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Who Needs the Assumption of Opportunistic Behavior? Transaction Cost Economics Does Not!

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Who Needs the Assumption of Opportunistic Behavior? Transaction Cost Economics Does Not!

Abstract:

The assumption of opportunistic behavior, familiar from transaction cost economics, has been and remains highly controversial. But opportunistic behavior, albeit undoubtedly an extremely important form of motivation, is not a necessary condition for the contractual problems studied by transaction cost economics to occur. A broader category of motivation, inappropriate motivation, which is such a necessary condition, is presented and discussed, and a number of implications are presented.

Keywords:

Opportunism, altruism, self-interest, motivation, transaction cost economics.

1 Introduction

Transaction cost economics (hereafter TCE) is one of the most influential approaches to the new institutional economics.[1] Although clearly influenced by earlier contributions such as Coase (1937) and Hayek (1945), it was pioneered by Oliver E. Williamson. The seminal contributions by Williamson, (1971b) and (1973), were followed by a stream of important contributions by Williamson and others that has not ended yet. One way in which TCE differs from most other contributions to the new institutional economics is the careful delineation of its assumptions concerning the nature of economic actors. This is above all explicit in Williamson's contributions, which we will primarily stick to herein. These assumptions are labeled bounded rationality and opportunistic behavior, respectively.[2] Following Simon (1947/1976), bounded rationality is defined as behavior that is "...intendedly rational, but only limitedly so" (Williamson 1988:569). Opportunism is defined as "...self-interest seeking with guile" (Williamson 1985:47).

[1]For an overview of pioneering contributions to the new institutional economics widely interpreted, cf. Richter (1996). For recent surveys, cf. Richter (1996) and Furubotn and Richter (1997). Joskow (1995) provides an overview of the relation between major parts of the new institutional economics.

[2]Williamson (1973:317), (1985:44-50), (1989:138-150), (1993a:458-459), (1996:48-50) and (1999: 1089).

TCE has been severely criticized on account of the latter assumption. It has been argued that (1) not all actors are given to it, and that an alleged consequence of this is that (2) the theory is fundamentally flawed. The purpose of this paper is to illuminate the consequences of accepting the former position. In doing so, we may distinguish between criticism of the assumption and criticism of TCE on an overall level.[3] It will be argued that this is not an important criticism for the theory. The reason is that, even though one accepts that opportunistic behavior is an important empirical phenomenon, TCE does not need the *assumption* of opportunistic behavior. Hence, although it is accepted that all actors are not given to it, it does not follow that the theory is fundamentally flawed. In fact, the result of the analysis can reasonably be interpreted as strengthening the case for TCE as an important theory of economic organization.

In section 2, the character of the transactions considered as well as the analytic approach employed is outlined. The content of the assumption is dealt with in section 3. In response to the criticism of the assumption, it is argued that it is convenient to make a distinction between two forms of the assumption. They are referred to as the strong and the weak form, respectively. In section 4, we present some alternative motivational assumptions. It is argued that an actor may have as much to fear from altruistically as from opportunistically motivated transaction partners. It follows from this analysis that opportunistic behavior cannot be a necessary condition for the kind of contractual difficulties considered in TCE (unless altruism is a kind of opportunism). A candidate for a more general form of motivation, inappropriate motivations, that will give rise to a need for protection in the same way as opportunistic behavior does, is introduced in section 5. It is argued that whether this category of motivations is identical to or differing from that of opportunistic motivations largely depends upon the way self-interest is defined. It is argued that the most acceptable definition of self-interest is the one which will make the two motivational types delineate different categories of behavior. Concluding remarks and a discussion of whether the assumption of opportunistic behavior should be replaced with the assumption of inappropriate motivation follow in section 6.

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[3] It should be noted that such a distinction need not imply acceptance of the view, made popular by Milton Friedman (1953), that the realism of assumptions does not matter.

