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Transaction Costs
Deconstruction Method

DEPARTMENT OF ECONOMICS

RESEARCH MEMORANDUM

# THE ARGUMENTATIONAL TEXTURE OF TRANSACTION COST ECONOMICS

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## ABSTRACT

The *deconstruction* method was used to analyze a seminal text in transaction cost economics, viz., Oliver Williamson's *Economic Institutions of Capitalism*. This deconstructive reading revealed that the assumption of opportunism that gives rise to the problem of economic organization as formulated by Williamson also tends to undermine the proposed solution to this problem. The plausibility of unified governance as a solution to the problem of opportunism in the case of asset specificity is shown to hinge on the temporary deferment of the assumption of opportunism. Thus, transaction cost economics finds itself in an impasse of thought: actors have to be assumed to be opportunistic *and* not-opportunistic if the logic of the theory is to be maintained.

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## 1. INTRODUCTION

Criticisms of transaction cost economics (TCE) abound, particularly in the management and organization literature (e.g., Donaldson 1990; Dow 1987; Francis et al. 1983; Johanson and Mattsson 1987; Perrow 1986; Robbins 1987). Critics of TCE attempt to show that the theory is at variance with empirical facts, compare TCE with other theories with purportedly more explanatory power, or identify contradictions in the argumentation. The analysis in this article is in this last vein in that TCE is criticised TCE from within, drawing on arguments supplied by a reading of a seminal text.

This reading is informed by the deconstruction method, developed by the French philosopher Jacques Derrida (1977; 1978; 1983), which follows closely the argumentational movements of the text, but which also focuses on the lacunas, inconsistencies and symptomatic abberations to be found in every text (Vasterling 1987). This approach is based on a postmodern philosophy of language. Only some basic features of this philosophy will be sketched in the article; no attempt will be made to do justice to Derrida's philosophical project as a whole. The goal of this article is to show that transaction cost economics engenders paradoxes or undecidables. Deconstruction is a tool that can help accomplish this task.

Whereas Derrida in continental Europe is first and foremost a philosopher, in Britain and the U.S.A. his ideas have taken root predominantly in cultural and literary theory (Dews 1987: XIV; Norris 1991: 144). Consequently, the reception of deconstruction in organization theory has been indirect, as secondary texts from the field of literary criticism are often used as a source of ideas on deconstruction, rather than the less accessible philosophical texts. Likewise, in this article, McCloskey's (1983: 499) suggestion to apply procedures of modern literary criticism to texts in economics is followed. Apart from philosophical texts, secondary sources from the field of literary theory were used to elucidate the analytical procedure of deconstruction.

This article is part of a growing stream of publications. Several papers on the impact of postmodern philosophy on organizational theorizing have appeared (Burrell 1988; Cooper and Burrell 1988; and Parker 1992). The deconstruction method has been brought to bear on bureaucracy (Cooper 1989), gender conflict (Martin 1990), leadership (Calás and Smircich 1991), bounded rationality (Mumby and Putnam 1992), and the model of man employed in organization theory (Kilduff 1993). There appear to have been no applications to organizational economics.

The composition of this article is as follows: in Section Two, Derrida's philosophy of language is discussed briefly, and the deconstruction method is described and simplified to two general principles and four procedural rules (although this description and simplification in itself constitutes a breach of the unwritten rules of deconstruction, Norris 1991: 31). Section Three is an analysis of the argumentation in the most influential text in the field of TCE, viz., Oliver Williamson's *Economic Institutions of Capitalism* (Williamson 1985). Subsequently, this argumentation is deconstructed, and the uncomfortable relationship between "opportunism" and "governance" is demonstrated. Implications for theorizing on economic organization and conclusions follow in Section Four.

## 2. DECONSTRUCTION AS A PROCEDURE OF ANALYSIS

### *Derrida's Philosophy of Language*

Derrida's philosophy of language is based on that of the Swiss linguist Ferdinand de Saussure (1857-1913).[1] Saussure distinguishes two aspects of language: "signifier" and "signified". A signifier is a meaningful sound or a meaningful mark inscribed on a page. This is the material aspect of language. A signified is the concept to which the signifier refers; this is the mental aspect of language. Note that the signified is not an element of the world around us, a "referent". "The signified is not a thing but the notion of a thing, what comes into the mind of the speaker or hearer when the appropriate signifier is uttered" (Sturrock 1979: 6).

