

The Transaction Company: Executive Summary

“Collaborate and earn money!” This is a slogan of The Transaction Company, a novel organisational concept designed to liven up relations within your firm.

A company is essentially made up by people who collaborate, individuals in the roles of employees, managers and shareholders. How well we collaborate influences our productivity and therefore how much we earn. The Transaction Company concept raises the quality of relations within the firm to a new level by making money a factor in collaboration. The formula is simple: allow people in the company to transact among themselves.

What are the advantages of that?

- lively and profitable collaboration
- clear, explicit relations in the company
- concrete gains to employees, managers and shareholders



Transactions provide a powerful mechanism for people to organise themselves.

How does the Transaction Company function?

People in a company are linked to one another: every employee uses the input of certain colleagues in order to perform his job and, on the other hand, passes the results of his work to others who need them.

In The Transaction Company all work relations of value among employees are transactional: the participating individuals enter them explicitly and agree a price for them. To illustrate, here is an example showing how this works from the standpoint of an employee:



Hi, I'm Jack, engineer at StellarWays
where we use internal transactions.

Jack is an engineer at StellarWays Inc., an innovative company that offers flights to tourists who want to spend a holiday in outer space. The people who work at StellarWays organise their work using transactions.

For the current month Jack accepted two assignments to work on:

- *Jill, who is Fleet Manager at StellarWays, asked him to help out with the maintenance of spacecraft. The two agreed Jack would receive \$5000 from Jill for his work.*
- *The R&D Director John asked Jack for an improved engine design. Both agreed this work is worth \$12000.*

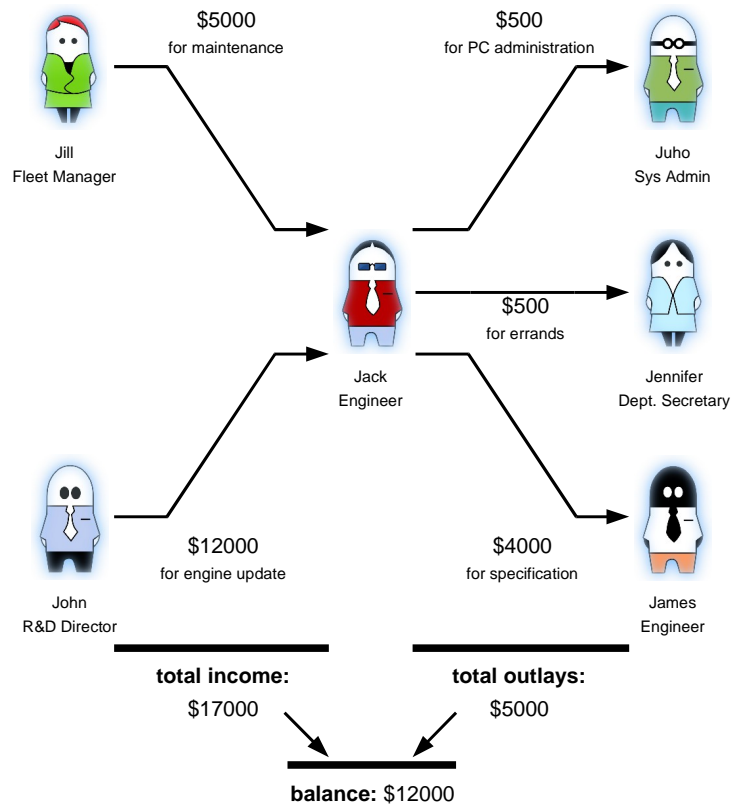
In order to do his job Jack relies on three colleagues:

- *He pays his colleague James \$4000 for assistance with the engine specification.*
- *He has a \$500 per month agreement with the system administrator Juho to keep his PC updated and networked.*
- *Jack pays another \$500 to the departmental secretary for running various errands for him.*

The Transaction Company

Organise your business with internal
monetary transactions

Jack's monthly transactions at StellarWays



The balance of \$12000 is distributed as follows:

- 10%** or **\$1200** : dividend to shareholders
- 90%** or **\$10800** : Jack's monthly pay

Note how Jack's work relations are previously agreed upon and how money is paid for the rendered services.

At the end of the month Jack has a balance of \$12000, which is the difference between the money he received (\$17000) and the money he paid (\$5000). According to the corporate code of StellarWays, 10% of the monthly balances earned by employees are paid as dividend to the company shareholders. This leaves Jack with \$10800 which he takes home.

The above principle for arranging work relations through transactions is universal. It can be used by people in various positions and types of business.

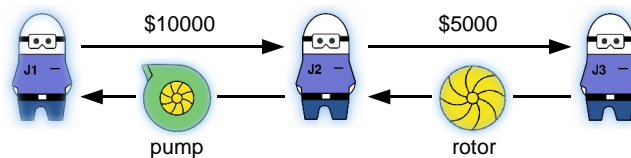


How much I earn is entirely up to me
and the people I work with!

What are the major effects of having monetary transactions in a company?