2 The Situations Analyzed

The situations analyzed by transaction cost economics may be described as follows: two actors (hereafter referred to as actor 1 and 2) contemplate whether to make a transaction with each other. We assume that, if they decide to enter the transaction, they make an agreement concerning its execution. An agreement between two actors will be said to exist when the following conditions are simultaneously fulfilled: (i) the belief is held, by at least one of them,[4] that there is a mutual understanding[5] between them of what the appropriate action(s) each is to take, are; (ii) the other actor has a knowledge of that belief. The second condition is included in order to ensure that a possible conflict between the two actors is not grounded in a misunderstanding. We do not deny the importance of such misunderstandings, but have nevertheless decided to exclude them in order to simplify the analysis.

In order to simplify the analysis further, we look at the situation exclusively from actor 1's point of view. We assume that, if he enters the transaction under consideration, then he will increase his vulnerability to actor 2's actions. This may, for example, be because his participation in the transaction requires him to make an investment that is highly specific to the transaction.[6] We further assume that actor 1 will abide by his obligations according to the agreement, at least as long as actor 2 does.[7] But he does not know ex ante whether actor 2 is willing to do so. Having established the situation under consideration, the question to be analyzed may be stated as follows: *which types of motivations on the part of actor 2 is of relevance when evaluating the risk for actor 1 that actor 2 will not act according to the agreement, but in a manner that leads to a lower level of satisfaction for actor 1?*[8]

We shall not be concerned with the precautions actor 1 might take to protect himself from the consequences of actor 2's possible opportunistic behavior. Likewise, we shall not be concerned with any protective mechanisms actor 1 might rely on to force actor 2 to behave according to the agreement (for a systematic treatment of

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[4]The phrase "at least one of them" is included in order to cover situations where one party has been insincere.

[5]What lawyers call "the meeting of the minds."

[6]A need for asset-specific investments is a sufficient condition for increased vulnerability, but not necessary. Cf. Koch (1994).

[7]The implication is that, although actor 1 will not be the first to deviate from his obligations, we do not exclude the possibility that he may be willing to retaliate if actor 2 fails to comply with the agreement.

such protective mechanisms, cf. Koch 1994, 1995, 1997). Especially, no assumptions are made concerning whether the agreement can be enforced by the legal system.

3 Discussing the Assumption of Opportunistic Behavior

The behavioral assumptions employed in TCE are bounded rationality and opportunistic behavior, respectively. As we saw, the latter is defined as "...self-interest seeking with guile" (Williamson 1985:47), and it is characterized as follows:

> "More generally, opportunism refers to the incomplete or distorted disclosure of information, especially to calculated efforts to mislead, distort, disguise, obfuscate, or otherwise confuse" (Williamson 1985:47).

Even more generally, opportunistic behavior may be characterized as conscious efforts to fulfil ones self-interest with dishonest or immoral means (Koch 1997:98).

In TCE, the task of economic organization is often explicitly described as one of economizing on bounded rationality while simultaneously safeguarding against opportunistic behavior (cf., e.g., Williamson 1988:596 and 1993a:463).According to this formulation, one would think that the two assumptions received roughly the same attention. What is in practice investigated, however, by almost all contributions to TCE, concerns ex ante safeguards against ex post opportunistic behavior (Koch 1994 and Richter 1996). The analytical role of bounded rationality is the subsidiary one of complicating this task. The studies of M-form versus versus U-form organization of large firms is one of the few exceptions to this.[9] Another exception is Richard Langlois' attempts to explain various forms of integration, in the context of innovation (Langlois 1988, 1992, and Langlois and Everett 1992).

Bounded rationality is generally not seen as a problematic assumption any longer (but cf. Posner 1993:80 and Pratten 1997:791-796). We shall not be explicitly concerned with it here.

Before we go deeper into our analysis, it must be emphasized that the assumption of opportunistic behavior refers to the motivation of an actor (Williamson 1984a, 1985, Koch 2000). It does not refer to the actual behavior performed by him. This behavior

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[8] A lower level as judged by actor 1 himself.

[9] Williamson (1971a) and (1975). The study of M-form firm as a miniature capital market versus the functioning of the "real" capital market once more relegates considerations relating to bounded rationality to this subsidiary role.

may be opportunistic or not according to what he expects to be most expedient (Koch 2000). Hence, the assumption could more properly be referred to as the assumption of opportunistic motivations.

