Markets and Organizations as Common Pool Resources

by

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Abstract

The late Elinor Ostrom's work revealed design principles by which the 'tragedy of the commons' is often avoided with common pool resources such as fisheries and forests, enabling them to be managed in a sustainable manner. This paper takes her perspective further by examining how issues similar to common pool resource problem arise in markets and organizations: like fisheries, the resources represented by potential customer demand, potential supply by firms and the internal capabilities of organizations can be depleted by 'overfishing'. The Global Financial Crisis can readily be characterized in such terms. To understand how markets often function well despite the presence of the CPR problem, I consider restraints on greedy and unscrupulous behaviour by suppliers that could otherwise drive customers away in the long run, and how an excess of customers, over-demanding customers and the wrong kinds of customers can make it hard for suppliers to thrive in the long run and/or impose externalities on other customers. In searching for design principles that enhance the sustainability of markets and organizations, the paper integrates Ostrom's perspective with the ideas of Post-Marshallian and Post Keynesian economists such as P.W.S Andrews and G.B. Richardson, and behavioural and 'resource-based' views of firms. It also highlights the need for economists to recognize the significance, for orderly functioning of markets, of the moral sentiments that constraint the behaviour of market participants.

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1. Introduction

This paper offers a tribute to Elinor Ostrom by suggesting that her work (particularly Ostrom, 1990) on the design principles for the efficient use of common pool resources (henceforth CPRs) has wider significance for economics than has hitherto been recognized. Economists normally characterize CPRs by comparing and contrasting them with private goods, public goods and club goods on the basis of whether or not their consumption/extraction is rivalrous and/or excludable. CPRs are seen as comprising the category of goods whose consumption is rivalrous but non-excludable. This combination of characteristics implies that externalities may arise between users of CPRs due to crowding and that the resource may be consumed at a rate that is unsustainable. While the output extracted from a CPR may be exchanged in a market, access to the CPR itself can only become tradable if a party such as the State or a powerful individual or corporate entity takes control over access to it, turning it into a private good.

The core idea of this paper is that while CPRs do not get traded *in* markets because of their non-excludable nature, markets themselves can be viewed as akin to CPRs in cases where entry is not restricted by property rights such as patents. This perspective views a market as a resource consisting of a limited pool of customers that suppliers can seek to exploit. As with CPRs such as fisheries, forests or oil deposit, the returns suppliers obtain from exploiting a particular market are affected by the presence of rivals that are trying to do likewise. For example, consider the market for taxi services: the product is a private good but its market is essentially a CPR unless it is regulated via a licensing scheme, as entry is potentially open to anyone who has a passenger

vehicle. With unfettered entry, the taxi market could end up like a fishery that has failed to evolve the efficient design features that Ostrom identified, or it might evolve analogous means of ensuring that customers get a fair deal and cab drivers earn a living wage.

In viewing a market in this way, one is not seeing it in the manner suggested by Hodgson (1988, p. 174), that is, as a set of social institutions for facilitating frequent exchanges of a particular kind of good. Rather, the perspective is more in line with lay use of the term—as when an entrepreneur asks 'Is there a market for this product?' It is also consistent with the use of the term in marketing and with what Marshall (1920) wrote about the challenges new firms have in building up customer goodwill and his discussions of how it was possible for rival producers to 'spoil' their market by cutting prices.

From the standpoint of conventional price theory, the entrepreneur's question is one that we should answer by considering whether a 'given' demand curve for the product is positioned such that, given the average cost function for producing it, there is potential for making at least a normal rate of return. However, to address the entrepreneur's question that way is to take a static approach, whereas the view of a market as a CPR recognizes that the pool of potential customers can be grown or depleted depending on how it is, so to speak, 'fished'. From the 'market-as-CPR' standpoint, the social institutions central to Hodgson's view of markets evolve as means/resources to assist a market's long-term viability. Thus, in the case of taxi services, branded taxis and well-established cab stands/taxi ranks serve as institutional devices to give consumers the confidence to hire taxis and the ability to find them easily.

The paper proceeds as follows. Section 2 explores the impact of overfishing of a market by suppliers, and attempts to identify mechanisms that foster sustainable or growing pools of customers. However, the CPR view of a market can also be framed from the perspective of potential customers looking at the pool of potential suppliers as a resource to be used in competition with other customers. Sections 3, 4 and 5 therefore focus, respectively, on discovering design principles to deal with problems caused by the presence of too many customers, highly demanding customers, and negative externalities between customers. Section 6 offers a further extension of the CPR perspective, by considering organizations as facing issues similar to those that arise in the management of the kinds of CPRs that Ostrom studied. Finally, section 7 concludes, offering a summary of the design ingredients identified in earlier sections.