Signifier and signified are inseparable: no concept can be said to exist unless it has found expression in a signifier, and a sound or inscription that is meaningless cannot be said to be a "signifier". Language is "the very fabric of meaning rather than its incidental clothing" (Dews 1987: 17). Yet there is no natural, only a conventional or institutional link between signifier and signified. There is nothing in the sound of the word "horse" or in the form of the letters forming this word on a page that intrinsically connect it to the concept of a "solid-hoofed quadruped with long mane and tail, ridden and used as beast of burden".

Language is therefore a differential system, the identity of a signifier can only be established by distinguishing it from other signifiers: "rock" can phonetically be distinguished from such words as "ruck" or "wreck", which abut on it acoustically. Semantically, that is, on the level of the signified, the meaning of a word like "rock" is determined by differentiating it from contiguous concepts like "stone", "boulder" or "cliff" (Sturrock 1979: 10).

Derrida's deconstruction procedure builds on these insights. Since words can only be defined using other words, there is in the system of language no benchmark that can be used to assign definite meaning to its elements. It is therefore impossible to construct a completely coherent and adequate theoretical system: "the exercise of language and thought involves us in intractable paradoxes, which we cannot escape but only repress" (Culler 1979: 156).

*The Logic of Supplementarity*

Derrida has made it his task to track down these "intractable paradoxes" in linguistic, philosophical and literary texts. The strategy of deconstruction in this operation is to focus on the binary oppositions authors use to construct their argumentation. Thus Rousseau elaborates on the opposition between nature and culture, the first being pure, uncorrupted and anterior, the second being posterior, a corruption and impurity of nature. Nature pre-existed and formed a plenitude; culture is a parasite that can only flourish on the soil of nature. The opposition, like many in philosophical texts, is clearly hierarchical: "in classical philosophical opposition we are not dealing with the peaceful coexistence of a *vis à vis*, but rather with a violent hierarchy. One of the two terms governs the other (axiologically, logically, etc.) or has the upper hand" (Derrida, quoted in Gasché 1986: 137).

But on the other hand, Rousseau can define nature only as an absence of culture. In this sense, the meaning of "culture" enters into that of "nature", and to state that one is anterior to the other becomes utterly problematic. The dominance of a term can only be established by deferring - temporarily pushing to the background - the opposite which permeates it.

The first step in Derrida's strategy of deconstruction is to demonstrate that the hierarchy in binary oppositions can logically be reversed: in Derrida's reading of philosophical texts, culture becomes anterior to nature, as does writing to speech, signifier to signified, etc. The overturning of the hierarchy between writing and speech is paradigmatic. Derrida shows that in philosophic texts from Plato to Saussure, speech is considered to be superior and anterior to writing. Writing is inferior because it always entails a risk of loss of meaning: written language can easily be misinterpreted or manipulated because the author, the original addressee and the context of writing are in many cases no longer present. In speech, however, "meaning is produced from within the speaker's body, and is perceived in the very instant of its production, [appearing] to secure the immediate return of intended meaning to the intending consciousness in a closed and secure circle of immanence" (Dews 1987: 10). Writing is posterior since (in phonetic-alphabetical scripts) it is a derivative of speech.[2]

Nonetheless, writing can never completely be repressed. Thus, Socrates' dialogues which purportedly demonstrate the superiority of speech have come down to us in the writings of Plato. And Saussure, in explaining the differential character of speech, uses writing as a model: "Since an identical state of affairs is observable in writing, another system of signs, we shall use writing to draw some comparisons that will clarify the whole issue" (quoted in Culler 1979: 170). Derrida calls such a textual movement an instance of "self-deconstruction". "Having established a hierarchy that made writing a form derivative from speech, Saussure's own argument shows that this relationship can be reversed and presents speech as a species of writing, a manifestation of the principles that are at work in writing (...) The marginal in its very marginality turns out to characterize the central object of discussion" (Culler 1979: 171).

However, overturning the hierarchy is not the ultimate goal of deconstruction, but only a step in a procedure aimed at the displacement of the hierarchy. Derrida substitutes the logic of "supplementarity" for the logic of opposition and hierarchy. Since no concept can have meaning in and by itself, it derives its meaning from the traces of other concepts from which it can be differentiated. "Culture" is exterior to "nature" since nature is defined as an absence of "culture". But at the same time "culture" is interior to "nature", for without a trace of "culture" the concept of "nature" has no meaning. The interiority/exteriority of a supplement is undecidable. More generally, since no concept can bear meaning in isolation, systems of thought that are built on the primacy of a specific concept entail undecidables.

Deconstruction focuses on the common ground between the opposites, which makes possible the play in which the identity of both terms is constituted. The aim is to be alive to the impure mixture of terms relating to each other but not reducible to each other. The approach shows how in a given text the subordinated term, effaced in the course of the argumentation, is always already inscribed in the privileged term.