Obviously, opportunistic motivation will be problematic for actor 1 in situations characterized as in section 2. Traditional TCE assumes that actors are given to it. Given its central role, it is understandable that the assumption has been widely discussed. Many contributions are very critical, indeed hostile, to it. This very comprehensive literature will not be reviewed here. We restrict our attention to criticism which takes as its point of departure the alleged fact that many economic actors are *not* opportunistically inclined. We shall, inter alia, examine the implications of taking this counter-argument to be true. A distinction is made between the consequences for the assumption and for the theory.

The claim that "not all actors are given to opportunistic behavior" has been presented, sometimes as a counter-argument to the assumption of opportunistic behavior, in a number of contributions.[10] Since this claim is true given the existence of just one actor *not* given to opportunistic inclinations, it is not a very credible (though logically possible) defense to argue that it is wrong. A variation over this theme is to point to other behavioral assumptions as motivating factors. We shall return to this below.

Consider a hypothetical world where everybody voluntarily comply with their explicit and implicit obligations according to the agreements they make. In such a world, the enforcement of agreements is relatively simple. Assuming this will sometimes be appropriate from an analytical point of view, e.g. in order to reduce analytical complexity. It may even be descriptively realistic in some situations. But, at least in most economic contexts, and in many other areas of life as well, both common experience and informal analysis seem to suggest that not everybody will abstain from opportunistic behavior.[11] Many empirical investigations have emphasized the relevance of opportunistic behavior. An alliance network between accounting firms (Nexia International), studied by Koza and Lewin (1999), revealed opportunistic

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[10]Maitland et al (1985), Donaldson (1990), Hill (1990), Buchanan (1994), Ghoshal and Moran (1996), Madhok (1996:588) and Moschandreos (1997:43).

[11]Cf. Williamson (1993b), (1999:1089,1099), Bidault and Fischer (1994), Koch (1994), Foss and Koch (1996) and Douma and Schreuder (1998) for such views. Some of the arguments offered are, however, also supportive of

tensions. One of the firms openly admitted to act opportunistic by entering another member firm's market (Ibid:648-652). Hamel (1991) found, in an investigation of strategic alliances founded in order to develop competence and learning, that the more collaboratively motivated partners tended to be exploited. Opportunistic behavior has also been investigated in the marketing literature on distribution channels. This very comprehensive literature indicate that opportunistic behavior is a very relevant concern when choosing how to organize distribution (cf., e.g., Dahlstrom and Nygaard 1999 and Brown et al 2000 as well as the multiple references supplied in the latter). Following this and much additional evidence, we do not assume that actors will necessarily abide by their agreements.

In this respect, it is important to note that it is not necessary to assume that all actors are opportunists in order to reach the results Williamson and others have reported (Williamson 1984a:199, Williamson and Ouchi 1981:351 and Koch 1994). Following this, the *assumption of opportunistic behavior* may be modified to include the following two requirements:[12]

(OB1) A non-negligible proportion of the actors involved in economic transactions have inclinations toward opportunistic behavior.

(OB2) The opportunistically inclined actors cannot easily be distinguished from the non-opportunists.

In order to distinguish the modified assumption, we shall refer to it as the weak form of it. We shall refer to the assumption that *all* actors are given to opportunistic behavior as the strong form. The weak form of the assumption now delimits the range of validity for traditional TCE. When actors *are* able to distinguish between those that are given to opportunistic inclinations and those that are not, then traditional TCE reasoning might fail. This aspect is ignored herein (but developed in Koch 1994).

Now, what is a "non-negligible proportion" as referred to in (OB1)? Before trying to answer this question, we shall consider a similar problem: why do people have locks on their front doors? Is it because they consider every person to be a thief? They might, but the use of locks on doors can certainly be rationalized without invoking this

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the relevance of the variable referred to as inappropriate motivations below.

[12]This follows Koch (1994:78-79) and Foss and Koch (1996). Maitland et al (1985) seem implicitly to endorse a

assumption. The most sensible reason would seem to be that the proportion of thieves is "large enough" to justify the use of locks on doors. Returning to the field of voluntarily entered transactions, there is much evidence indicating that otherwise unnecessary precautions against opportunistic behavior are often taken (Koch 1994, Foss and Koch 1996). We suggest that the answer to what constitutes a non-negligible proportion in (OB1) is of a similar nature to the question concerning locks on doors.