However, before moving to section 2, it is important to stress that the paper takes an unusual view many products and services that economists would normally classify as 'private goods' on the basis that their consumption is both rivalrous and excludable. Such classifications are typically made on the assumption the economy is fully-employed and supply-constrained, so that, people who want to consume more units of a 'private good' can only do so by bidding up its price and thereby inducing others to buy less of it, or firms to produce more of it after bidding for resources that would otherwise have been used to produce something else. This may indeed be the case in some contexts, but in many markets the arrival of more customers will be addressed either via the release of inventories or via a change in the rate of output, with no increase in prices. In these demand-constrained markets, prices are not market-clearing

instruments but are posted (for example, in catalogues) for substantial periods of time and suppliers choose normally to operate with a margin of spare capacity. These markets are the focus what may be termed, in the light of the work of Andrews (1949, 1964, 1993) and Lee (1998), the 'Post-Marshallian/Post Keynesian' (or 'P-M/PK') approach to pricing. Products and services offered with non-market-clearing prices are therefore referred to in the rest of paper as 'P-MPK goods'. They are like private goods insofar as an increase in their consumption entails more resources being used, but since these resources otherwise would not have been used, these goods are like club goods (such as partly-empty golf courses) in that their consumption is non-rivalrous. Note, however, that P-MPK goods are not inherently non-rivalrous but achieve this characteristic because of decisions made by their suppliers: this is significant in what follows.

2. Overfishing by suppliers

Consumers and agents of firms with a potential interest in buying the products of a group of rival suppliers, and with the wherewithal to do so, constitute an external resource for the suppliers. As with a CPR, access to this resource is rivalrous: suppliers are competing for a pool of revenue that is limited in the short run, and there is scope for using collective action, such as a cartel, to enhance joint earnings so long as existing players can find ways of excluding newcomers. Just like a fish stock, this resource can be grown—for example by providing excellent service and value for money such that word-of-mouth recommendations spread across social and business networks—or it can be depleted by attempting to extract net revenue in ways that make potential

customers look elsewhere and result in negative word-of-mouth reports. These issues are easily lost sight of in typical static equilibrium analysis but they are central to the P-MPK view of how markets work.

The typical 'given preferences' view of consumers diverts attention from the extent of discretion and path dependence in buyer behaviour. Many products are discretionary purchases, not necessary to satisfy basic needs: for example, a consumer may indeed have a 'given' contingent demand for plumbing services to stop water gushing from a broken pipe, whereas a 3D 'smart TV' is a purely discretionary purchase. If discretionary purchases involve considerable effort (in the case of search goods) or perceived risk of a poor transaction (in the case of experience goods and credence goods), consumers may avoid them altogether. With discretionary purchases of consumer durables, cuts in price can misfire as means of increasing sales: not merely may they spoil the market in the simple sense of provoking a price-war, they may also incense consumers by damaging residual values or lead consumers to postpone purchases on the expectation of. further price reductions.

By contrast, if suppliers give potential buyers grounds for believing that shopping can be a swift or at least pleasant experience (on the latter, see Scitovsky, 1985) and that risks are not significant, consumers may not merely make discretionary purchases (or have a basis for choosing among suppliers of necessary goods and services) but may also develop a taste for purchasing more of that class of product. The challenge for suppliers that are prepared to view their market as a resource to be cultivated is how to prevent their efforts in doing so from being spoilt by those that focus on short-term profiteering.

A set of empirically grounded principles for doing this is offered in P-MPK analysis. Firms are portrayed in this literature as wisely setting their prices by adding mark-ups to average variable costs at their target level of sales. Mark-up pricing is not merely used as a way of simplifying the process of setting prices in conditions of uncertainty (being based on the target level of sales rather than set with reference to a conjectured demand curve) but also as a means of cultivating customers in the long-run (by providing predictability and thus serving in a sense as market institutions) whilst deterring new entry to the market. Because of this, prices are set considerably lower than the prices that it would supposedly seem rational to set by finding the price/output combination at which marginal revenue (associated with an estimated current demand function) and marginal costs are equal. They are, instead, likely to be more like those predicted via the contestable markets view of competition proposed by Baumol, Panzar and Willig (1982) (however, see Davies and Lee, 1988, on the difference between the P-MPK analysis and the theory of contestable markets).

From the P-MPK standpoint, as in the theory of contestable markets, it is the possibility of entry by new suppliers (including cross-entry of established firms diversifying from serving other markets) that drives incumbent firms to moderate their demands on customers: by 'fishing' discretely and giving no impression to potential rivals that fat profits lie ready for the taking, they enjoy larger sales in the future. They also reduce the risk that the market will be spoilt by the entry of 'fly-by-night' suppliers whose presence would make it harder for consumers to buy with confidence regarding quality and would therefore result in fewer discretionary transactions being concluded. Adjusting output, not prices, as sales fluctuate ensures that firms are seen to be engaging in fair play

rather than trying to take advantage of customers in times of temporarily high demand. It thus helps generate customer goodwill (see Kahneman, Knetsch and Thaler, 1986). If this means that waiting lists build up when there is a spike in demand, these will need to be seen to be handled fairly, for example, via 'first come, first served' rules rather than on the basis of side-payments by those with more money who are not willing to spend time queuing. (In the case of tickets for concerts and sports events, the attempts to demonstrate the intent to avoid rationing scarce seating via price may be illusory to the extent that ticket 'scalpers' are covertly allocated seats at premium prices by the event promoters—on the working of these markets, see Happel and Jennings, 1989.)

