

# Transaction cost economics: A global logic of governance choice?

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# Transaction Cost Economics (TCE)

A logic of efficient governance choice

An important part of the new *institutional* economics research tradition...

...that largely ignores the effects of *institutions*

(Handley & Angst, 2015; North, 1991; Oxley, 1999; Williamson, 1985, 2000)

# TCE Shift Parameters

Williamson notes that differences in the institutional environments in which transactions are embedded can alter the comparative costs of governance...

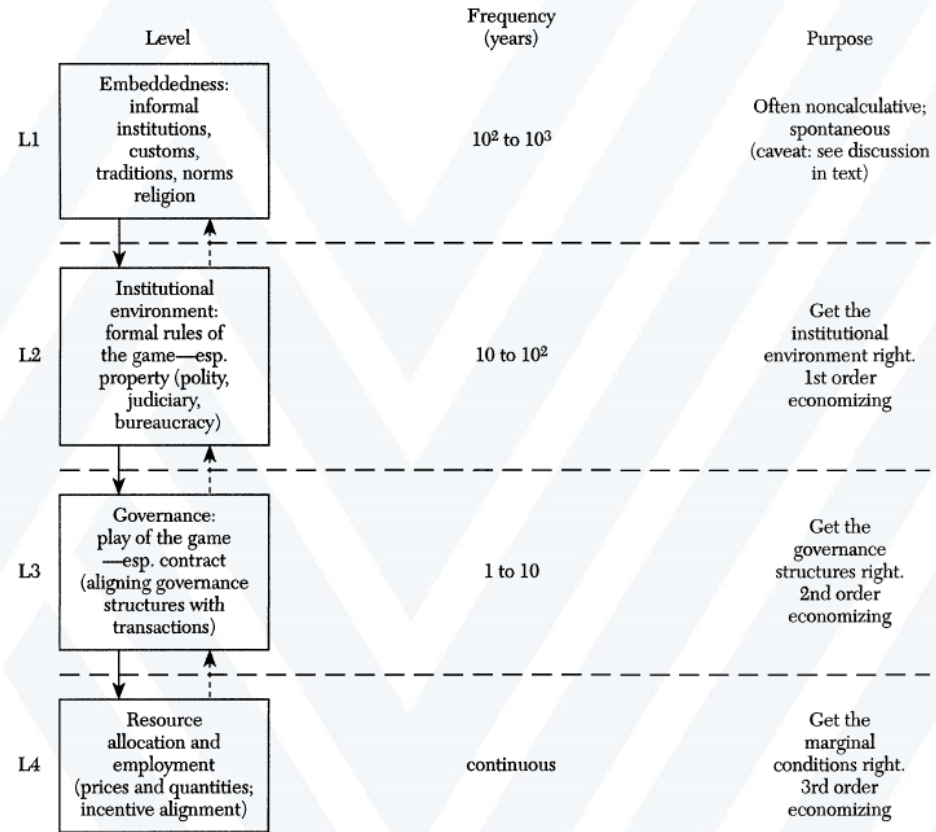
...but does little to illuminate what these shift parameters might be and how, exactly, they might affect governance choice

(Williamson, 1991, 1993)

# Informal institutions

- Highly embedded and inert
- Have pervasive, long-lasting effects on lower level institutions and economic exchange
- “The social context in which transactions are embedded—the customs, mores, habits, and so on—have a bearing, and therefore need to be taken into account, when moving from one culture to another.”
- Remain an “underdeveloped part of the story”

(North, 1991; Williamson, 1985, 2000)



# Gap

Prior work is U.S.-centric, looks at cross-border transactions, and looks at large firms (Handley & Angst, 2015; Oxley, 1999)

We have little empirical evidence of how entrepreneurs transact within their own national culture

*We do not yet understand the extent to which TCE is a global logic of governance choice—or if there are entire swaths of the world where TCE's foundational assumptions may not hold*