Acknowledging the criticism that not all actors are given to opportunistic behavior is devastating to the assumption *in the strong form.* But it need not be so for the theory. There are two arguments for this. The first is that already mentioned, that not all actors need to be opportunistic in order for Williamson's results to hold. And the allegation that not all actors are given to opportunistic motivations is perfectly compatible with the weak form of the assumption. Secondly, one might conjecture that other behavioral assumptions lead to similar problems as does opportunism. In what follows, we shall discuss alternative forms of behavior and examine the risk associated with some of them. As it turns out, some of them may actually give rise to the same problems as opportunistic behavior does.

4 Alternative Forms of Behavior

It is sometimes argued that other behavioral assumptions than opportunistic behavior will give rise to different behavior and, hence, other perspectives on economic organization than that provided by TCE. In order to simplify the discussion, we shall ignore the concept of norm in relation to these alternative motivational factors. A frequently proposed alternative to the assumption of opportunistic behavior is "trust". Consider, e.g., the following statement made by two leading researchers in the theory of industrial networks:

> "We do not regard opportunism as a basic characteristica of the actors. As in social network theory, its correlate trust is an important concept in the network approach" (Johanson and Mattsson 1987:44).

Several other researchers have pointed to the existence of trust as a counter-argument to the assumption of opportunistic behavior. Examples are Bradach and

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similar position.

Eccles (1989:111), Lundvall (1993:57-58) etc.[13] It should be noted that trust is not a behavioral or motivational assumption at all. At a very general level, trust is rather a belief held by one actor that another actor will not act so as to harm him. Most explicit or implicit definitions of the term that this author has come across is rather what have elsewhere been labeled a *protective mechanism* (Koch 1994, 1995, 1997). Taking actor 1´s point of view, a protective mechanism may be defined as any reason actor 1 *could* have for expecting that actor 2 will keep his obligations according to the agreement. The main dividing line among the various definitions of trust is whether they constitute what Lyons and Mehta (1997) called self-interested or socially-oriented trust.[14] We shall not be further concerned with trust here.

Having put trust aside, a number of alternative motivational assumptions must be considered.[15] Williamson (1984a:200-202), (1984b:69-70) himself pointed to a factor labeled dignity, but was apparently unable to integrate it into the analysis. Experiments conducted by Frohlich and Oppenheimer (1984) suggest that at least three forms of behavior that deviates from "normal" self-interest seeking may be widespread. They are labeled altruism, egalitarianism and difference maximizing, respectively.

Donaldson (1990:377-379) advocates the so-called stewardship theory of managerial behavior. According to this theory, managers act loyally to fulfil the interests of owners. This would seem to imply an extreme sense of altruism on the part of managers, with the owners as benefactors[16] (alternatively, it could witness the existence of a perfect, costless system for surveillance of managers). In this respect, it is reminiscent of the obedience assumption of behavior explicitly or implicitly adhered to in socialist and fascist theories of social engineering.[17] Kay (1992:322) argues that the obedience assumption "...is an observable phenomenon naturally associated with many hierarchical situations." I agree that obedience is of importance for understanding human behavior. Interestingly, however, empirical research on

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[13]For a number of different definitions of trust and discussions of the concept, cf. Coleman (1984:84-85,87-88), Thorelli (1986:38), Luhmann (1988), Bradach and Eccles (1989:104), Koenig and Wijk (1991), Sitkin and Roth (1993), Williamson (1993a), Burchell and Wilkinson (1997), Lyons and Mehta (1997), Larsson et al (1998:295-296) and Sako and Helper (1998).

[14]The definition in Luhmann (1988) is an exception.

[15]We shall not be concerned with the question as to the exact relation between these alternatives. Some of them may be interrelated in ways not considered here.

[16]For a less extreme position, cf. Davis et al (1997).

[17]For a comparison of the obedience assumption with opportunistic behavior, cf. Williamson (1984a).

obedience seems to underscore the importance of self-interest seeking. Apparently, disobedience is much more likely to occur if obedience detriments one's own "situation" than if it detriments that of a third party (Meeus et al 1995).