Sometimes prices involving negative marginal revenue are set by cartels and the market does not appear to have the non-excludable characteristic of a CPR. Even so, cartel members may have to treat their customer base as a resource that must not be overfished in the short run. A case in point is the behaviour of OPEC in the 1970s, discussed by Wilson (1979). Here, the problem was that had OPEC used its short-run monopoly power even more aggressively than it actually did, it would have risked triggering a greater decline in world demand due to: (i) the limited capacity of some of its thinly populated member countries to spend their oil revenues on current output from the rest of the world; and (ii) the limited willingness or ability of other countries to borrow back the OPEC revenues in order to maintain demand in their economies. There was also the risk that even higher oil prices would have led to more intensive efforts to find ways of reducing oil consumption.

Firms that set prices based on expectations about 'what the traffic will bear', rather than on normal costs and fair profit margins, run the risk that

potential customers may cease participating in the market because they view the prices as an affront in terms of value for money—in other words, as an *ex ante* form of 'rip off'—and decide that they can get by without the product. In such a situation we may view consumers as if they attempt a rough assess the production costs and reject discretionary products if they believe suppliers are reaping unduly high profit margins. Such an approach to choice may make little sense in terms of traditional theoretical analysis of consumer behaviour in which the focus is on the demand for products, or their characteristics, *per se*, regardless of the price-cost margins of suppliers. Yet it may be a means for consumers to avoid suffering from feelings of powerlessness. Baulking at the asking price and walking away may also be a way of signalling to suppliers that in future the latter had better operate in a fairer manner if they want to stay in business: in other words, not buying today, despite the fact that one could afford to do so, is not 'cutting off one's nose to spite one's face' but an investment in getting better deals in the future, whereas seeming easy prey today will serve to encourage suppliers to continue trying to exploit their customers. There is clearly considerable scope for markets to be damaged due to potential customers misunderstanding why suppliers are posting prices at the particular levels. The lay consumer may fail to factor in the costs incurred by intermediaries (and costs of interaction between intermediaries and manufacturers simply to order products) or the extent to which margins incorporate allowances for after-sales support and honouring warranties.

Although economists often portray the risk of customers being 'ripped off' via poor value for money and poor service as being particularly high when supply comes from a monopolist or cartel, unfettered competition may also have

adverse effects on markets: as Etzioni (1988, p. 256) argues, competition that is not 'encapsulated' and instead involves 'all-out conflict' will be self-destructive. At one extreme, this may result in the winner being the only player left, but competition may also be disastrous in markets that are so easy to enter that the entry-deterring mechanisms that are central to the P-MPK analysis fail to work. In such situations, chronic excess capacity may be present: many enter, full of hope—often expecting that, by becoming their own boss, they can offer a better deal than their current employers—but few actually survive in the long run despite the low costs of entering. Though entry may be easy in terms of perceived technical capabilities and minimum efficient scale of production, it may nonetheless involve making a substantial personal commitment, such as mortgaging the family home. If entry is so easy that it turns out to be very hard to earn a normal rate of return, survival will depend on being able to cut corners in what ones does in order to get one's costs below market norms. The business ethics that McCloskey (2006) portrays as 'bourgeois virtues' may thus be set aside to prevent the family home from being lost to creditors. This may result in poor health and safety outcomes or, as with under-reconditioned used cars, costs for consumers in terms of breakdowns and repair bills. In overcrowded markets for credence goods, we may also expect customers to be fleeced by tacit over-servicing (as with visitors to a city being taken 'the long way round' by taxi drivers) or by being advised they need to pay for products and services that are actually of no demonstrable value (and then possibly not even actually supplied, if their delivery is, to all intents and purposes, impossible for the customer to verify).

If suppliers treat their customers merely as a pool to be fished for revenue by whatever means are available, they run the risk not merely of finding themselves having to compete with firms that offer better deals but also of being punished by consumers in ways that reduce their long-run ability to extract revenue. In Hirschman's (1970) terms, customers may not merely 'exit' but also apply the 'voice' mechanism. Long before the Internet and social media made it easy to voice one's dissatisfaction with a supplier via scathing reviews, tweets and blog posts, consumers were prepared to incur the costs of organize boycotts of firms whose products, prices or ethical conduct had offended them (see Friedman, 1999 for an excellent history and case studies). Another common form of punishment for perceived corporate greed is the disruption of shareholder meetings. However, these mechanisms for voicing discontent may fail to come into play in markets for goods that carry embarrassing connotations for those who confess to using them.

Action against overfishing of customers may also come from firms that are concerned about the long-term consequences of their industry getting a bad name. This typically involves the use of club-like arrangements on the supply side: voluntary codes of conduct may be set up and policed by industry-focused trade associations (cf. Hodgson, 1988; Richardson, 1972), with members being excluded (and therefore unable to use membership as a signal of their trustworthiness) if found to be in breach of these standards. However, as Szmigin and Rutherford (2012) emphasize, there is a major difference between doing this out of recognition of long-run strategic interest and acting on the basis of an ethical perspective based on a sense of justice, fairness and sympathy of the kind central to Smith's (1759 [1976]) theory of moral sentiments. Indeed,

without an ethical perspective, suppliers may fail to see what is in their long-run strategic interest.

