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## A TRANSACTION COST ANALYSIS OF EXPERIENTIAL LEARNING

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### ABSTRACT

The paper briefly reviews Transaction Cost Analysis (Williamson 1975, 1981) and then discusses the insight which the theoretical framework has for the acceptance of experiential approaches by both instructors and students.

### INTRODUCTION

Williamson (1975, 1981) describes Transaction Cost Analysis as an interdisciplinary approach to the study of the mode of organization best suited to facilitate effective and efficient exchanges. It provides critical insight into the exchange by focusing on the transaction as the basis of analysis rather than the final product or commodity. It also provides a framework for analyzing the dimensions of the transaction. Education represents an important area of exchange, though significantly different from the other areas analyzed previously using the transaction cost perspective.

### THE DIMENSIONS OF THE TRANSACTION

Williamson (1981) states that the critical dimensions for describing and analyzing transactions are (1) information impactedness, (2) the frequency of the exchange, and (3) the degree to which durable, transaction-specific investments are required to realize least cost supply. Given space constraints, only the third dimension, which Williamson states is the most important one for describing transactions, will be discussed. This dimension is concerned with the question of how specialized investments are to a particular transaction. Items that are unspecialized among users pose few hazards, since buyers (students) in these circumstances can easily turn to alternative sources (instructors) and suppliers (instructors) can sell output intended for one buyer to other buyers without difficulty. Thus the lecture/test mode of teaching will minimize costs for both parties in most situations. The instructor can transfer the materials from semester to semester to unseen generations of students; students are not required to make time investments beyond reading, attending class and taking notes, and preparing for exams. The prevalence of the traditional mode of teaching despite technological and conceptual breakthroughs makes sense from a transaction cost approach; both parties have little reason to seek other alternatives. Given the need for the dissemination of general rather than specific knowledge in introductory courses, transaction cost analysis would even argue that pedagogies requiring greater levels of specific investment (cases, simulation games, experiential exercises, etc.) would not be appropriate. On the other hand, as the nature of courses becomes more specific in senior level and graduate elective courses, the student may well expect to make specific investments. Extension courses which are to have a firm-specific orientation require greater compensation to the instructor than those which can be taken on the road.

Asset specificity can arise in any of three ways: site specificity, physical asset specificity, and human asset specificity. The most insightful aspect of the specificity dimension from a pedagogical perspective is that of human asset specificity. Consider the textbook decision. One approach to minimizing costs on the part of the instructor is to fight for the retention of the text, which has been used forever. An alternative approach is to become "textbook independent" by relying on the text only to a limited degree and focusing on one's aging notes.

The use of experiential learning pedagogies requires the investment of specific human capital on the part of both instructors and students. Case preparation is time consuming for both parties, and case grading is one of the most mind-numbing experience faced by faculty. Unless the faculty is somewhat opportunistic and foists the grading off on a graduate student (or, even worse, does not provide feedback of any sort), the grading costs are hard to circumvent. On the other hand, the instructor can minimize case preparation time by reusing cases time and time again. Similarly, game switching and exercise switching are somewhat infrequent due to the high start-up costs involved.

When the student's perspective is considered, it is understandable that many students' initial reaction to the use of games, cases, or semester-long projects is negative. To the extent that the investments are of a content-specific rather than process-specific nature, the students may well be rational and not lazy. If they are required to invest in specific assets which are not easily translatable to the types of situations which they can expect to encounter in the next ten years, they will seek to minimize the investments as best as possible. To the extent that the process involved is generalizable (even though the content may not be), the specific investments may be justifiable. Those students who are not committed to a particular profession obviously should not be encouraged to become involved in courses requiring specificity. The first two years of college may be relatively uninteresting to most students, but the broad educational base acquired should increase one's ability to seek alternative suppliers (in this case, different majors). The rationale behind the broad-based MBA as opposed to a more specific MS program is also justifiable to those students who are not highly committed to one specific functional area.

### REFERENCES

- Williamson, Oliver E. (1975), *Markets and Hierarchies*, New York: Free Press.
- Williamson, Oliver E. (1981), "The Economics of Organization: The Transaction Cost Approach," *American Journal of Sociology*, 87 (November), 548-577.