Some actors may abstain from opportunistic actions because they act in accordance with principles that exclude such behavior from the proper realm of alternative actions:

> "Many persons do not behave opportunistically, even when the possibilities of apparent advantage are present, because they adhere to certain moral precepts or norms" (Buchanan 1994:125).[18]

Simon (1993) and Samuelson (1993) both point to altruism as an important motivating factor. The examples provided by Simon seems to indicate that altruism is at occasions an extremely powerful motivation for behavior. We shall take a closer look at altruistic behavior. Following Frohlich and Oppenheimer (1984:5), we define

> "...altruistic preferences as those by which individuals are willing to give up something to increase the welfare of another person".[19]

We assume that economic actors are only interested in the outcome generated.[20] That is, we disregard whether they enjoyed participating in the transaction.[21] The outcomes are determined jointly by the actions undertaken by the participants, and possibly by some external factors as well.

We start by considering a hierarchy with three actors, 1, 2 and 3. Actor 1 is actor 2's manager, and actor 2 is actor 3's manager. Assume that actor 1 observes that actor 2's department does not perform as well as were expected. He asks actor 2 for an explanation. The work conducted by the department, however, is difficult to evaluate for outsiders. Actor 2 tells actor 1, wrongly, that some difficulties outside his control came along and that these factors were responsible for the low performance.

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[18]In response to Buchanan's paper, Schlicht (1994) argues that such rules cannot be (consciously) chosen. A point of view similar to Schlicht's comment is advocated by Estrup (1991).

[19]For an example of how such preferences may enter the choice function, cf. Foss and Koch (1996:196).

[20]In their interesting paper, Kogut and Zander (1996:506) suggests that what can from one actor's point of view be seen as opportunistic behavior, may be perceived as "group loyalty" from another. This is clearly related reasoning to the example in the text, which is a further development of an example in Koch (1994).

[21]The relevant outcome may well be in terms of learning. This is not problematic, in that it is still possible to discard any satisfaction deriving from the process above what is relevant for the goal of learning. Since the process will always have some effect on the outcome, actors should not be less interested in the process in transactions where the outcome is not (primarily) the acquisition of knowledge in some sense.

The real reason for the low performance was, however, not some factors over which actor 2 had no control. It was due to the fact that one of his employees, actor 3, had some personal problems and was not able to concentrate on his work. Actor 2 could have fired actor 3, or at least reported his difficulties to actor 1. The policy of the company was, however, not to take such "external" circumstances into consideration when evaluating an employee's work. The normal policy would be to fire actor 3. Actor 2 decided to protect actor 3 by telling a lie. The riskier this was to actor 2, the greater the degree of altruism required (if no risk was involved, the act can hardly be called altruistic, and is indeed excluded from being so by the above definition).

What would actor 1 think of this if he discovered what had actually happened? Remember that we assumed that actor 1 is only concerned with the output generated. Then it clearly does not matter for him *why* actor 2 acted as he did. What matters is *what* he did. This example demonstrates that altruism need not change the results of the analysis significantly, at least when seen from actor 1's point of view. A party whose interests that it does not seek to fulfil will not gain from it.[22]

More generally, as long as the assumption that the participants are mainly interested in the outcome generated is upheld, it follows that they are mainly concerned with the means, i.e., with the actions, by which their transaction partners seek to fulfill their ends. The kind of end, or whose ends (if anybody's) they might be, will only be of interest to them in so far as knowledge thereof is relevant for predicting their actions.

5 A More General Condition

It might be convenient to make a formal definition of motivations that would, given a number of supplementary conditions, lead to problems of the kind considered in TCE.[23] It is important that this definition allows for non-opportunistic motivations when and if these are compatible with such problems. We shall refer to such motivations as *inappropriate*. We shall only be concerned with ex post actions.[24]

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[22] Some altruists might well believe that, because they do not act in order to further their own interests narrowly perceived, they need not feel as restrained in their actions as others might do. According to anecdotal evidence, examples on the political level abound. Given this interpretation, altruism is not necessarily a positive quality.

[23] For these supplementary conditions, cf. Koch (1994).