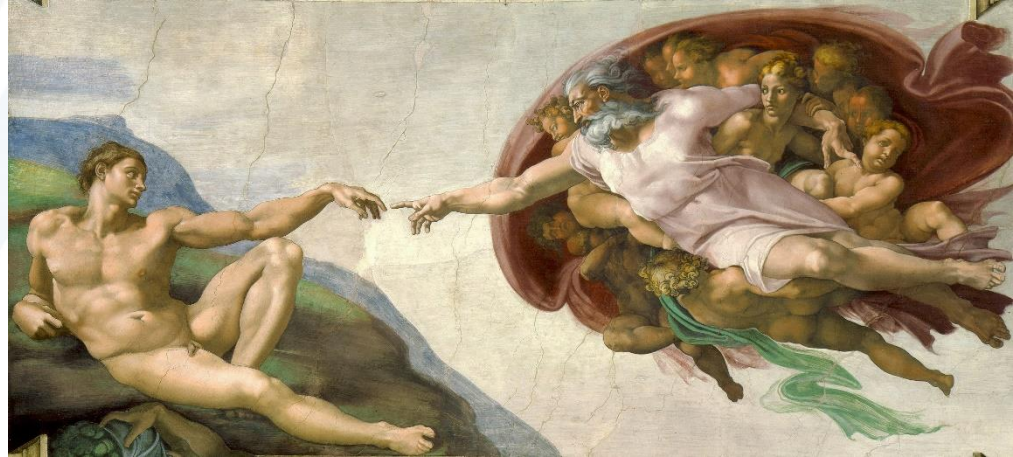
# TCE Governance Logic

“In the beginning, there were markets”

Axiomatic starting point

Entrepreneurs will only choose firm governance as the costs of market governance escalate

(Coase, 1937; Williamson, 1985)



# TCE Governance Logic

Asset specificity is the “big locomotive” of TCE logic

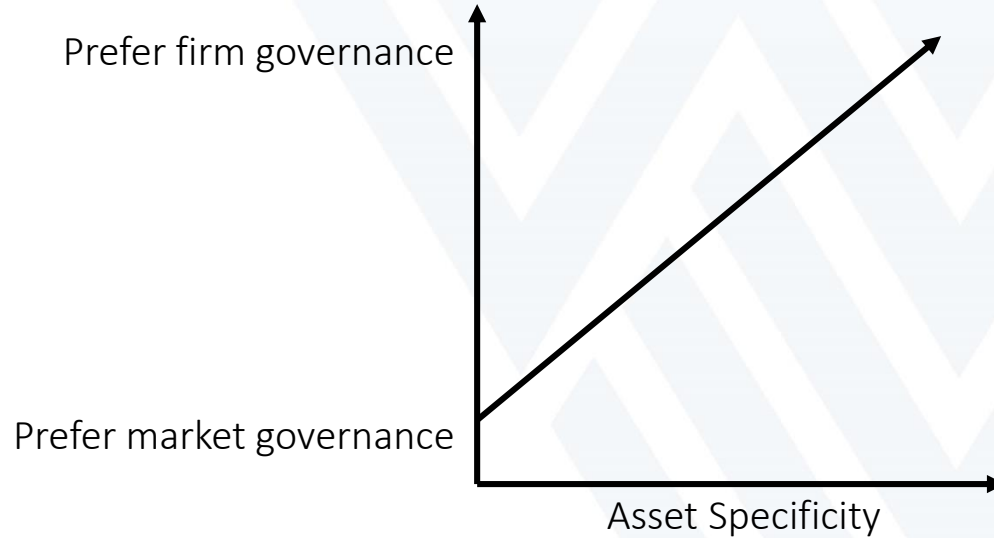
Opens the door for the opportunistic appropriation of quasi-rents\*

*\*but only when there are environmental disturbances (in high rule of law countries)*

(Klein et al., 1978; Williamson, 1985, 1991)



# TCE's Governance Choice Logic





# Hofstede's Cultural Dimensions

Widely used and understood national culture framework

Power distance

Uncertainty avoidance

Masculinity

(not individualism since so highly correlated with PD)

