CHAPTER 8

SCIENCE, SPECIFIC KNOWLEDGE AND TOTAL QUALITY MANAGEMENT

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1. Introduction

In this we analyze Total Quality Management (TQM) programs from an economic and organizational perspective. The core of TQM’s ability to create value lies in its power to bring about an efficient creation and utilization of valuable specific knowledge at all levels of the organization. By specific knowledge we mean knowledge valuable to decision-making that is costly to transfer among agents (see Jensen and Meckling (1992) for a general analysis of the role of specific knowledge in decision making). TQM improves the creation of specific knowledge through the application of science and wide-spread teamwork. In addition, TQM establishes a process for reallocating decision rights that collocates them with the relevant specific knowledge. This results in a more effective utilization of specific knowledge in decision making, thereby increasing efficiency. The TQM process temporarily transfers decision rights from their location in the hierarchy to problem-solving teams, and often permanently reassigns them based on the outcome of the problem-solving process.

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