[24] Since ex post conditions are also the primary concern of traditional TCE (cf. above), this is hardly problematic.

Inappropriate behavior may be defined as *behavior that represents intentional violations of, or attempts to violate, the agreement* (where the agreement is defined as in section 2 above). It is important to realize that the violations are carried out even though it is realized by the actor that this behavior constitutes a violation, and that it is contrary to the interests of the transaction partner. Following the definition of inappropriate motivation, whether an actor is given to it depends upon the *means* he will use to pursue the interests or ends he acts to further.

Inappropriate motivation is closely related to or even identical to the propensity to act opportunistically. It is obvious from their respective definitions that opportunistic motivation is a sufficient condition for inappropriate motivation. But is inappropriate motivation also a sufficient condition for opportunistic motivation, implying that the two categories of motivations are identical? As we shall see, this depends largely upon the definition of self-interest seeking employed.

In section 4, it was exemplified that altruistic motivations will in some situations give rise to the same problems as opportunistic motivations. One consequence of this is that opportunistic behavior cannot be a necessary condition for the kind of contractual difficulties considered in TCE, unless alternative motivations are defined as a form of opportunistic motivations.[25]

But are opportunistic motivations identical to or different from inappropriate behavior? That would seem to depend upon the definition of self-interest employed in the definition of opportunistic behavior. If one takes self-interest to characterize *all* conceivable intentional actions, then the two conditions are identical. The argument for this interpretation of self-interest could be that, ignoring mistakes, it is inconceivable that an actor did not act to further his own interests. One consequence is that this becomes the definition of self-interest: the interests an actor intends to further by his actions. We shall refer to this conception of self-interest seeking as the *wide interpretation of self-interest.*

This interpretation of self-interest seeking is a defensible position. But a price must be paid for it: the concept of self-interest loses all empirical and theoretical content. If every conceivable conscious action is intended to further self-interest, simply because of the way self-interest is defined, then self-interest does not have

[25] For an explicit argument that opportunism is not a necessary condition, cf. Koch (1994).

what is referred to as a *polar concept*. It would have the same status as the concept "big" would have if the concept "small" was meaningless.[26] One implication of this is that non-self-interest seeking is then not only not existing at the factual level (which is acceptable[27]), but cease to have any meaning at all (which is unacceptable). Specifically, it does not mean "egoistic" any longer. Hence, if the term “self-interest seeking” is to have any content, in the logical sense of the word, we must rely on a “narrow” definition of that concept. Accepting this, it follows that inappropriate motivation is a wider class than is opportunistic motivation.

But, as we saw above, actions may also be performed without the intention of furthering the interest of any particular actor or group of actors. This is the case when actions are carried out in order to serve some abstract principle (for related considerations, cf. North 1986:233-234). Such principles may sometimes, whether intended or not, collide with the agreement. The principles may be general norms, but need not in order to be relevant. Norms are socially shared among a group, whereas principles may be of a more personal character. Hence, it is conceivable that inappropriate acts are sometimes performed in order to adhere to such principles. It should be noted, however, that some such principles may serve as protectors against opportunistic behavior (Buchanan 1994).

6 Conclusion and Discussion

The assumption of opportunistic behavior has undoubtedly been the single most controversial part of TCE. It was argued that the assumption can be formulated in a strong as well as a weak form. The strong form is the assumption that all actors are given to opportunistic motivations. The weak form is the modification that only some actors are so disposed, but that they are difficult or impossible to distinguish (at least ex ante) from those that are opportunists. This paper has investigated the consequences of acknowledging the existence of at least some actors not given to opportunistic motivations. Doing so is, of course, devastating for the assumption in its

[26]The argument that follows is nothing but a special case of the view that a concept that does not, because of its definition, have a polar concept, does not mean anything (Hartnack 1976:166):

[27]The concept "dinosaur" does not loose its meaning just because dinosaurs are extinct. Even if dinosaurs had never existed, the concept (properly defined, of course) would not be without meaning. The crucial condition is whether it is possible to conceive of something that is not a dinosaur, i.e. a “non-dinosaurs”.

strong form. But it is not in its weak form. And only the weak form is required to get the results claimed by TCE. Hence, this criticism is not as serious for the theory as some of its protagonists seem to think.