(Beugelsdijk et al., 2017; Crossland and Hambrick, 2011; Hofstede, 1983, 2001; Kirkman, Lowe, and Gibson, 2006)

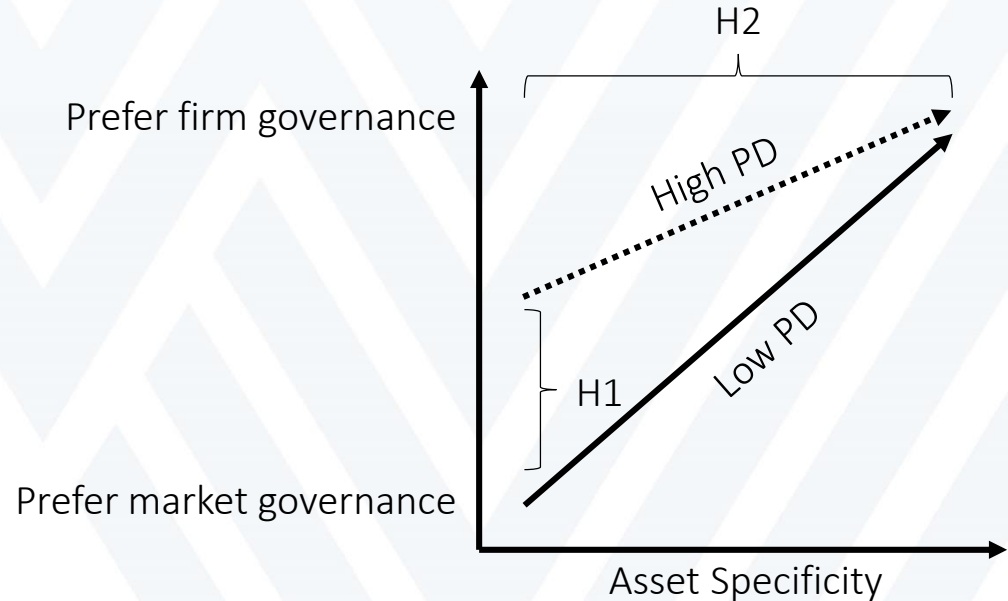
# Power Distance

High: France, Singapore, Slovakia

Low: Austria, Israel, U.K.

Members of high power distance cultures tend to favor centralized decision making, concentration of authority, the preservation of power inequalities, and the belief that authoritative leadership and close supervision are associated with high performance.

(Hofstede, 2001)



