EXAMINING THE EVOLUTION OF EXCHANGE: SHEDDING LIGHT ON THE RELATIONSHIP BETWEEN OPPORTUNISM AND EXCHANGE

Organizational researchers have relied on transaction cost economics (TCE) to explain many different exchange relationships within and across firm boundaries. TCE assumes that the potential for opportunism in all exchange relationships drives transaction costs. It advocates the use of formal mechanisms such as market contracts or hierarchy to control transaction costs. Although Williamson (1996) recognizes that not all exchange partners will behave opportunistically, the costs of detecting and deterring the potential for opportunism make it more efficient to assume the worst about individuals and to behave as though the worst were a reality. Williamson believes that by making such an assumption, the transaction costs of exchange will be minimized. Although this perspective allows TCE to explain certain types of exchange, it is a narrow view. For example, TCE is unable to offer managers any real insight into exchanges in which the social proximity between exchange partners is high such as communities of practice or social networks. TCE suggests that the potential threat of opportunism in these exchanges does not justify participation. However, these types of exchanges are increasing in popularity. In some industries, participation is a key success factor (Powell, Koput & Smith-Doerr, 1996). TCE’s explanation of exchange behavior, where social proximity between exchange partners matters, is weak. Ghoshal & Moran (1996) advocate that organizational theorists need to abandon the confines of potential opportunism and adopt shared purpose to explain socially embedded exchange. They argue that humans are essentially cooperative in nature and that opportunism is unlikely when exchange partners have a shared purpose. Shared purpose allows exchange partners to develop a sense of identification, trust, and commitment. Therefore, exchanges in which parties have a shared purpose are not likely to be subject to potential opportunism (Frank, et al. 1993; Ghoshal & Moran, 1996). However, Ghoshal & Moran’s assumption runs counter to the exchange literature in economics, socio-biology, and evolutionary psychology. All exchanges, even those where the social proximity between exchange partners is high, carry the potential for opportunism. Ghoshal & Moran (1996) deny the importance of opportunism by invoking shared purpose. Similar to assumptions of Williamson (1975; 1996), their explanation of exchange behavior, in which social proximity between exchange partners matters, is also weak. In this paper, we offer a model that is able to explain exchanges in social proximity matter, while also taking into consideration the reality of opportunism. We draw from diverse streams of literature on exchange, such as socio-biology, anthropology, ethology, evolutionary psychology, and economic history. Our examination sheds some serious doubts on the key assumptions of TCE. It suggests that economists overestimate the importance of opportunism in exchange. It also suggests that in socially proximate exchange contexts, exchange partners do not incur significant transaction costs to detect and deter opportunism. Therefore, in socially proximate exchange contexts, the role of transaction costs in influencing exchange behavior is diminished. By delving into the history of human exchange, we see that transaction costs and their relationship to potential opportunism are artifacts of modern, market based exchange relationships. In markets, in which social proximity between exchange partners is typically low, the relationship between potential opportunism and transaction costs explains exchange behavior. However, in exchange contexts in which social proximity is high, as was the case in earlier hominid and agricultural societies and as is becoming increasingly popular today, transaction costs will play a limited role in explaining exchange behavior. Our model of
exchange suggests that when the relationship between opportunism and transaction costs is strong, as it is in markets, exchange is likely to be immediate. However, when the relationship between opportunism and transaction costs is weak, as it is in social exchange contexts such as communities, exchange is likely to be delayed. This model of immediate and delayed exchange provides a more robust explanation of exchange relationships than does Williamson’s (1975) TCE or Ghoshal & Moran’s (1996) notion of “shared purpose.”