Thus, the goal of deconstruction is not to establish a new and superior philosophical system, but to demonstrate that no such system can ever escape from the differential movement of language. In fact, the capacity of a text to persuade hinges on undecidables that remain unnoticed in a sympathetic (or naive) reading. Deconstruction, then, is a procedure for undermining unwarranted reliance on what a text seems to communicate at the surface.

## *Deconstruction as a Procedure*

Derrida has always refused systematic codification of the deconstruction method. For that reason, secondary sources (predominantly Gasché 1986) were used to reconstruct the rudiments of the method.

Deconstruction, as used in this article, consists of two general principles (P1,2) and four procedural rules (R1,..,4):

P1: The text to be deconstructed is criticized from within, i.e., using arguments provided by the text itself. This is different from a criticism based on a theory that is seen as being closer to some objective truth.

R1: Start with a careful 'conventional' analysis of the argumentation of the text. Try to understand *what* claims are made, and *how* these claims are made. Search for places where the text "seems to transgress its own system of values" (Spivak 1977: xlix), e.g., because a term is suddenly used with a different meaning. These ambiguities, paradoxes, aporias, etc., reveal cracks in the textual system that in the next stage can be used for the deconstruction proper.[3]

R2: Use the ambiguities, etc., found in the preceding phase for the identification of the central opposition that determines the architecture of the text. Be aware of the fact that in many cases the suppressed concept is not even mentioned.

R3: Reverse the hierarchy within the central opposition in order to put the spotlight on the concept treated as posterior, imperfect, invalid, or unwanted in the original text.

R4: Show that the posterior, imperfect, invalid or unwanted concept is indispensable. Demonstrate how both terms relate to each other, and how the suppressed term implicitly enters the argumentation at crucial points.

P2: The purpose of deconstruction is not to build an alternative system, but rather to show how every order is necessarily temporary and incomplete.

This working model will doubtlessly be seen by some as a caricature of deconstruction rather than a reasonably adequate summary of Derrida's approach. As a matter of fact, given Derrida apodeictic statement that "all sentences of the type 'deconstruction is X' (...) a priori miss the point" (quoted in Lehman 1991: 23), this kind of criticism is unavoidable, and it has been raised against every attempt to "tame" deconstruction (Ellis 1989: 10). In any case, it is with this simplified model that the task of deconstructing Williamson's *Economic Institutions of Capitalism* will be entered on.

## 3. DECONSTRUCTING TRANSACTION COST ECONOMICS

### *The Economic Institutions of Capitalism*

Transaction cost economics (TCE), in large part developed by Oliver Williamson (Williamson 1975; 1979; 1985; 1991) is important because it purports to answer a number of questions central to organization theory, viz., questions pertaining to the boundaries of organizations, to the internal structure of organizations, and to relationships between organizations. Furthermore, TCE has also stimulated a considerable amount of empirical research (for an overview, see Joskow 1988; Noorderhaven 1993a). In addition, Williamson explicitly aspires to build a bridge between economic and behavioral approaches to organizations (Williamson 1985; 1988a; 1988b; 1991). For these reasons, TCE is an excellent object for a deconstructive effort.

The theory has found its most complete codification in Williamson's *Economic Institutions of Capitalism* (EIC) (Williamson 1985). Later formulations (e.g., Williamson 1988a; 1991; 1992) are geared to specific applications or elaborate only parts of the argument. Therefore I will focus on EIC in this article. Analysis of one of the other publications, e.g., Williamson (1991), would yield the same result, but with less richness of illustration.

I will assume that the reader is familiar with the general outlines of TCE. The analysis will focus on the comparative assessment of governance forms in the case of a transaction supported by investments in highly specific assets. Because actors are assumed to be opportunistic, these investments will, in the absence of adequate safeguards, lead to costly haggling and expose the party incurring them to the risk of expropriation. If actors had unbounded rational faculties, a complete contingent contract safeguarding specific investments could be written. However, TCE assumes bounded rationality (EIC: 45).