Although McCloskey (2006) has made the case that capitalism's success in raising living standards was underpinned by many people operating businesses on the basis of these kinds of 'bourgeois virtues', the size of modern organizations and entitlements granted to those who run them pose barriers to organizations being run from the top with Smithian sympathy towards low-level workers and customers. Such managers operate in a privileged environment where those who lose their jobs receive huge severance packages and they are often insulated from being customers themselves—as with car company executives who never have to buy their firms' cars from their dealerships, or senior managers of public service providers whose own consumption of such services is supplied by the private sector. Corporate behaviour that is in sympathy with customer interest is more likely to be evident where corporate hierarchies are flatter, pay differentials smaller and where organizations exist in symbiotic relationships with other organizations (as in, say, Japan rather than in Western economies). Szmigin and Rutherford (2012), identify an even darker problem with modern capitalism, portraying the crisis that broke out in 2007–2008 as the result of slipping ethical standards rather than the economy running into any other kind of constraint. They see the strains that have emerged—such as concern over growing inequality and antipathy towards the financial sector and 'bankers bonuses'—as implying that firms may need to move towards more explicitly Smithian moral foundations for their activities. That is to say, if capitalism is to survive, managers and boards may need to be required to apply a Smithian 'impartial spectator test' regarding the morality of what they include in

their firms' charters and how they implement it, even if what passes this test conflicts with shareholder interests.

3. Too many customers

Unlike members of clubs, people who enter a market as a prospective buyer do not have to pay a membership fee or meet particular membership standards that are upheld by an individual or committee in control of entry. Thus while, say, a nightclub may specify a particular dress code and hire bouncers to keep out or evict clientele who are deemed undesirable, suppliers in a market typically operate with their doors open: anyone can be a buyer so long as they have the wherewithal to make their desired transaction. In this sense, markets operate, on the demand side, as CPRs: with uncontrolled entry: they may get crowded with customers, and/or issues may arise due to externalities between customers, possibly leading to falling values of the firms that have committed their resources as suppliers.

It is the risk of a surfeit of customers that makes it rational for firms to plan to have surplus capacity relative to their sales targets, as assumed in P-MPK models of pricing. Firms can thereby accommodate unexpectedly large numbers of new customers without disappointing their regular clientele. If the margin of slack is insufficient, excessive pressure on the firms' resources may result in lapses of quality that damage long-run sales. In cases where the problem is not industry-wide but rather is an outcome of the unpredictability of demand between rival firms, then the solution may inter-firm contracting for supply rather than risking spoiling the market via waiting lists or higher prices. Such contracting is possible where production involves limited use of firm-specific

assets even though designs of products differ between firms. A willingness of suppliers to cooperate by, as Richardson (1997, p. 7) puts it in the context of the publishing sector, 'taking in each other's washing' is particularly necessary in markets such as those for fashion garments and footwear, books and recorded music, where product lifecycles are short and have high peaks, with bandwagon effects being likely to falter if supply shortages affect rankings in 'best-seller' charts or the product's visibility as an item of consumption in social settings. Large producers can avoid the need to cooperate with rivals by offering diversified portfolios of products and investing in flexible manufacturing systems so that they can switich production from 'bombs' to 'hits' (see Kay, 1997); for smaller players, survival will be enhanced by being part of a Marshallian industrial district so that cooperation can be swiftly coordinated. The Italian fashion goods sector has thrived in the long term in precisely this way (see Jarillo and Stevenson, 1991).

4. Over-demanding customers

Waterson (2003) has drawn attention to the consumer protection issues that arise in markets where consumers are prone to take up 'default' options rather than shopping around and being willing to switch if they discover a better deal. In the long-run, a market that predominantly consists of lazy shoppers is unlikely to serve them well: entrants will have a hard time winning sales from incumbents despite offering better deals, and this will reduce the pressure on incumbents to devise better products and production processes. However, it is important also to consider what happens to the functioning of markets when prospective customers operate at the opposite extreme and place major

demands on suppliers regarding the value they get for their money or in the pre-purchase process of shopping around as they try to avoid wasting money under conditions of imperfect information. Such a consideration leads to the conclusion that it would be unwise to assume there is a monotonic relationship between the proportion of careful, demanding shoppers and the long-run wellbeing of the entire group of shoppers in a particular market.

In markets for P-MPK goods in which replacement stock can be obtained rapidly, list prices may be set by retailers (or recommended by manufacturers) on the basis of a standard mark-up on ex-factory costs. However, retailers might be willing to accept transaction prices barely in excess of the ex-factory cost of replacement stock if prospective customers make credible threats that they otherwise will buy elsewhere. Discounting could thus become widespread in markets mostly populated by customers who were willing to bargain aggressively and had no qualms about repeatedly walking away to other retailers until they believed they had found the best deal. Retailers would have trouble staying in business in the long run as each sale would make a tiny contribution towards covering fixed costs. The problem might then be passed back to manufacturers as retailers made credible pleas about the need for cheaper stock in order to be able continue serving as intermediaries. The trouble is, in the demand-constrained situation of a P-MPK market, these attempts to restore dealer margins without lowering manufacturers' recommended prices could fail if consumers continued to be prepared to shop aggressively: transaction prices could fall even further, with the result that retailers and manufacturers alike had trouble generating normal profits and investing in the future of their businesses.