But what about the consequences for the theory of admitting non-opportunistic motivations? A number of such alternative motivational assumptions were presented. We explicitly analyzed a case of altruistic motivations. The major result of this analysis was that lacking fulfillment of agreements will not only be relevant in situations where actors are motivated by narrow self-interest seeking. Altruistic motivations will also give rise to such problems given otherwise suitable circumstances. It follows that the assumption of opportunistic behavior as normally perceived cannot be a necessary condition for the problems dealt with by TCE. What is really crucial is whether transaction partners will in fact keep their agreements or not. *Why* they do or do not do so is really besides the point. It is their means, not their ends, that are important. Hence, the reference to self-interest seeking in the definition of opportunistic behavior is actually irrelevant, even misleading. The most important consequence for the theory is that it strengthens its relevance in explaining the use of protective safeguards. The reason is that considerations concerning protective safeguards against ex post failures to comply with the agreement (as defined herein) will also be relevant in some situations where actors are not opportunistically motivated. These alternative forms of motivation will only be counterexamples to the relevance of TCE reasoning if they assure that actors given to them will comply completely with the terms of the agreement.

We introduced a new behavioral assumption, inappropriate motivation, and investigated its relation to opportunistic motivation. It was argued that whether these are different assumptions or not depend upon the way the concept self-interest is defined. If one takes self-interest to characterize *all* conceivable intentional actions, then the two conditions are identical. We referred to this conception of self-interest seeking as the *wide interpretation of self-interest*. It was argued that, in order to avoid very severe conceptual and empirical problems, one is forced to adopt a narrow definition of self-interest. Doing so, it logically follows from their respective definitions that the category of inappropriate motivation is a wider category than opportunistic motivation is. Hence, opportunistic motivations are but a special case of such motivations. In this sense, TCE does not need the assumption of opportunistic behavior.

One implication of this is that the problems investigated by traditional TCE is compatible with some forms of behavior that are more often associated with psychological and, particularly, sociological inquiries than with economics. This points to one possible link between economic and more sociological approaches (such as industrial network theory) to the study of the organization of production and transactions.

The question may be raised whether the analysis implies that we should change the assumption of opportunistic behavior in TCE. The answer to this question is not straightforward, and cannot be answered exclusively on the basis of the above analysis. Other factors would have to be included. Assume that the means (if any) with which protection against inappropriate behavior can be achieved does not depend on whether it is motivated by narrow self-interest or by something else. In that case, there is no analytic reasons *relating to the arguments of this paper* that compels one to change the assumption. But even with identical means for remedy, there may be other reasons for doing so. One is the view that our theories should be as logically stringent as possible. Another is the requirement for descriptively realistic assumptions. A third and more "persuasive" point of view relates to the ferocity of the criticism of the assumption of opportunistic behavior. If opportunistic motivations is not a necessary condition for the theory, then there is no reason to stick to the assumption that has arguably generated the greater part of the opposition to it. Although the assumption in its weak form might be upheld, it seems to be somewhat misleading.

The situation is quite different if the means with which protection against inappropriate behavior can be obtained depends upon whether it is motivated by narrow self-interest seeking or not. If this is the case, it would be highly misleading to employ the assumption of opportunistic behavior. The reason is that there would now be a substantial difference between the circumstances to which the theory applied, depending upon whether there is inappropriate but not opportunistic motivations, or inappropriate motivations due to opportunistic motivations. Then the assumption cease to be an innocuous "as-if" assumption, but also becomes a serious weakness from an analytical and, probably, also from an empirical point of view. In this case, even the weak form of the assumption is misleading. And TCE would then not only not need the assumption of opportunistic behavior, but do better without it. Whatever turns out to be the case is left to future research to decide.

Finally, it should perhaps be emphasized that the foregoing analysis does not show that opportunistic behavior is unimportant as an empirical phenomenon. The claim is only that many of the problems associated with opportunistic self-interest seeking will also arise in situations where the motivation is not narrowly self-interested. But to adopt the assumption of opportunistic behavior (as genuinely interpreted, i.e. as a motivation) is to put TCE into a straight-jacket for which there is neither justification nor need.

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