ingly large number of high technology failures in American industry.

RICHARD A. FEY
Visiting Professor
Economics and Marketing
Babson College

Notes

[1] "New Products Management for the 1980's, Booz, Allen & Hamilton, Inc., reprinted in Philip Kotler and Keith Cox, *Marketing Management and Strategy*, Englewood Cliffs, NJ: Prentice-Hall, 1984, pp. 244—56.
[2] Ibid.
[3] Michael Porter, *Competitive Advantage*, New York, Free Press, 1985.
[4] Eric von Hippel, "Lead Users: A Source of Novel Product Concepts," *Management Science*, 32 (July, 1986), reprinted in Michael L. Tushman and William L. Moore, eds., *Readings in the Management of Innovation*, Harper & Row, 1988, pp. 352—66. See also Eric von Hippel, "Learning from Lead Users," in Robert D. Buzzell, ed., *Marketing in an Electronic Age*, Boston, Massachusetts: Harvard Business School Press, 1985, pp. 308—17.

P. Milgrom and J. Roberts, *Economics, Organization and Management*. New Jersey: Prentice Hall, 1992. ISBN 0-13-224650-3.

This major new text does not quite cover everything suggested by the title, but its broad scope does cut across traditional divisions to include some of the most interesting facets of industrial and labour economics. The main focus is on the internal organization of the firm from a systematic point of view based on modern economic theory, though carefully kept at a level accessible to undergraduates. On the way, the authors deal with a wide variety of topics such as allocation by price and allocation by other mechanisms, bounded rationality, adverse selection, moral hazard and incentive pay, risk sharing and insurance, property rights, executive compensation, corporate finance and governance, and the boundaries of the firm.

This book represents a considerable achievement. It is the first systematic textbook treatment of the economics of organization. Clear, rigorous but informal discussion of the main topics is enlivened by illustrative case studies and buttressed by simple, formal models. End-of-chapter exercises at various levels are also included. Few other texts provide such accessible introductions to so many related topics at the frontiers of current research.

The efficient functioning of the organizations in which most people spend most of their working lives is arguably of considerably greater importance for economic performance than the fine details of (external) market structure that still preoccupy industrial economists. The limited role of the external labour market and the corresponding importance of human resource development inside the firm in Japan is emphasized, as is the dominance of non-owner stakeholders — primarily employees — in the goals of the J-firm.

I was disappointed that the book lacks references to countries other than the US and Japan. The importance of works councils and board-level codetermination in protecting employee-stakeholders in European countries such as Germany and Sweden is scarcely mentioned at all. The explicit priority accorded to residual ownership claimants in both economic theory and business schools in the US and UK has not been accompanied by the superior economic performance and competitiveness claimed by theorists and official policy. Nor is it clear why Anglo-American managers can generally raise their salaries in spite of lagging performance while more modestly paid Japanese or German managers and even Japanese transplants in the West can attain superior performance and more cooperative labour relations with lower salaries.

Another omission is any account of the growth of small-firm employment and the "flexible-networking" or cooperative agreements between small firms with family or regional ties that represent an alternative to both hierarchy and market control. The prevalence of such relationships in parts of Italy, or with small subcontractors in Japan, is not easily explained by the neoclassical theory upon which Milgrom and Roberts rely almost exclusively.

The importance of fairness and equity in economic interactions has been developed recently by Frank (1988), Solow (1990) and others, drawing on extensive research by psychologists. Such considerations are likely to prove even more crucial for the understanding of internal organiza-

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tion, where repeated face-to-face interactions dominate. For example, the authors note that redistributive or "influence activities" (rent-seeking) can waste resources in organizations but pay little attention to the empirical evidence in Blinder (1990) for the success of participative management. Many studies show that participative management involving workers in job-related decision making, combined with group incentives and work teams, can reduce conflict and boost productivity when peer-group pressure replaces or complements individual economic incentives.

The challenge to the next generation of organizational economics will be to incorporate the insights from behaviorist sciences into tractable models and empirical specifications. In the meantime, students, researchers and, indeed, all who are working in or with organizations are indebted to Milgrom and Roberts, for presenting some of the most interesting, recent academic work that directly addresses many crucial, practical issues. I highly recommend this book.

FELIX FITZROY
St. Andrews University
St. Andrews, Scotland

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Solow, R., 1990, *The Labour Market as a Social Institution*, Blackwell.