- To people who work in the company:
 - Every employee gets to know how much his work is worth and his salary is directly proportional to that
 - There is no artificial organisational ceiling limiting how much an employee can earn
 - Employees profit directly from their productivity, which is fair and motivating
 - It becomes natural for employees to look after their own productivity, so there is less need for overall supervision
 - Every employee has a chance to deal with real money, an important factor if one wants to become responsible, confident and aware of the value of his work
- Overall for the company:
 - Transaction prices reveal the monetary value of all activities carried out in the company
 - The allocation of internal resources becomes more effective as employees can recognise profitable activities and focus on them
 - It is possible to observe how value is created at every stage in the enterprise, end-to-end and down to the individual employee
 - The flow of money within the company goes along the paths of value creation

Transactions reveal the process of value creation



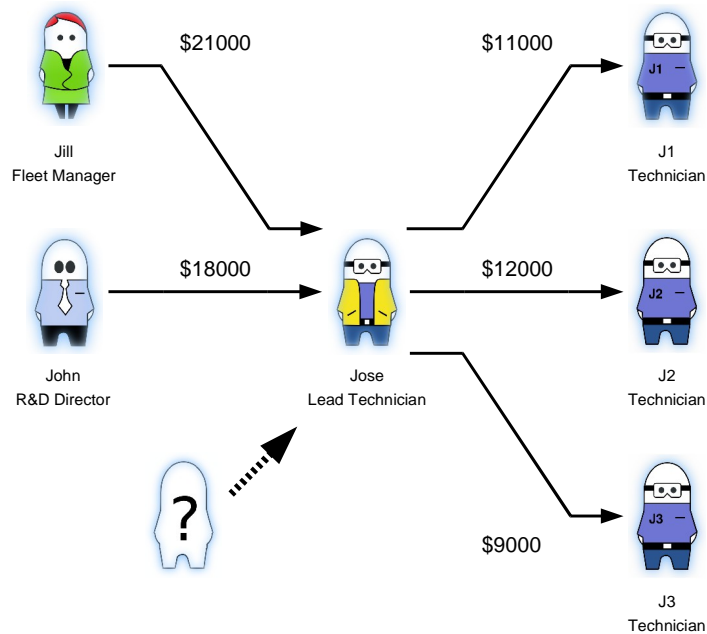
Transaction chain along a simplified manufacturing process at
StellarWays

Rule: value creation and money always flow in opposite directions

A company employing internal transactions has organisational dynamics with a number of attractive aspects:

- Employees have a direct incentive to create and nurture profitable collaborative relations
- A sophisticated internal market can be created where employees offer and seek out collaborative relations
- The hiring of staff into the organisation and oppositely, the dismissal of staff, become an efficient and quasi automatic process:
 - if an employee is willing to hire a person from outside the company he is free to do so provided he can pay for him and the person meets the overall corporate hiring criteria;
 - an employee is considered dismissed when no one in the company has collaborative relations with him
- Reshuffles are based on economic sense: candidates for a certain position will be judged by their ability to provide value to those up and down the transaction chain (see the following diagram depicting a case at StellarWays)

Economic sense influences reshuffles

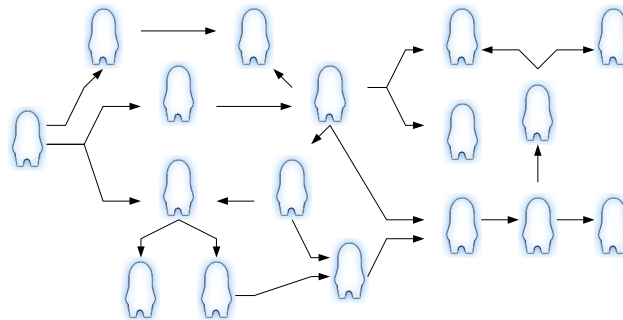


A candidate for the position of Lead Technician will have to provide better value to people up and down the transaction chain.

A centralised computer system can effectively assist employees in their transactions. Such a system:

- stores data for each transaction such as parties involved, description of the activity, due date and payment;
- stores data for the individual accounts which the employees use to conduct their transactions;
- in larger companies may enable employees to post, search and browse adverts for open projects;
- may enforce some formal transaction procedures;
- may visualise the internal business processes.

Visualising transactions in the company



Using transaction data, computer software can visualise the process of collaboration and value creation in real time

As a corporate entity a company competes on three major markets –for talent, capital and goods/services. Let's see how a firm built around the Transaction Company concept is likely to fare on each of them:

- On the market for talent: offering opportunities for direct financial gain and clear relations in the workplace is a recipe for attracting talent
- On the capital market: transparent businesses tend to receive a higher credit rating; the ability to track the performance of the company in real-time is likely to be valued much by shareholders and investors
- With the clients: a business with efficient and responsive internal processes is able to react faster to external and internal changes, thus offering clients a more competitive product



Transactions rock!

The Transaction Company has substantial economic potential. Expect its appearance to change the corporate landscape in the coming years. Early adopters of internal transaction systems will gain significant advantages over firms with traditional organisational setups. The adoption cycle is likely to follow an S-curve, with internal transactions eventually becoming the norm.

You can visit the weblog at www.TheTransactionCompany.com to learn more about various topics related to the Transaction Company such as:

- How to introduce internal transactions at your company
- Specific strategies related to internal investments and the distribution of shareholder dividends
- Transactions, system theory and economic stability
- Notes on implementing IT solutions
- Closure of the global market economy

Executive summary by Vladimir Dzhurinov, December 2006.

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