

# The Disaggregation of Corporations: Selective Intervention, High-powered Incentives, and Molecular Units

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Many authors have speculated about the impact of technological changes on organizational form. This article moves beyond these speculations by discussing the implications of technological change on the structure of transactions cost in a firm.

Jay Barney

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## Abstract

A vast array of organizational innovations and changes are transforming US corporations. Large firms have dramatically downsized, refocused, and vertically disaggregated. They increasingly obtain goods and services, pursue complex development efforts, and exploit horizontal synergies without the aid of formal hierarchy. Large firms are also internally disaggregating into smaller, more autonomous units that are treated much like external subcontractors. The authors argue that these organizational innovations share an important underlying commonality: economic activity is converging toward exchange involving either internal (within-firm) or external (between-firm) networks of small, autonomous production or service units. Small units and small firms have become the basic building block, the molecular units, of these new forms. Further, exchange among the small, autonomous units is commonly a mix of both market-like and hierarchical features. The authors develop a theoretical explanation for these trends. They argue that disaggregation is motivated by the powerful performance incentives that accompany small size. They further argue that disaggregation is facilitated by recent innovations in information technology, organizational design, and performance measurement that permit the selective intervention of market elements in hierarchy and hierarchical elements in markets.

The enhanced ability to intervene selectively necessitates a rethinking of traditional assumptions about the discreteness of governance choices. Innovations in organization, measurement, and technology shift decisions about optimal governance from simple market versus hierarchy choices to choices of an optimal mix of hierarchical and market elements. Consequently, managers and scholars must increasingly view organizations as complex webs of governance arrangements rather than as entities with definable boundaries.

*(New Organizational Forms; Vertical Integration; Incentives; Markets and Hierarchies; Organization Economics)*

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There is growing evidence of a fundamental shift in the forms that govern economic activity. Much has been written describing organizational innovations and experiments that have arisen in recent years. Virtual corporations, cluster organizations, regional networks, hybrid organizations, horizontal corporations, sham-rock organizations, and network organizations represent this paradigmatic shift (Daft and Lewin 1993, p. i) in organizational forms. Some of the forms will be discarded with other worn-out management fads. Others may represent nothing more than misguided experiments. Nevertheless, fundamental changes have dramatically altered the way production and services are organized in our economy: firm and unit sizes have decreased, more market-like exchange is taking place within firms, and hierarchical mechanisms increasingly assist in market transactions. The challenge for organizational scholars is both to document and to provide theories to explain these changes. Daft and Lewin note the need for explanation in their editorial essay, "Where Are the Theories for the 'New' Organizational Forms?" We concur with them that "research on organizations does not appear to be undergoing a parallel paradigm shift" and may be "in danger of becoming isolated and irrelevant to leading the emergence of new paradigms" (p. i).