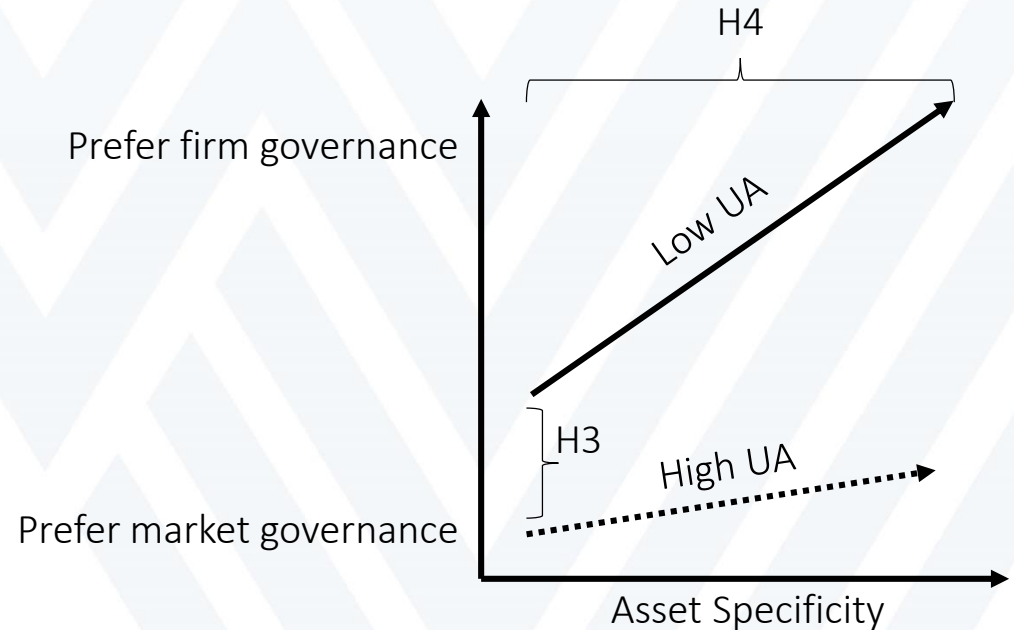
# Uncertainty Avoidance

High: Belgium, Chile, Japan

Low: Singapore, Sweden, Ireland

Members of high uncertainty avoidance cultures tend to feel intense anxiety when forced to confront uncertainty, resist change, and seek to defend against uncertainty through structure, control, and formalization.

(Hofstede, 2001)



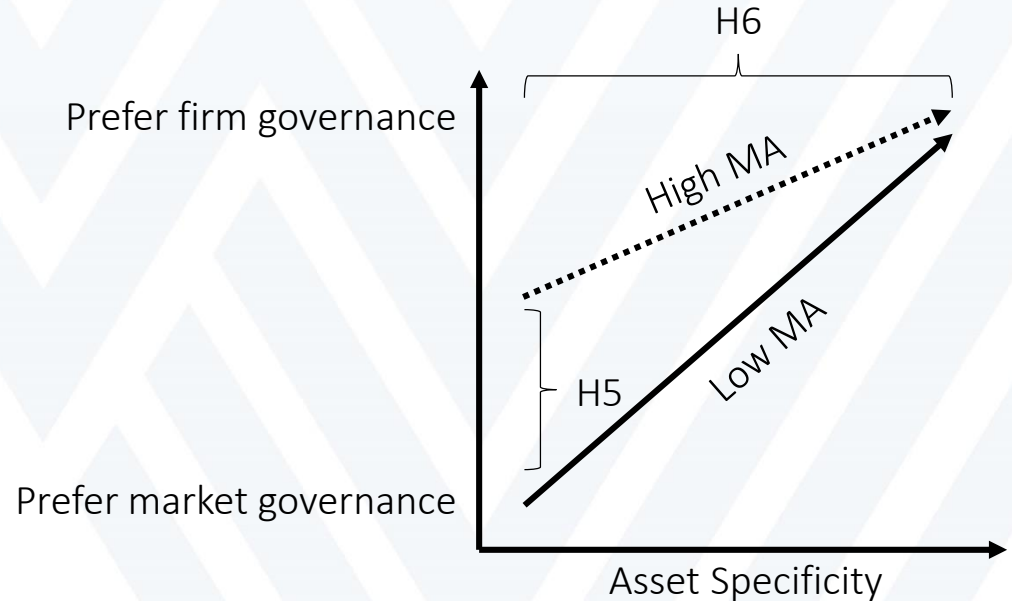
# Masculinity

Members of high masculinity cultures tend to place more importance on ego goals such as achievement, competition, and rewards than on “feminine” social goals such as relationships and cooperation.

(Hofstede, 2001)

High: Austria, Hungary, Japan

Low: Lithuania, Portugal, Sweden



# Research Design



Experimental – random assignment to low/high asset specificity  
conjoint survey scenarios

Sample – Google Play app developers who had published an app  
within the previous 12 months

577 respondents from 75 countries  
*(343 respondents from 38 high rule of law countries)*

7.1% response rate, 9.78 minutes to complete

# Conjoint Survey

If these were your only choices, which software developer options would be the best / worst?

