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THE MAJOR ASSUPTIONS OF TCE AND AGENCY THEORY IN RELATION TO HUMAN BEING (REVIEW)

Dr. Intisar Abbas Jebur

Abstract

This artical discussed and tested the relationship between the most important assumptions of transactioncost theory and its relationship with agency theory. The most important assumptions of these two theories and how they affect human behavior in organizations were discussed. The researcher adopted the deductive theoretical approach by reviewing the most relevant literature. In economics, transactioncost theory Transactional economics, economics, is based on the assumption that people are influenced by competitive self-interest. In this paper, the relationship between executives (financial managers) and shareholders (owners of capital) will be discussed. Through the theories related to the economics of the cost of financial transactions and agency, the research concluded that not all assumptions of economic theory can be considered behavioral because opportunism varies between human beings and cannot be measured or modeled. Incentives and special methods are suggested. By observing the activity of management, the research also found a set of proposals to create a kind of consensus in management interests between executives and shareholders. As for the cost of transactions, it is related to negotiation, monitoring, evaluation, and implementation exchanges between contracting parties. As a result, these two theories, one complementary to the other, begin with agency and end with transaction costs and their impact on the behavior of the organization and human beings.

Keywords: transaction cost theory, agency theory, human beings.

1.**Theoretical background**

Transaction cost theory ("TCT "), or transaction cost economicst, has become one of the most important ideas in managing research , based on the pioneering work of two Nobel laureates (Coase , 1937 ; Williamson , 1975 , 1985). TCT has lived applied to skin soft on a wide array of administrative events, involving horizontal change, the worldwide company, tactical coalitions, store chain interactions, and public-private alliances, since it was first applied to the "make vs. buy" vertical assimilation conclusion. TCT has also grown to include a growing number of elements that influence governance decisions as well as the performance ramifications of those decisions. The theory's influence and success may be seen in this growth.

That power and success, though, is a double -edged sword. Because of the breadth of its application , the TCT literature runs the danger of becoming fragmented and difficult to traverse, as accomplishments in one domain are neglected by others, and essential terms are defined differently across various realms. The goal of this paper is to give a guide for crossing this huge literature and to provide recommendations for future conceptual and empirical TCT research. Past TCT examinations must condense the extensive practical status of the area (e.g., David & Han , 2004) or engage in a specific empirical phenomenonlike vertical integration and note type alternatives (e.g., Geyskens, Steenkamp , &Kumar , 2006 ; Zhao, Luo, & Suh , 2004), whereas our survey focuses on a specific empirical phenomenon example vertical integration and access means selections (e. g., Geyskens, Steenk ,2006) spanning several conceptual areas, emphasizing the specific qualities of TCT .research We begin by reviewing Williamson's original fundamental argument for TCT (e.g., Williamson, 1973 , 1975), including its core assumptions andessential theoretical constructions.

Transaction costs and property rights theories provide a rich set of ideasfor analyzing cooperative consumption andthe difficulties. One of the strategic and important ,researchers Sumantra ,Ghoshalmentioned his famous phrase, which reads: “Bad management theories destroy good management practices.” [Marìa de Molina: 2016] . This is a clear and direct indication that the theory of transaction cost economics as well as agency theory , given that there are shortcomings in these two theories, and criticism has beenmade of a theory to the theory of transaction cost economics, because this theory started in bad places, given that there is an urgent need to theories "expressed in positive ".terms

The problem of agency costs also takes a greater place in discussions in companylaw, and many well-known scholars have contributed to the definitions of reforms thatbenefit .shareholders[Zohar Goshen: 2017] The objective of transaction costing is to limit the power of contractual relationships. Transaction costs are costs incurred that do not accrue to any participant in the transaction. They are exorbitant costs resulting from economic trade in the market.

The problem or question this article will address:

The mean point of this artical is to check and analyze the hypothetical and practical writing on agency principle and transaction cost and its impact on organizational behaviour ,and its reflection on human being .

We complete by a demand examine that can concern these intuitions to three conceptual areas: greater integration of study in approach, international business , and institutional economics ; greater engagement with sociology research , particularly the literature on trust and research on formal-informal organizations; and for a better understanding of behavior, further ties to psychology and behavioral economics literatures are needed. Furthermore, three key topics for future research are identified: platform governance, technology improvements such as artificial intelligence and machine learning, and the rising predominance of non-monetary motivations for a range of actors (e.g ., the rise of nationalism, corporate social responsibility, and "grand challenges"). Given these theoretical and practical possibilities, we believe TCT's future in terms of research and application will be as bright as its history.

1. Literature review

The functional economist John R. Commons(1931) was the first to put forward the concept that transactions are the origin of economic thinking. Many believe that the term "transaction costs" was devised by Ronald Kouassi, who used it to improve a theoretical context for calculating when companies would perform certain economic tasks and when they would conduct their business in the market. However, he did not use the term in his early works until the 1970s. While Kouassi did not specifically introduce the term, he reviewed “costs of using the pricing mechanism” in his (1937) term paper Natural History of the Secure, first discussing the idea of transaction costs and referring to “market transaction costs” in his unique effort The Problem of Social Costs. (1960). The term 'transaction costs ' itself can be traced back to the monetary economics literature in the 1950 , and it is not clear who specifically 'invented' this term. Transaction cost logic has become very extensively known over Oliver E. Williamson's Transaction Cost Economics . Transaction cost economics hand-me-down today to describe a sum of distinct behaviors. This usually implies believing that 'transactions' are not only clear issues of buying and selling, although in addition everyday emotional dealings, informal grant discussions, etc. Oliver E. Williamson was awarded the Nobel Prize in, Economic Sciences in (2009). According to Williamso , the deciding factors of transaction costs are frequency, quality, ,uncertainty limited reasonableness, and opportunistic behavior. As mentioned (Williamson), who won a Nobel Prize for his work on the theory of transaction costs, has assumed that the absorption and number of activities within a firm depend on transaction costs. [S.C.Y. Chen, C. Webster: 2015] .