This implies that if a market is to thrive in the long run, customers need to moderate their demands and take a realistic view of what constitutes a just price for what they are buying. They should not presume that their mission should always be to obtain a price around the cost of replacing stock, or, worse still (as happens with illegal downloading of music and video content), that if they can get away without paying at all, then they should do so without regard for the impact of their behaviour on the wellbeing of the originator of the product. Consumers who behave in such a greedy manner are failing to 'put themselves in the shoes' of the suppliers and are thus failing to display the kind of sympathy that Adam Smith (1759 [1976]) saw as an innate driver of much of human behaviour. If a market is to survive in the long run as a resource that people can use, prospective purchasers need to recognize that their behaviour, like that of the suppliers, has a moral dimension and that what is appropriate is what Etzioni (1988) calls 'restrained optimization', not utility maximization subject merely to the constrains of time and money.

So long as morality or the threat from potential competition keeps incumbent firms from pursuing excessive profit margins, society at large may benefit if the bulk of consumers employ simple satisficing decision rules. Such rules may involve willingness to accept posted prices or presume that in markets where bargaining seems part of the ritual of concluding a transaction (such as when buying a new car or major electrical appliances) the 'best price' that will eventually be quoted will involve some conventional kind of discount. (Such a discount may be seen as part of a price-discrimination strategy whereby the supplier segments the population into those who are prepared to be assertive and engage in the bargaining ritual—as in, 'Anything off for cash?'—and the

more passive customers who baulk at this hurdle.) In the long run, tacit collusion by suppliers to maintain normal profit margins can have beneficial outcomes for both sides of markets dominated by over-assertive customers who have unreasonable views of what constitutes fair prices given the long-term needs of business. (Richardson, 1969, reaches a similar conclusion, regarding the consequences of collusive tendering, in the context of the heavy electrical equipment industry at a time of excess capacity.)

The consequences of customers operating without any sense of justice and with a purely selfish, myopic, 'no holds barred' view of how to behave when shopping were well appreciated by Andrews (1964; 1993, pp. 294–7) in his updated version of Marshall's (1920) analysis of how markets work. Significant here is his prescient analysis of the unsustainable nature of the discount warehousing phenomena that was emerging in the early 1960s. He saw such firms as thriving because their customers had little compunction about taking advantage of the full-service retailers that offered pre-sales advice and product demonstrations, followed by after-sales support and servicing. The latter would be doomed if consumers exploited their knowledge but then bought products from discounters that offered minimal service. By implication, this was a case of Arrow's (1962 [1971]) information paradox: once consumers had extracted the information necessary to work out which product to buy, they would not be about to pay for it via a premium price for that product at the supplier who had given them the information. And when the full-service retailers had exited the market, these consumers would in future have to get information from consumer magazines, which in turn could prove unviable (along with magazine vendors) if

these consumers were prepared to scan the magazines for the information they required and then put them back in the vendors' display racks.

Ultimately, the efficient function of markets in which customers need access to information and knowledge in order to make successful transactions depends on enough consumers operating with a sense of fairness and giving business to those who provide them with information and the benefits of their knowledge. In the modern world of the Internet and low-cost phone calls, this information and support in increasingly provided by the manufacturers themselves via their websites and call centres. Consumers thus end up paying for these services within the prices of the product (and in time-costs whilst in call centre queues), but morally motivated consumers can still enhance the functioning of these markets by putting something back in from their own experiences. When they do so, by posting reviews of products or tips for how to use them to achieve particular results, they are contributing to the 'knowledge commons' in much the same, altruistic manner of those who voluntarily provide intellectual or financial inputs to Wikipedia.

Game theorists might dispute the arguments just raised, on the basis that this is a setting for repeated games: shoppers have their reputations to consider and retailers will have memories. Those who chew up the time of retailers but never actually buy anything should thus expect sooner or later to start finding it hard to get attention from sales personnel. This argument may well apply where stores supply a wide range of products that the consumer needs to purchase in rapid succession. It will have less weight where shopping involves visits to large stores that have many personnel, and where there are long gaps between visits

to particular stores: in these contexts, the probability of being attended to by the same person is much reduced.

The issue of the time taken up in interactions between shoppers and prospective supplier reinforces the suggestion that markets will function better if only a limited proportion of customers actively seek out the best available terms for their transactions. Consumers on average will be better off if most of them obtain information through social networks (an aspect of what Earl and Potts, 2004, call 'the market for preferences') rather than by shopping around and/or are able to presume that the pressure of competition is sufficient to limit greatly the variance in the distribution of offers they would find if they actually took the trouble to search widely. (The smaller variance there is in price quotations, the smaller the sample of quotations they will need to get in order to have a good chance of avoiding an expensive error.)

To the extent that consumers can avoid shopping around they also reduce firms' costs, making it possible for firms to offer better deals. A market full of aggressive shoppers who are not participating in social networks will be one in which firms have to invest extensively in providing quotations to consumers with low returns to the investments they make. Aggressive shopping by customers may thus limit the number of suppliers in a market in the long run. The design challenge is how to reduce supply prices by cutting marketing/transaction costs without the reduction in the resources devoted to making transactions merely resulting in firms making fatter profits.

The solution is an extension of what is known in the Post-Marshallian literature as 'the Ward-Perkins point' regarding why incumbent producers will take seriously the risk of new entry if they are greedy in their pricing: Andrews

(1964) credited his student Neville Ward-Perkins as the source of the argument that a market could operate as a powerfully competitive environment even with only a small percentage of careful shoppers. The crucial requirement is not that most customers are value seekers, merely enough of them to make it possible for an entrant to contest the market without incurring major sunk costs in marketing: such customers, and those to whom they spread the word, will provide a potential revenue foothold for any firm that thinks it can offer a better deal than currently available. The more that the careful shoppers are socially well-networked and serve as market institutions to their network members, the fewer of them there needs to be for a market to function efficiently and the smaller the volume of resources that need to be consumed in making fruitless quotation.

