

Transaction costs and the governance of social innovation.

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Transaction cost economics and the new institutional economics have produced a comparative static apparatus capable of predicting the equilibrium mode of governance for transactions depending on the frequency, uncertainty and asset specificity of the transaction.

There is substantial empirical support for the predictions of transaction cost economics. Innovation is by nature dynamic, but it is argued that each of the stages of innovation requires equilibrium to persist for long enough for the innovative process to reach the next stage. Transaction cost economics defines three generic forms of governance: market, hybrid and hierarchy. It is argued that each of these forms of governance is appropriate for one of the specific stages through which a social innovation must pass.

An implication of this argument is that applying the wrong governance to a stage in the innovation process leads to failure of the innovation to proceed. The paper applies this apparatus to some social innovations in South Australia.