The "Unified Basis" as a Starting Point for Business Economic Analysis
Remarks on some core issues in the theory of the firm on the occasion of the centenary of the birth of Erich Gutenberg

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Overview

- Erich Gutenberg took the firm’s productivity relation as the "unified basis" from which he developed a self-contained, integrated theory of the firm. The transaction, the exchange of goods and services between economic agents, which is viewed in microeconomic theory as the "most fundamental unit of analysis" contrasts with Gutenberg’s theory. This paper compares the two conceptions with special reference to their depiction of the firm as an organization.

- The basic assumptions lead to conceptions of the firm as a value-creating system on the one hand, and nexus of contracts on the other. In several areas the two conceptions are complementary. However, they differ radically in that the business economist cannot dispense with the assumption of a "disposition factor" – and this already begins in explaining the firm’s existence.

- There are also significant differences in respect of the notion of a firm as an organization. In the case of a value-creating system, structure and behavior are analyzed and designed pre-eminently from the perspective of effectiveness. However, the view of the firm as a nexus of contracts concentrates on the efficient coordination of goods and services offered to, and by, that firm. Whilst the limits of the firm dominate the question of structure, the importance of trust for the management tasks seems to be an underestimated behavioral assumption.

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1 Introduction

Developing a theory of the firm from a single “unified basis” was the vision of Erich Gutenberg. He felt this as the challenge of his time noting that business economics had often encountered the objection, “that its subject-matter lacks the self-contained unified character of a great scientific conception”, (Gutenberg [1967], p. 22f.). The foundation on which such a unification could be built was, in his view, the productivity relation determined within the firm: “The basic idea on which my conception of the firm is constructed ... is the conceptual interpretation of the production process as a combining process ... I believed that only in this way it would be possible, starting from a unified fundamental idea, to attain that systematic self-contained character and logic for my researches which I had in my mind as my final goal”, (Gutenberg [1953], p. 334). Consequently, his three-volume “Foundations of business economics” (“Grundlagen der Betriebswirtschaftslehre”) start with an analysis of production (volume 1). Using this foundation, he next deals with the sale of end-products (volume 2) and then with the financing of the liquidity gap between sales revenues and payments for factor inputs (volume 3). In this way he therefore realized his vision in a logically comprehensive manner.

Subsequently many proposals for placing other aspects at the center have been made. For instance, in Germany “marketing” replaced Gutenberg’s “sales”, and emerged with the pretension of being the genesis of all considerations and action within the firm. Later it was contended that investment (and financing) constituted the central entrepreneurial activity and that the firm should be viewed as a cash flow system. Finally it was argued that, with the progressive differentiation of the subject-matter, the more aesthetic ideal of a unified theory based on a single fundamental conception should be abandoned for pragmatic reasons.

Nevertheless, the question of a unified basic concept continues to haunt the discipline. Decades after Gutenberg’s discourse on the “unified basis”, and doubtless quite independently of him, an almost identical formulation, which can be traced back to Commons [1934], is thrown into the debate. Milgrom and Roberts refer to a “most fundamental unit of analysis”, ([1992], p. 21). However, this time it is a matter of a unified basis of analysis for microeconomic theory in its entirety in a sense which would obviously comprise business economic theory of the German type, were Milgrom and Roberts acquainted with it. As the fundamental unit of analysis the authors adopt the transaction, the exchange of goods and services between two individuals acting as economic agents. But, in Gutenberg’s concept, reference to a fundamental unit is justified by viewing the productivity relation as the real essence of the firm’s existence and from which all other functions derive. In contrast, the Milgrom / Roberts concept emphasizes a more methodological perspective. Since all activities, which deal with goods and services as well as with financial matters, reduce to exchange relations, transactions, as tools which are independent of their contents, are seen to be fundamental.