When buyers can safely assume that enough quotation-seeking behaviour is going on to ensure that firms with whom they have previously dealt will offer a fair deal, sticking with those suppliers may bring benefits beyond the time saved in seeking quotations. These benefits depend on their past transactions being stored in their suppliers' memories but without the kinds of connotations entailed in the remarks earlier about how repeated games provide incentives to cultivate one's reputation. They include the following:

1. Once a customer has demonstrated a willingness to engage in repeat business, the supplier has an incentive to maintain the goodwill relationship by giving that customer priority attention even if capacity is at a premium despite attempts to ensure a margin of slack (as with emergency needs for medical or dental care, or for household and automotive repairs).

2. Regular customers of suppliers of credence goods should have less reason to fear they will be provided with inappropriate levels of service through time. This is well illustrated with the example of automobile servicing raised by Darby and Karni (1973): if the pressure on the supplier is such that non-essential maintenance services are not fully carried out, the supplier, having noted this, can make up the shortfall on the next interaction. Customers who switch around among suppliers risk ending up being underserviced due to suppliers not being aware of shortcuts that their rivals have taken. Centralized service records for work performed by agents of a particular supplier provide another way of ensuring that in the long run customers receive the appropriate services. In the case of medical records, centralization may also protect customers by preventing them from overfishing the market, as with cases in which patients obtain multiple prescriptions, from different medical practices, for drugs to which they have become addicted.
3. If customers stick with a particular supplier, the supplier becomes better able to anticipate their wants and needs (much as Google Chrome or Amazon.com are able to do for regular clients) via a knowledge of what they have previously purchased or sought from them.

5. Unwanted customers and their exclusion

If ability to pay, rather than restrictions such as 'no riff-raff here', rules the roost, suppliers run the risk that in some cases their products may be purchased by the wrong kinds of customers who reduce the product's value to potentially more durable and profitable customers and hence reduce sales in the long term.

Where products are publicly consumed, it is possible that a very small proportion of the wrong kind of customer, or even a single individual of significance, may spoil a market in this way. This applies especially if their public consumption receives wide media coverage and becomes common knowledge. For example, the Burberry clothing firm had to battle to keep its traditional market of affluent buyers after its distinctive checked caps and scarves became part of the uniform of choice of many of the UK's 'chavs' ('council houses and violent' by background) (*Economist*, 2011), while there was a slump in sales of denim jeans in the UK from 1997 to 2001 credited to the so-called 'Jeremy Clarkson Effect' (Borg, 2001) whereby their association with a high-profile middle-aged TV presenter resulted in them being no longer seen as hip. (Similar in origin to the Jeremy Clarkson Effect are the problems that beset Saab and Jaguar in widening the market for their cars so long as their main buyers were seen to be mainly liberal intellectuals or managers close to retirement, rather than high-flying professionals in their forties.)

In some cases, externalities between customers may prove beneficial in the short-run but the wrong kinds of customers can deplete supply in the long run: suppliers of recorded music would prefer not to sell to those who later make their products freely available via file-sharing services. In other cases, negative externalities extend well beyond matters of image central to the problems that beset Burberry and manufacturers of denim jeans. For example, online dating services might be able to generate far better network externalities via satisfied users if only they could find ways of keeping time-wasters, liars, weirdoes and sleazy subscribers away from their membership lists. Barriers to

doing so leave other prospective customers with a classic 'lemons' problem of the kind identified by Akerlof (1970).

With cars favoured by footballers, pop-stars and drug dealers, and with neighbouring real estate owned by those who 'lower the tone of the neighbourhood', there can be damage to resale values, due to the high-profile customers tending to treat these durable assets as disposable and being less careful about maintenance. With educational services, students who fail to meet the providers' behavioural standards and/or demand to be 'spoon-fed' can be very time-consuming, making it harder to attend properly to the lower per-capita demands of the majority of students. With products consumed away from home, the nouveaux-riches/'riff-raff' consumers may disrupt traditional consumers' peace and challenge their world-views. Where interlopers can match the old order in market for what Hirsch (1977) called 'positional goods', such as holiday homes at a particular destination, attempts to keep the newcomers out by paying more when property rights come up for sale may be fruitless; without a club arrangement in place, the arrival of new customers may spoil the market for the traditional consumer.

Demand-side behaviour that spoils a market for other buyers sometimes arises due to ignorance of the conventions under which the market has operated, whether regarding prices customarily paid, other aspects of offers typically made by buyers, or the way that buyers uses what is purchased. For example, newly-arrived European expatriates in Asia may drive up the price of maids by unwittingly being far more generous than local residents in the offers that they make (see Brygo, 2011): if word gets around about what some employers are paying, expectations will be raised generally among prospective employees and

they will bargain more aggressively. It would not be surprising to discover that the introduction of research audits that focus on publications in highly-ranked journals has resulted in academic labour markets being similarly spoiled by the breakdown of conventions among universities on the kinds of offers that would be made to new staff in the scramble to hire those who could offer the right kind of publications profile.