The argument in this article concentrates on opportunism and its consequences for the governance of transactions. Actually, both opportunism and bounded rationality are crucial in Williamson's explanation of governance structures. The central question of economic organization is to "devise contract and governance structures that have the purpose and effect of economizing on bounded rationality while simultaneously safeguarding transactions against the hazards of opportunism" (EIC: XIII). The reason for me to concentrate on opportunism is that Williamson himself seems to all but dispatch his assumption of bounded rationality when stressing the "strong commitment to intended rationality" of TCE (EIC: 387). All the same, another deconstruction of TCE could be performed, parallel to the one in this article but hinging on bounded rationality instead of opportunism.[4]

As a consequence of opportunism (and bounded rationality), market contracting must in case of non-trivial asset specificity and uncertainty give way to other forms of contracting. One possibility is that the parties craft their relationship in such a way that they can make credible commitments while maintaining their independence. The commitment of the less vulnerable party not to indulge in opportunistic behavior can be made credible if it posts a hostage: something it values will be lost if the relationship is discontinued. In this way the balance in the transaction relation is restored (EIC: 169-175). To give an example of a hostage: if a subcontractor of a manufacturing firm invests in a press that is specific to the kind of jobs it performs for that manufacturer, the manufacturer itself may invest in a mould specific to the press used by the subcontractor. A durable bond is thus forged between both parties. Bilateral contracting, effectively isolated from all other potential parties in the market, is substituted for market contracting (EIC: 75-77).

In other cases (e.g., very high levels of asset specificity, or very strong uncertainty) exchange of hostages offers insufficient protection against the vagaries of opportunism, and bilateral governance gives way to unified governance. The formerly independent parties are placed under central authority: a hierarchy is substituted for the market (EIC: 78).

### *The Logic of TCE*

A strong logic rules TCE as expounded in EIC. On the one hand, transactions can be grouped according to the level of asset specificity associated with them. On the other hand, we see a range of governance structures with differential opportunism-curbing properties. These various governance structures are also distinguished by differential costs: real costs are associated with negotiating, writing, monitoring and enforcing contracts, and, in addition, governance structures that shut out the market suffer from a loss of incentives. At low levels of asset specificity, a specialized governance structure (e.g., a hierarchy) is assumed to be more expensive than a general-purpose governance structure (the market) (EIC: 91). But at high levels of asset specificity, market governance breaks down (becomes prohibitively expensive) and gives way to specialized governance structures.

The logic of this argumentation hinges on its methodological individualism. In all cases economic interaction is conceptualized as transactions between individual actors. In the case of market governance, transactions are bargains made in the marketplace. In the case of unified governance, transactions are assumed to take place if "a good or service is transferred across a technologically separable interface" (EIC: 1). This definition enables TCE to put managers within one and the same firm on a par with parties to a market transaction.

The central place of methodological individualism is also reflected in the use of the concepts of "contract" and "contracting". A glance at the subject index of EIC shows that these concepts permeate TCE (EIC: 443-444). In a consistent idiom, Williamson speaks not only of "market contracting" and "bilateral contracting", but also of "unified contracting" (EIC: 115). But this last phrase reveals a crack in the logic of TCE upon which the chisel of deconstruction can be brought to bear. For surely unification forecloses contracting in the normal sense of the word. Williamson persists in the use of the word "contracting" to stress that here also, individual opportunistic actors are interacting. But the word "unified" at the same time suggests that individuality and opportunism is somehow dissolved. Thus the phrase "unified contracting" brings to our attention a fundamental question: How can the unified governance structure safeguard transactions if the parties remain relentlessly opportunistic?

TCE has no satisfactory answer to this question (indeed, *cannot* have such an answer). To demonstrate this the exact position of TCE vis-à-vis opportunism must first be assessed.

*TCE and Opportunism*

The assumption of opportunism is one of the distinctive features of TCE. Opportunism refers to "self-interest seeking with guile" (EIC: 47). The image of human agents is grim: they are assumed to lie, steal, and cheat, as well as to use more subtle forms of deceit (EIC: 47). Qualifications of this picture are scattered throughout EIC, but the core of the opportunism assumption is reconfirmed time and again (see Box 1 for examples).

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BOX 1 ABOUT HERE

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Williamson makes explicit that adopting this assumption does not mean that all parties are assumed to be opportunistic in the same degree. "[S]ome individuals are opportunistic some of the time, and [...] differential trustworthiness is rarely transparent *ex ante*" (EIC: 64).

Two remedies for opportunism are mentioned: screening and safeguarding. However, screening for opportunism hardly plays a role in EIC. In fact, the only two allusions to screening in EIC I have been able to track down suggest that this remedy is impotent: the possibility of screening for trustworthiness is indicated to be unlikely (EIC: 58), and organizations based on trust are assumed to be easily invaded by opportunistic agents, presumably because screening is not effective (EIC: 64-65). TCE is clearly focused on the second remedy: the crafting of opportunism-curbing governance structures.

