

The third way: strategic recombination as a means of improving efficiency[☆]

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Abstract

So far, the literature on efficiency has mostly been a measurement literature, focusing on accurately measuring the efficiency of DMUs, on explaining efficiency differences, and on the impact of efficiency on other economic phenomena of interest.

As a research community, we have been, at best, moderately successful in exploring each of these issues. Although we have our share of the large number of publications in the economics field, whether that share is fair and comes with enough impact seems to be a frequent matter of debate. The fact that this debate appears to be exclusively taking place within the 'efficiency community' may give us a glimpse at the broader impact we have had on the economics field. In short, if we stopped producing papers, would other economists miss us? Would they care?

In part, the answers to these questions can be found by us, in answering another question, for ourselves and others: why should we care about efficiency? After all, even if inefficiency is substantial, if it is time invariant, elusive and/or 'exogenous', it becomes irrelevant. At least to that outside world.

What does that outside world expect from us? One thing it expects is for us to help us answer the question how a DMU can become efficient.

Let us start then, by discussing what the latter question is not about. First, it is typically not about explaining efficiency differences. After all, finding for example that domestic banks are more (or less) efficient than their foreign counterparts does not tell us how the latter (or former) can become more efficient. Turning a domestic bank into a foreign bank might require, quite literally, a revolution. Second, it is typically also not about modeling the 'average' dynamics of efficiency. After all, in the presence of resource scarcity, the notion that all DMUs should be able to continue improving their efficiency at the same, average pace is not going to win over skeptics. That is not to say both issues raised just now are not of interest. However, they may be of limited use when attempting to answer the question: how do DMUs become more efficient?

The purpose of this paper is to give a glimpse of what may be a fruitful way of going about answering that question. The argumentation I put forward here comes with some disclaimers. I do not pretend to provide the full answer, nor do I claim that what I present here is a finished product. Also, I acknowledge that since most efforts in writing this paper have gone into developing something that - at least to the author - is new, this may have very well have come at the cost of ignoring other, similar efforts. Therefore, I welcome and invite comments on this paper, and explicitly aim to provide a more thoughtful embedding of what is presented here as soon as possible.

For now, I proceed as follows. In the next section, I tell the story behind this paper, so that the reader who disagrees with or - as a result of flaws in my exposition - fails to grasp what follows, at least can understand (and hopefully sympathizes) why I got here. Subsequently, I provide a verbal version of the main idea behind the paper, told from the point of view of a 'DMU' who wants to become more efficient and aims to find out how she can accomplish this goal. In the next section, I recount this story, but this time more formally, by means of a simple model that DMU may use.

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