Firms use strategies such as the following when they are aware of the possibility that costly customers could undermine their markets:

- Make the supply of the product subject to a set of restrictions about what can be done with it and/or devise other means of limiting the areas over which buyers have discretion. For example, a property developer can use covenants at the time of sale to ensure that a townhouse complex operates with, in effect, its own system of byelaws, enforced by an on-site custodian, while the scope for neglecting gardens and general upkeep can be limited by a design that minimizes private garden space and via a body-corporate levy.
- Ensure that sales personnel do not give attention to inappropriate-looking shoppers, in the hope that they may tire of waiting and walk away.
- Advise potentially costly customers that the firm is fully booked and cannot serve them today, or that there is a long waiting list. (Note here that this is the direct opposite of the strategic reason for firms in P-MPK markets to operate with spare capacity.) If many suppliers in the market follow this strategy, the transaction costs incurred by the unwanted customers may become so high as to deter them from bothering to keep looking for an establishment that will risk spoiling the market by admitting them.

- Segment the provision of the product/service into differentiated sub-products to keep different customer groups apart. An example of this would be where a hotel divides its bar operations into distinctive rooms and is thus able to keep rowdy heavy drinkers and gamblers from alienating those who there to enjoy a meal whilst participating in a 'pub-trivia' contest.
- Bundle products together so that the entry price of being a customer is raised without increasing the overall cost of being a committed customers: the 'chavs' would not have been so readily able to encroach on Burberry's market if they had been asked to buy complete Burberry outfits rather than merely the more peripheral Burberry items.
- Cultivate markets globally rather than locally to reduce the risk of having overall sales damaged by dealing with costly customers in any individual market.

These strategies amount both to turning on its head, in a selective manner, the normal principles for making markets work well via institutional means, and to the careful management of systems of connections (cf. Potts, 2000; Loasby, 2001; Earl and Wakeley, 2010). Being selective in dealing with potential customers requires suppliers to develop reliable rating systems for identifying those whom they would be wise to avoid, much as real estate leasing agencies and providers of credit normally do. More broadly, long-run cultivation of markets may be said to require skills not merely in marketing but also what Kotler and Levy (1971) introduced to academic marketers as 'de-marketing'.

6. Spoiling organizations and internal labour markets

Following the Post-Marshallian work of Penrose (1959) and Richardson (1972), there has emerged a major literature on the 'resource-based view of the firm' (for an anthology of the key contributions, see Foss, ed., 1997). This literature has focused primarily on how the distinctive set of resources that make up a firm has implications for the activities in which the firm should engage and the relationships that it may be wise to develop with other firms that are based around different sets of resources. In keeping with the message of the previous sections, emphasis has been on the value of inter-firm relationships over the long run and the need to avoid jeopardizing this via short-run opportunistic ploys of the kind emphasized in the work of Oliver Williamson (1985), Ostrom's co-recipient of the 2009 Nobel award (see further, Earl and Potts, 2011). But this literature also has an internal, organizational strand that focuses on the need for managers to maintain and develop their firms' resources and capabilities in the long run. A CPR perspective on organizations leads one to recognize that workers may face demands from multiple sources (especially in the case of workers with front-line service roles) and that if managers relentlessly apply a heavy-handed approach it may deplete a firm's resource base in the long run.

Such an approach could include signalling to workers that, 'If you don't perform and accept the pay and conditions, there are thousands of others with whom we might replace you'; this has been one of the messages in the modern world of globalization, but it neglects the uniqueness of many workers' capabilities, including their experience-based capacities to coordinate efficiently with other team members. Thus although some pressure may be needed to induce effort, a key challenge for managers is how to avoid inducing burn-out

with its attendant costs of sick-leave and of hiring and inducting replacement staff. Achieving this may actually require managers, in some degree, to focus on protecting their subordinates from the growing demands of other organizational stakeholders if their own bosses are failing to do so. For example, a head of department within a university may need to find ways of ensuring that academic staff are not swamped by (or do not give in to) growing demands from student 'customers' in order to allow them enough space to try to meet research targets. Sometimes, it may be necessary to extract a burst of additional effort via displays of leadership but success in doing this may not be something that should be taken as implying that such efforts are sustainable: following Leibenstein (1966), slack is typically viewed as a sign of *X*-inefficiency but, once taken up, it may need to be granted again if the organization is to thrive in the long run. If returns to being a member of an organization are ground down to transfer-fee levels, the organization will lose its resilience, as emphasized by Cyert and March (1963): if pleas to 'Give me a break!' have been ignored, 'That's it, I quit!' may be the response to the next set of high-pressure demands.

However, as Cyert and March also emphasized, organizational slack comes into existence because members of an organizational coalition do not know how far they can push their demands without causing other members to exit. If some members of an organizational coalition lack assertiveness, others may plunder the organization's resources in the pursuit of their sub-goals. Strong organizational cultures of rules for 'how we do things around here' may thus have a major role to play in ensuring that organizational resources are not depleted, for such cultures can help in generating trust, reasonable expectations

and social pressures against those who are taking much more than they are contributing.