This concentration on safeguards and neglect of screening have the effect of suggesting that the condition of opportunism, notwithstanding Williamson's assertion to the contrary, is pervasive. This effect is strengthened by the way in which departures from opportunism are described. For instance, in explaining Japanese subcontracting practices, Williamson asserts that "[t]he hazards of trading are less severe in Japan than in the United States because of cultural and institutional checks on opportunism" (EIC: 122). Here we are far removed from Rousseau's assertion that evil is exterior to nature (Derrida 1977: 145). On the contrary, opportunism forms the invariant core of economic actors; trustworthiness is a supplement that varies from country to country, depending on culture and institutions.

The assumption of opportunism is defended by comparing TCE to at least equally unrealistic approaches that are based on the complete absence of opportunism. These 'utopian' modes of organization can be easily dismissed (EIC: 50-52). But a true test of TCE would consist in a confrontation with a theory with more differentiated assumptions concerning human nature rather than utopian theory (Noorderhaven 1993b). As it is, with opportunism kept free from the impurities of alternative motivational bases, one cannot help wondering how governance structures are to keep in check the obdurate inhabitants of TCE.

*Opportunism and Governance*

Inspection of the discussion of the comparative advantages and disadvantages of unified governance and market (or bilateral) governance in EIC is instructive. Two kinds of differences between both governance structures can be distinguished: differences in incentives and differences in the monitoring, controlling and auditing apparatus (EIC: 154-155).

An independent party, being a residual claimant, has strong incentives to make the most out of a deal. This has positive consequences, as independent parties will try to work as efficiently as possible. But if the condition of asset specificity applies, strong incentives lead to opportunistic seeking of quasi-rents: the party who has incurred investments in transaction specific assets will be put under pressure. Under unified governance, economic actors, assuming that they work for a fixed salary, are under a regime of weak incentives. This attenuates the proclivity for opportunistic haggling over transaction specific assets, but also weakens the drive for efficiency.

Unified governance allows parties to make decisions sequentially during the consummation of the transaction, rather than trying to fix everything in a complex contract *ex ante*. Thus economizing on bounded rationality is possible. But how is unified governance assumed to check opportunism? For one thing, costly haggling is avoided as decisions are made by fiat (EIC: 76). The power of fiat is founded on ownership: managers derive their authority from the fiat of their superiors and ultimately from that of the board of directors and stockholders. Within wide limits this right of fiat remains unquestioned: legal courts deem internal decisions to lie outside their jurisdiction (EIC: 154n).[5]

Furthermore, unified governance has superior auditing features. Whereas auditing across ownership boundaries is severely hindered by obfuscation and cover-up, internal auditing is assumed to meet with greater cooperation, because organization members have an interest in maintaining the integrity of the organization. "If, therefore, heads must roll in an integrated division where cost excesses have become great, and if guilty and innocent in these circumstances go down together, then it is easy to understand how those who are not implicated in malfeasance will collaborate early and actively with internal auditors" (EIC: 155).

In the final analysis, all differences between unified and market/bilateral governance can be reduced to differences in incentive features. The power of fiat ultimately resides in the fact that an employee within a certain "zone of acceptance" is indifferent as to the exact content of the work to which he will be assigned (EIC: 218). This indifference in turn is based on the fact that an employee has contracted for a fixed salary and therefore faces what Williamson calls "weak incentives".[6] As was seen before, the effectiveness of internal auditing depends on the fact that actors are confronted with different incentives in the case of internal audits as compared to external audits (see also EIC: 248-250).[7]

Thus the quintessence of the switch from market governance to unified governance is that of substituting "weak incentives" for "strong incentives". But "weak" and "strong" are deceptive adjectives in this context. A member of an organization faces weak incentives to haggle about specialized assets, but strong incentives to "shirk" or "consume on the job". In other words, unified governance reduces the risk of opportunistic rent-seeking, but at the price of introducing larger opportunities for shirking.

It is interesting to disentangle the convolutions of the argumentation with respect to this trade-off in EIC. In Chapter 3, the superiority of unified governance for recurrent transactions at high levels of asset specificity is alleged. For a discussion of the reasons underlying this assumption Williamson refers to Chapter 4. In Chapter 4, however, we read:

> [I]nternal organization has access to distinctive governance instruments. The differences between market and internal organization in incentive and control respects are developed in Chapter 6. For my purpose here, I take these as given. (EIC: 90)

Chapter 6, however, does not focus on the advantages of unified governance, but rather on the limitations of internal organization. Where one expects to learn why transactions are sometimes transferred out of the market and into a firm, Williamson sets out to explain why not *every* transaction is internalized. A number of problems of internal organization are discussed: meddlesomeness of managers, the use of the resources of the organization to pursue subgoals, exploitation of the firm by minimal performance, politicization of decision making, reciprocal managerial back-scratching, reluctancy of managers to abolish their own jobs, etc. (EIC: 148-153).[8]

Only after having discussed all these problems does Williamson reverse the question, and ask: "why can't the market replicate the firm?" (EIC: 154). Subsequently, the two advantages of internal organization mentioned above are put forward: weaker incentives for opportunistic rent-seeking and stronger auditing abilities (EIC: 154-155). The very conciseness of the discussion of the advantages of internal organization creates the impression that within the TCE framework it is far more difficult to explain how unified governance attenuates opportunism than to explain how opportunism undermines unified governance.

