6-6-2009

TRANSACTING, OPPORTUNITIES AND ENTREPRENEURSHIP (INTERACTIVE PAPER)

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Recommended Citation
Available at: http://digitalknowledge.babson.edu/fer/vol29/iss16/11

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Principal Topic

In this study, we investigate the emergence of new transactions. Whereas transaction cost economics (TCE) takes transactions as given—focusing on questions of governance—in this study we investigate how the emergence of new transactions might be explained. A transaction consists of three elements: the creating entity (social actors as transaction instigators), others (social actors as transaction participants), and a work (the domain specific undertaking that is the focus of exchange). Using general specifications of TCE, we investigate the extent to which bounded rationality (BR), opportunism (O), and specificity (S)—three attributes of transacting that have been asserted to cause transaction costs—affect the emergence of new transactions. Our hypothesis is that where the effects of BR-O-S are high, transactions are less likely to emerge.

Method

We used an experiment to test our hypothesis, wherein 56 three-person groups engaged in an opportunity-focused transacting exercise. Our dependent variable was extent of transacting: a count of transactions completed by the group in a 12-minute period. Groups were randomly assigned to high or low effects of BR-O-S conditions (which were manipulated in the rules of the transacting task). We utilized ANCOVA because it allowed us to control for group motivation and group competitiveness in our analysis.

Results and Implications

The results indicated support for the hypothesis that transactions are less likely to emerge where the effects of BR-O-S are high ($F_{1,55} = 29.57, p < .001$). An important implication of this finding is that due to the effects of BR-O-S, transactions cannot be assumed into existence. Knowing this, we theorize that three capability-based systems exist which respectively reduce the effects of BR-O-S—planning systems, promise systems, and competition systems—and thus facilitate the emergence of new transactions. Another important implication of this finding is that it allows us to estimate a prior (unconditional) probability of entrepreneurial transacting: transactions which emerge but might not have. In this way, our research provides a first step in the development of a theory of transacting that explains why some potential transactions and not others come into being through capability-based opportunity formation processes.

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