transaction Cost Economics framework. Whether or not such theory purely describe firm behaviours, 'TCE, with efficiency analysis at its core, has an important place in the multiparadigm world of organization theory, but to claim that it is the only paradigm would be foolhardy. ' (Todd, 1996: 95)