In some instances, particularities in the presentation of the argument have the effect of concealing this TCE predicament. Thus, all the problems of unified governance stemming from opportunism of agents (workers versus lower managers, lower managers versus higher managers, higher managers versus the board of directors) are discussed in Chapter 6 (pages 131-162). Only later, in Chapter 12 (pages 298-325), is the complementary issue of opportunism of principals (lower managers versus workers, higher managers versus lower managers) dealt with. Together these two discussions evoke an image of internal organization as a kind of Hobbesian war of all against all, a picture which devastates the plausibility of the effectiveness of unified governance, but is obscured if both chapters are read with a considerable time interval. This kind of dispersion is one of the phenomena which deconstruction warns against (Bennington and Derrida 1991: 71).

Another example is the assertion that "[t]he main benefits of vertical integration (...) are discerned by examining the problems attending autonomous contracting when the parties to a trade are operating in a bilateral exchange relation. The main costs of vertical integration are more difficult to discover, however" (EIC: 153). The first remark suggests that the weak points of market governance are by implication the strong points of internal organization. This is, however, what we would expect the text to substantiate. The second remark closes the discussion of the advantages of internal organization, and points at the problem of assessing the disadvantages. This assessment is said to be impeded by the "underdeveloped state of the bureaucratic failure literature" (EIC: 153; see also EIC: 392). In this fashion, although the *dis*advantages of internal organization have been discussed in much more detail than the advantages of internal organization, the alleged underdevelopment of the "bureaucratic failure literature" is suggested to be responsible for any shortfalls of this discussion.

These textual movements give the impression of a theory oscillating between market and organization, neither of which can plausibly be argued to offer "a safe haven for specific assets" (EIC: 248) against the relentless opportunism of "contractual man".

*Governance and Trustworthiness*

In the context of the discussions of the organization of work and the organization of labor (chapters 9 and 10 of EIC), Williamson at last introduces two arguments that are to make plausible the superiority of unified governance in curbing opportunism: "atmosphere" and "consummate cooperation".

"Atmosphere" is a concept introduced in an earlier work by Williamson (Williamson 1975), but is hardly used in TCE as it is dealt with in later texts.[9] The concept implies that organizational modes may not only differ in efficiency respects, but may also engender differences in attitudes. For instance, workers who are closely monitored may respond by displaying a narrow focus on the quid pro quo, while workers who are given more leeway may display a less calculative attitude (Williamson 1975: 79). In EIC, the concept is evoked without repeating this discussion. Loose allusions to the "sense that managers and workers are 'in this together'" and the benefits of "employee loyalty" (EIC: 247) can be associated with "atmosphere", but this connection is not made explicit.

The discussion of "consummate cooperation" is more elaborate. This concept is opposed to that of "perfunctory cooperation":

> Consummate cooperation is an affirmative job attitude whereby gaps are filled, initiative is taken, and judgement is exercised in an instrumental way. Perfunctory cooperation involves working to rules and in other respects performing in a minimally acceptable way (EIC: 262-263).

It is not difficult to imagine the differential impact of consummate and perfunctory cooperation on the efficiency of unified governance. However, a theory building on an assumption of opportunism cannot invoke consummate cooperation to explain the functioning of internal organization. To be sure, opportunistic actors *will* fill gaps, take initiative, and exercise judgement, but in ways that undermine the viability of unified governance rather than enhance its efficiency.