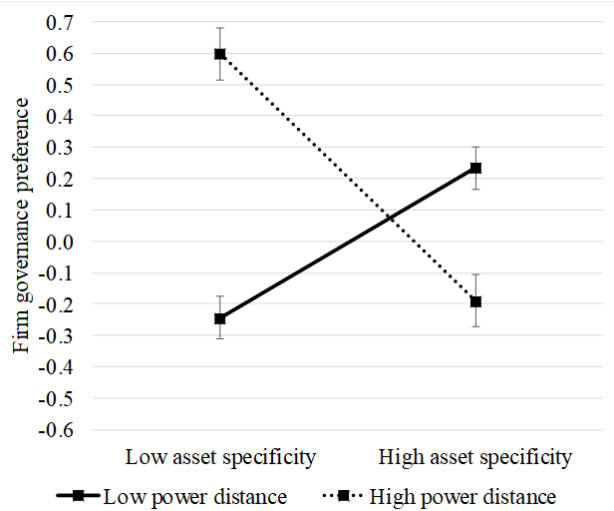
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Labor Cost	willing to work for <b>\$25</b> per hour	willing to work for <b>\$100</b> per hour	willing to work for <b>\$0</b> per hour
Royalty Compensation	wants <b>4%</b> royalties on future app sales	wants <b>0%</b> royalties on future app sales	wants <b>12%</b> royalties on future app sales
Trust Level	medium (this person was recommended to you)	high (you have worked together before)	low (you have not worked together before)
Ownership Compensation	wants <b>5%</b> ownership in your startup	wants <b>0%</b> ownership in your startup	wants <b>0%</b> ownership in your startup
Employment Relationship	independent contractor	employee of your startup	independent contractor
Experience Level	college graduate with <b>10 years</b> of professional coding experience	college student with little to no professional coding experience	college graduate with <b>10 years</b> of professional coding experience
Contracts	confidentiality and non-compete agreements have <b>not</b> been signed	confidentiality and non-compete agreements have been signed	confidentiality and non-compete agreements have <b>not</b> been signed
Best	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Worst	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

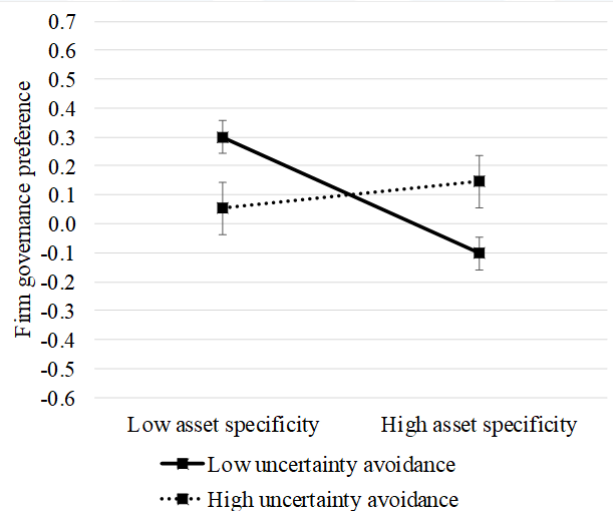
(Lenk et al., 1996;  
Lepak and Snell, 1999;  
Williamson, 1985)