Implied in all this is the potential for workers to impose externalities on their colleagues where they have to compete for promotion by displaying their industriousness and efficacy at performing their jobs. If workers conform to previously established performance norms, the employer will be unable to use relative performance as a promotion criterion and is likely to be driven instead to offer promotion on the basis of the length of time a worker has spent with the organization. This provides an incentive for workers to be loyal and spare the organization from the costs of finding and training replacements. (When the organization runs into challenging external conditions, 'last in, first out' principles may be employed to reduce the size of the workforce, rather than there being any attempt to cut pay by offering new contracts: wage stickiness comes from the demand side of labour markets when employers are concerned to maintain the goodwill of their workforces.)

All this may be upset by the behaviour of the kind of worker normally known in English as a 'rate-buster' but known satirically, and more tellingly for our purposes, as a 'spoil market' in the version of English spoke in Singapore. In 'Singlish' a 'spoil market' is someone 'who does his work so well, he makes his colleagues look bad' (*The Coxford Singlish Dictionary*, online via http://www.talkingcock.com/). Colleagues who wish to maintain a more leisurely pace of work can punish rate-busters by ostracizing them until the latter learn that it pays to moderate their performance, as in the classic study of workers at the Hawhotrne plant of the Western electrical company by Roethlisberger and Dickson (1939). (In Australasia, the common tendency for

the ordinary workers to try to cut down the high achievers is known as the 'tall poppy syndrome'.)

Finally, it should be noted that, at organizational entry ports, established standards may be upset when applications are received from workers who are abnormally well-qualified for the job in question but have been unable to win employment in a higher-tier position: if they are offered, and accept, positions at standard rates, this may be the start of the process of credential inflation that Dore (1976) labelled as 'the diploma disease'.

7. Conclusion

In this paper I have sought to pay tribute to Elinor Ostrom by sharing something that I discovered from thinking about her path-breaking work on how common pool resources such as fisheries and forests may avoid the 'Tragedy of the Commons'. Reflection on her findings led to the realization that we may get a better understanding of how markets and organizations work, and how they may be made to work more efficiently, if we adopt the strategy of viewing them 'as if' they are common pool resources. That this connection has not previously been made is doubtless due to static mainstream market-clearing views of supply and demand acting as a set of blinkers. By contrast, the dynamic, non-market-clearing perspective of Post-Marshallian/Post Keynesian price theory is highly conducive to seeing markets in this way since it is founded on the idea that firms typically are seeking to cultivate their customer bases rather than operating as if they face 'given' demand functions. In setting out a perspective based on the latter approach, I sought to illustrate it mostly with reference to examples from the ordinary business of everyday life. However, the Global Financial Crisis that

began in 2007 could justifiable be relabelled as an unfolding 'tragedy of the markets': it demonstrates what happens when institutional restraints on behaviour are rolled back and participants in financial markets and financial services firms start treating these institutions as CPRs to be plundered to satisfy their own ends. As Barack Obama said, in his famous Cooper Union address on 27 March 2008, 'Our free market was never meant to be a free license to take whatever you can get, however you can get it'.

Scholars from business school disciplines other than economics are unlikely to be disconcerted by the suggestion that markets and organizations should be viewed as if they are CPRs that need to be managed with care if they are to thrive in the long run: accountants are used to considering the value of goodwill, while strategic management scholars focus on the challenges of sustaining firms in the long-run, and those in marketing likewise view markets as resources to be developed, if necessary via attempts to put Kotler and Levy's notion of de-marketing into practice (see Lawther, Hastings and Lowry, 1997). Moreover, while conservative economists have been preaching market deregulation, business schools have increasingly turned towards business ethics and social marketing. Hence if economists wish to search for design principles for markets, analogous to those that Ostrom uncovered for CPRs, they might be wise to look at the principles emerging in these fields, such as the Impartial Spectator Test advocated by Szmigin and Rutherford (2012) via Adam Smith's theory of moral sentiments.

In addition to the role of morally-based conduct on both the supply and demand sides of markets and by both bosses and workers in organizations, the

principles that contribute to the dynamic efficiency of markets and organizations seem to be as follows:

- Market entry should not be unduly easy. As Richardson (1960) realized, markets that are open to all are likely to function rather badly; for investment to seem worthwhile, there must be the prospect of getting an acceptable return on the resources being put at risk.
- Collaborative and club-like relationships between firms should not necessarily be viewed with suspicion, for they are often a means of coordinating the delivery of consistent or improving value for money.
- Non-market-clearing prices and a certain amount of spare capacity or slack are means of sustaining the value of market and organizational resources in the long run; they should not to be seen necessarily as signs of inertia and waste.
- If shoppers are well-networked and good-natured enough to share market intelligence with each other, then markets will work better if only a small minority vigorously try to find where the best deals are to be had.
- Customer loyalty helps suppliers offer better deals in the long run, but to get such results, customers need to make it clear they are prepared to consider switching to alternative suppliers if the value for money being offered slips in relative terms.
- Social media and websites can play a vital role in making it easier for bad business practices to be exposed and punished, and for suppliers to glean 'voice' signals about how they could be doing a better job of serving their customers. But this mechanism relies crucially on voluntary inputs and will

fail if everyone free-rides or is too embarrassed to share bad market experiences..

These principles have been derived mainly via the work of Post-Marshallian economists such as Andrews, Penrose and Richardson that, likes Ostrom's work on CPRs, takes an institutional/evolutionary view and is empirically grounded.

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