This, then, appears to be the argumentational structure of TCE: first the condition of opportunism is stressed in order to posit the problem of economic organization; subsequently, it is argued that under certain circumstances market governance is unable to safeguard transactions against the hazards of opportunism, hence a shift to unified governance is assumed to occur; then the shortfalls of unified governance (again stemming from opportunism) are discussed, in order to explain why firms do not replace markets altogether. The superiority of unified governance in curbing opportunism is hardly elaborated, but the few arguments that are put forth amount to a contamination of the purity of opportunism.[10] Thus Williamson, like Rousseau and Saussure, "accumulates contradictory arguments to bring about a satisfactory decision" (Derrida 1977: 45). The central aporia of TCE is that for its logic to apply it is necessary to stress that actors are opportunistic, but this same relentless opportunism undermines the very structures that are assumed to check it.[11]

## 4. IMPLICATIONS AND CONCLUSIONS

The deconstruction in this article has been confined to one particular text from the school of thought of transaction cost economics. The argument could be extended to other texts, and to other branches of organizational economics, however. This contention cannot be substantiated in this article, but one example can be given. In the agency/property rights theory tradition the opportunism of agents is assumed to be curbed by well-designed contracts. The theory fails, however, to give a satisfactory account of how these contracts are enforced. In fact, with the formulation of the contract the agency problem is considered to be solved. This means that opportunism is effectively suspended as far as the rule of the contract is concerned. And not without reason, for as I have demonstrated elsewhere, agency/property rights theory is in dire straits if it has to explain contract enforcement (Noorderhaven 1992). Thus, in this branch of organizational economics, the assumption of opportunism likewise needs some implicit dilution.

What should be the conclusion drawn from the deconstruction of TCE? It is emphatically *not* that TCE, or more generally organizational economics, is void. That would be a naive inference given that deconstruction holds that *every* theory by necessity includes the kind of aporias revealed in TCE (cf. Gasché 1986: 136). Likewise, it is *not* that we should discard the notion of opportunism, and embrace assumptions opposite to those of TCE. The development of organization theory is not well served by a swing from one extreme to the other (cf. Perrow's 1973 analysis of the forces of darkness and the forces of light in the history of organization theory).

One valid conclusion is that the limitations of the kind of rigid deduction from stark assumptions as employed by TCE should be kept in mind. Certain aspects of the phenomenon of economic organization have been elucidated (some of which, perhaps, have been neglected by received behavioral organization theory), but at the price of leaving other aspects in the dark. The unremitting hammering away at opportunism by organizational economics has put the question why organization members obey rules and acquiesce in hierarchical authority on the agenda. The time has come for a well-considered dilution of the assumption of opportunism, in order to make headway in improving the descriptive validity of the theory.

One subordinate conclusion does, however, have to be mentioned first. Organizational economists have, in the past, strongly criticized received behavioral organization theory. Williamson, for instance, deplored the "underdeveloped" and "primitive" state of received theories of bureaucracy (EIC: 153; 392).[12] Jensen (1983) stated that organization theory was still in its infancy, and predicted a revolution in this field when economists took the matter in hand. The analysis in this article suggests that the state of affairs in organizational economics justifies no complacency, and that the balance between criticism and appreciation of received behavioral organization theory should be restored.

More importantly, in order to enhance the explanatory power of TCE (or organizational economics, in general) a more differentiated approach to opportunism is necessary. As the preceding discussion has shown, a concept derives its meaning from other concepts from which it can be distinguished. This is also true of opportunism: opportunism is the absence of trustworthiness. But if opportunism is to be defined as an absence of trustworthiness, the existence of trustworthiness is presupposed. A theory of organization could take the existence of opportunism *and* trustworthiness as a profitable point of departure. One task would be to explain how differences in opportunism affect economic organization. This would entail theories of screening and selection, and of the building of safeguarding structures. Another task would be to explain how economic organization affects opportunism. In both cases, an assumption of pure opportunism or pure trustworthiness, at the level of the individual or at the level of the population, would be unproductive.[13]

Williamson, in conclusion, can be quoted once more with approval: "a richer theory of economic organization awaits deeper behavioral insights" (EIC: 392). Much work remains to be done.

**NOTES**

* I am grateful to Egidius Berns and Bart Nooteboom for valuable comments and criticisms.

1. This discussion is based on Berns (1981; 1986; 1990); Culler (1979); Dews (1987); Norris (1991); Sturrock (1979); and Vasterling (1987).

2. It is no accident that writing is seen as inferior to speaking in the Western philosophical (metaphysical) tradition. The indissolubility of signifier and signified brings the exteriority of language dangerously close to the interior source of meaning. Meaning could be seen as dependent on language, a position that is unacceptable in metaphysical thought. In order to neutralize this threat the more interior spoken sign is given preference over the written sign (Berns 1990).

3. "Aporia", deriving from the Greek word meaning "unpassable path", is a concept from traditional rhetoric, denoting a self-engendered paradox (Norris 1991: 49). The concept is used frequently by Derrida. "What deconstruction persistently reveals is an ultimate impasse of thought engendered by a rhetoric that always insinuates its own textual workings into the truth claims of philosophy" (ibidem).