# Results

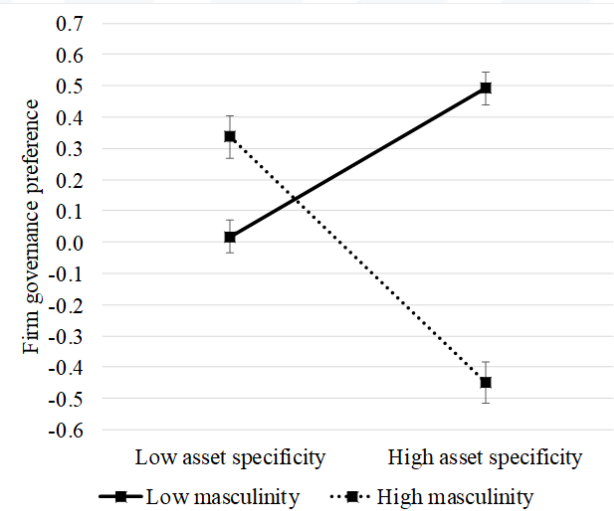
## Power Distance



## Uncertainty Avoidance



## Masculinity



H1 supported

H3 supported

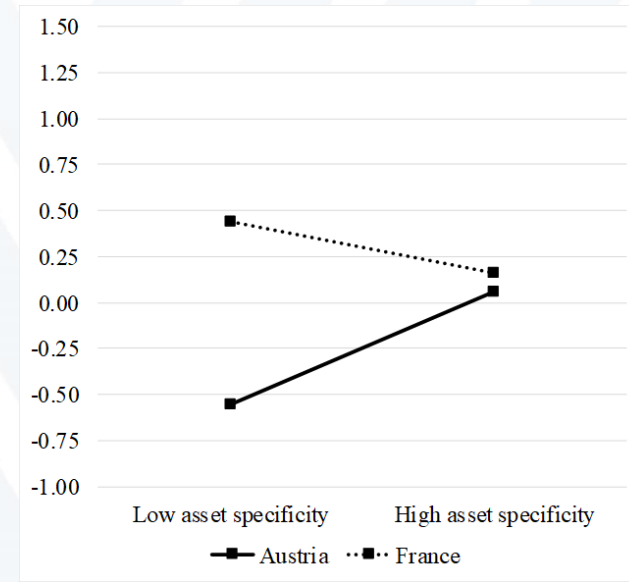
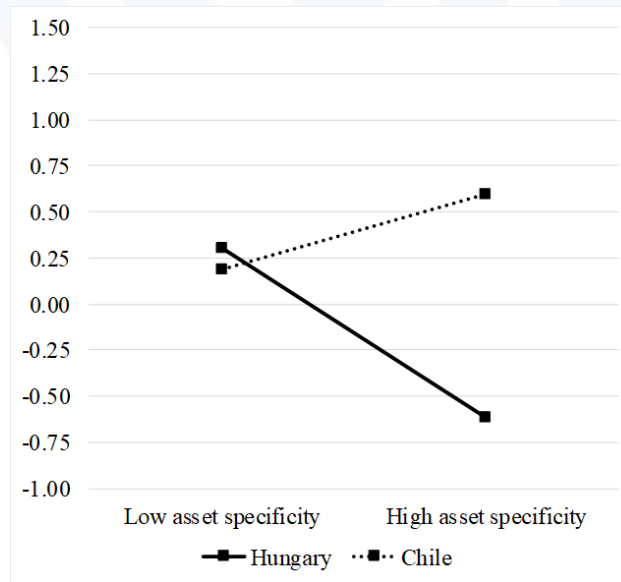
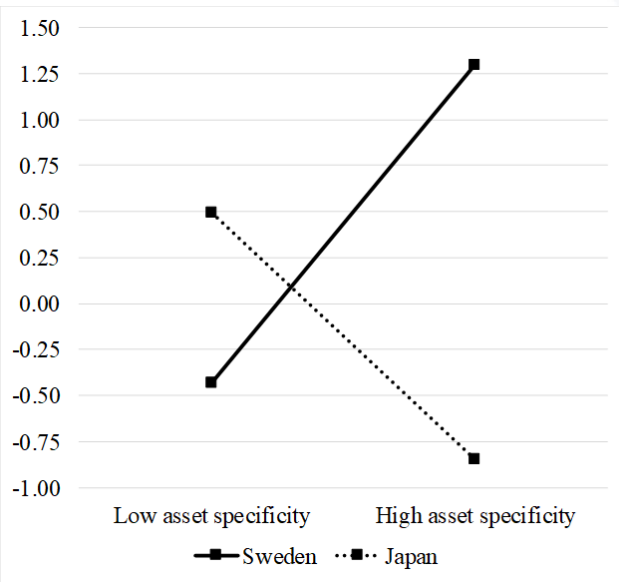
H5 supported

H2 supported (but unexpected negative slope)

H4 rejected (unexpected negative slope)

H6 supported (but unexpected negative slope)

# Country Level Predictions





# Discussion

TCE may not be a truly global logic of entrepreneurial governance choice

TCE's market favoring axiom did *not* hold in all cultures

An increase in asset specificity caused a *decrease* in hierarchical governance in high power distance and high masculinity cultures

Opens the door for the development of new theories of the firm

# Thank you!!

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