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This Week's Citation Classic

Cyert R M & March J G. *A behavioral theory of the firm*. Englewood Cliffs, NJ: Prentice-Hall, 1963.332 p.
[Graduate School of Industrial Administration, Carnegie Institute of Technology, Pittsburgh, PA]

A Behavioral Theory of the Firm attempts to integrate the theory of the firm and organization theory. It relates internal factors such as organizational structure and decision-making processes to economic actions such as pricing. The theory also emphasizes such factors as organizational learning and organizational slack to the economic decisions of the firm. [The *Science Citation Index® (SCI®)* and the *Social Sciences Citation Index™ (SSCI™)* indicate that this book has been cited over 770 times since 1963.]

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"The work on *A Behavioral Theory of the Firm* began in 1952, although at that time we did not know that the product would be *A Behavioral Theory of the Firm.* I had been at Carnegie since 1948, and James March had just arrived. I was an economist, and he, a political scientist. My interest was in oligopoly theory and his, in organization theory. I had been concerned that economic theory concentrated on variables out-side the firm in developing solutions to the oligopoly problem. Assumptions were made about the way in which one firm would react to another firm's actions, particularly with respect to price changes. In discussing this problem, Jim and I came to the conclusion that it would be fun to explore the possibility of integrating organization theory and oligopoly theory.

"Since both of us carried our lunches, we agreed to conduct a series of (brown bag) seminars with only ourselves there. We concentrated on studying the variables within an organization that might affect important economic decisions such as pricing. In particular, we looked at the various ways in which biases could enter the information transmittal process within an organization. This paper was eventually published in the *American Economic Review.*[1]

"That work and the publication of the paper launched us into a whole series of activities. We talked at a large number of conferences, continued to publish papers, and involved a number of graduate students in our research. At the same time, each of us was working on other projects and was publishing papers and books in different areas.

"As we began to accumulate and publish papers and as interest built up in our work, we conceived the idea of integrating our studies in the form of a book and of utilizing the work of students and former students who had done related work.

"As is inevitable, our lives became more complicated, and it was difficult to work without interruption in our offices. We searched for a place that might give us more privacy and found an unfinished room over the auditorium in the Graduate School of Industrial Administration. We moved a couple of tables and two chairs into the room and named it '*A Behavioral Theory of the Firm Room*.' We worked together and separately in that room for a couple of years, finishing additional papers and putting the book in final form.

"Part of the pleasure of doing research is having co-authors whom one can enjoy as friends. Both Jim and I liked baseball, and we were able to indulge ourselves occasionally with ease because the Pittsburgh Pirates then played at Forbes Field, only a few blocks from campus. On those rare days when a day game was played, we would wander over to the field and sit in the bleachers and watch a ball game. I do not think any of the ideas of *A Behavioral Theory of the Firm* can be directly traced to those 'seminars,' but they were enjoyable times —particularly in 1960 when the Pirates won the pennant and the World Series."

1. **Cyert R M & March J G.** Organizational structure and pricing behavior in an oligopolistic market *Amer. Econ. Rev.* **45**:129-39. 1955.