4. Deconstructions such as this could be based on the epistemological criticism of TCE contained in Noorderhaven et al. (1993) and Nooteboom (1992). Deconstructive efforts focusing on bounded rationality can take as a point of departure the statement on page 38 of EIC: "I consistently assume that the parties to a contract are hard-headed and that the ramifications of alternative contracts are intuited if not fully thought through." This effectively does away with bounded rationality.

5. In Williamson (1991), this aspect of unified governance is worked out more systematically in the discussion of the concept of "forbearance".

6. An employee also has a more limited scope for opportunistic behavior, as he cannot as easily exit while maintaining the fruits of his opportunism as an independent party (EIC: 155). At an earlier stage of the analysis, though, Williamson consistently abstracted from "the special hazards posed by fly-by-night firms" (EIC: 72). Therefore the argument, here, appears to be somewhat ad-hoc.

7. In principle autonomous trading partners could write a contract introducing the same auditing procedures normally found within firms. Because the incentives differ, however, these procedures are less efficient if applied across the boundaries of firms; "market and internal organization differ in 'informal organization' respects" (EIC: 154).

8. To this could be added influence activities performed by organization members in order to influence decision makers, see Milgrom and Roberts (1988).

9. This expulsion may very well be one of the reasons for the opposition between TCE and received behavioral organization theory, cf. Schreuder (1991).

10. A comparison with the "impurity principle" formulated by Hogdson (1988: 167-171; 254-262) is apposite but falls outside the scope of this paper.

11. Granovetter (1985) makes a comparable observation, stating that TCE alternates between an undersocialized and an oversocialized view of man in describing market and hierarchy, respectively, though that does not seem to be quite the point. TCE ostensively holds to the assumption of opportunism, even in explaining unified governance (witness the vivid description of the hazards of internal organization). Small but essential impurities to the principle of opportunism are, however, introduced in passing.

12. In all fairness, Williamson also says that "economics should both speak and listen to organization theory" (EIC: 402).

13. In the first case, opportunism is seen as an exogenous variable. One possible line of reasoning would then be that the average level of opportunism may be assumed to vary between cultural-institutional settings. Williamson hints at this explanation by alluding to "low-trust" and "high-trust" societies (EIC: 392). In the second approach, opportunism enters as an endogenous variable. An example of a study in this vein (although from an entirely different tradition) is Fox's (1974) analysis of vicious low-trust and virtuous high-trust circles in management-labor relations.

BOX 1: WILLIAMSON ON OPPORTUNISM

RELATIVIZATION OF THE ASSUMPTION OF OPPORTUNISM IS NECESSARY, AS:

* *treatment of the ramifications of dignity for economic organization is sorely needed* (44, note 3);
* *individual and personal trust relations evolve* at the interface between supplier and buyer (62);
* *[w]here personal integrity is believed to be operative, individuals [...] may refuse to be part of opportunistic efforts* (62);
* *transactions do enjoy the added safeguard of personal honor and integrity of the individuals who negotiate the terms* (63, note 22);
* *the spirit in which adaptations are effected is [...] important* (76);
* *[s]imple regard for human dignity* (151);
* *[a] sense that management and workers are "in this together"* furthers the purpose of effective adaptation (247);
* *suspicions and precautions can be and sometimes are taken to excess* (388);
* opportunism is a narrow prescription, *[i]t makes little provision for attributes such as kindness, sympathy, solidarity, and the like* (391);
* *the importance of deepening our knowledge of economic organization in dignitary respects is enormous* (405);
* *transaction cost economics must be placed in perspective, lest it become dehumanizing* (405);
* *calculativeness can get in the way of trust* (405).

BUT:

* *[o]pportunism is a subtle and pervasive condition of human nature with which the study of economic organization must be actively concerned* (6);
* *[g]overnance structures that attenuate opportunism [...] are evidently needed* (63);
* organizational forms which are based on nonopportunistic principles are *rendered [...] nonviable by the intrusion of unscreened and unpenalized opportunists* (65);
* the bounded rationality/opportunism view *accords with reality* (67);
* *blatant opportunism may be rare, it nevertheless illustrates the problems that arise when trading parties possessing the behavioral attributes of human nature as we know it are joined* (80);
* assuming that communitarian values play a role is *unneeded and unhelpful* (166);
* *a healthy regard for opportunism is essential to an understanding of the purposes served by complex modes of economic organization* (388);
* *much of the success of economics in relation to the other social sciences occurs because calculativeness is presumed to be present in nontrivial degree* (391);
* *[t]his unattractive view of human nature [...] generates numerous refutable implications* (392).

Note: Page numbers refer to Williamson (1985), direct quotations are in italics.

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