As for agency theory, it clarifies the company's behavior from the perspective of contracts between the different parties, provided that the shareholders who contribute the company's money are not seen as the owners, and accordingly, they bear all the risks of the company. [Stefan Linder, Nicolai J. Foss: 2020] . As for the agency theory, it clarifies the company's behavior from the perspective of contracts between the different parties, provided that the shareholders who contribute the company's money are not seen as the owners, and accordingly they bear all the risks of the company. [Stefan Linder : 2015] .

In fact, there is a prevailing belief among investors, ,.i.e owners of capital, that managers (administrative managers) have the ability to use money efficiently and effectively to achieve company .profits[Chandos Asian: 2014] . Agencytheory is based on the relationship whereby one or more specific persons (managers) or owners of a company delegate or involve a person in the contract to perform some work on behalf of them wners by delegating some decision-making power to the agent (Janes Weekling 1976), what happens is due to the separation of ownership and control when the owners of the company have to delegate agents to run the ,business and the owners need to monitor their performance to ensure that the agents act in the interests of the owners. Accordingly, he stated that agency theory uses three main assumptions of human nature, which are

1. Self-interest

2. Limited rationality

3. Avoidance of risk, so the manager, according to these assumptions, as a human being, will act opportunistically, i.e.,

prefer his own interest and always act opportunistically so that this leads to an increase their wealth. [chapter http://e-journal.uajy.ac.id : 2013] . The theory of transactions, cost is the theoretical basis for economic transaction and the most widely used economists have classified transactions between and within various organizations as: [Jeffrey H ,el : 2003]

1. It supports coordination between the two parties, buyers and sellers (market transactions).
2. Support the coordination process within the company.

Transaction costs start from the manufacturer to the wholesaler, then the retailer, and then the consumer (buyer) , In this regard, Williamson raised in 1981 that the choice of the deal depends mainly on a group of factors, including the specificity of the assets, the interests of the parties to the deal and the uncertainty in describing the transaction. [Tom Schwabe : 2013]. In light of the foregoing, transactions can be divided into production and coordination costs, including coordination costs (governance).

To process the information necessary to coordinate the work of people and machines that carry out the operations, if the transaction costs are high, it is likely that no economic activity will occur or will be minimal, and transaction costs can be divided into the following four types: [Christian : 2007].

1. Search costs: the costs involved in searching for products, sellers and buyers.
2. Contract costs: the costs of creating and buyers.
3. Monitoring costs : the costs that ensure the costs of the terms of the contract.
4. Insurance costs: the costs that occur as a result of changes that occur during the term of the contract.

2.1 The concept of transaction costs

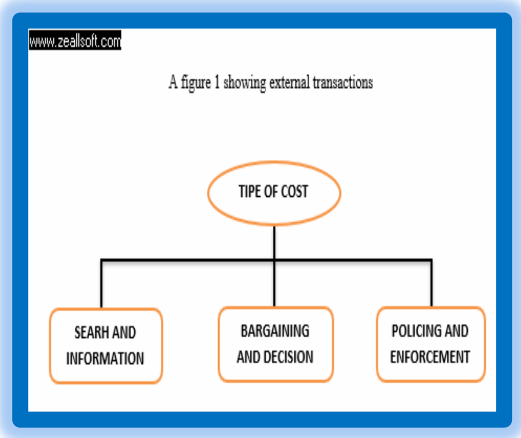
The economics of transaction costs is based mainly on the importance of the limited transactions between the related parties that enter into the contract, while agency theory sheds light on the role of individual agents. [Joseph : 2020 : 14] .

Transaction costs are the main concept of institutional economics. For organizations, different types of contracts and business practices arise in response to transaction costs. It is a theory concerned with explaining why we need companies in a market economy. It is a theory concerned with explaining why we need companies in a market economy. The Internet-based commerce in the early years of its adoption on the Internet focused on the competitive advantage provided by the use of the Internet and thus distinguished itself from traditional companies, using the logic of transaction costs. It is a theory concerned with explaining why we need companies in a market economy. The trade based on the Internet in the early years of its adoption on the Internet focused on the competitive advantage provided by the use of the Internet and thus distinguished itself from traditional companies, using the logic of the cost of transactions or transactions. Transaction cost economics confirms the nature of costs incurred by companies in the process of conducting transactions with buyers or sellers, and there are three types of costs according to the theory of transaction cost economics, which are: information gathering and research costs, negotiation and settlement costs, and monitoring costs to ensure that trading partners comply with the terms of any transaction agreements made .[Kristen: 2014] .

2.1.1 The dimensions of transaction costs

Transaction costs can occur when dealing with external party : [https://kfknowledgebank.kaplan.co.uk]

- and data costs: to find the supplier.
- Bargaining and decision costs: to purchase the component.
- Policing and enforcement costs : to monitor quality.

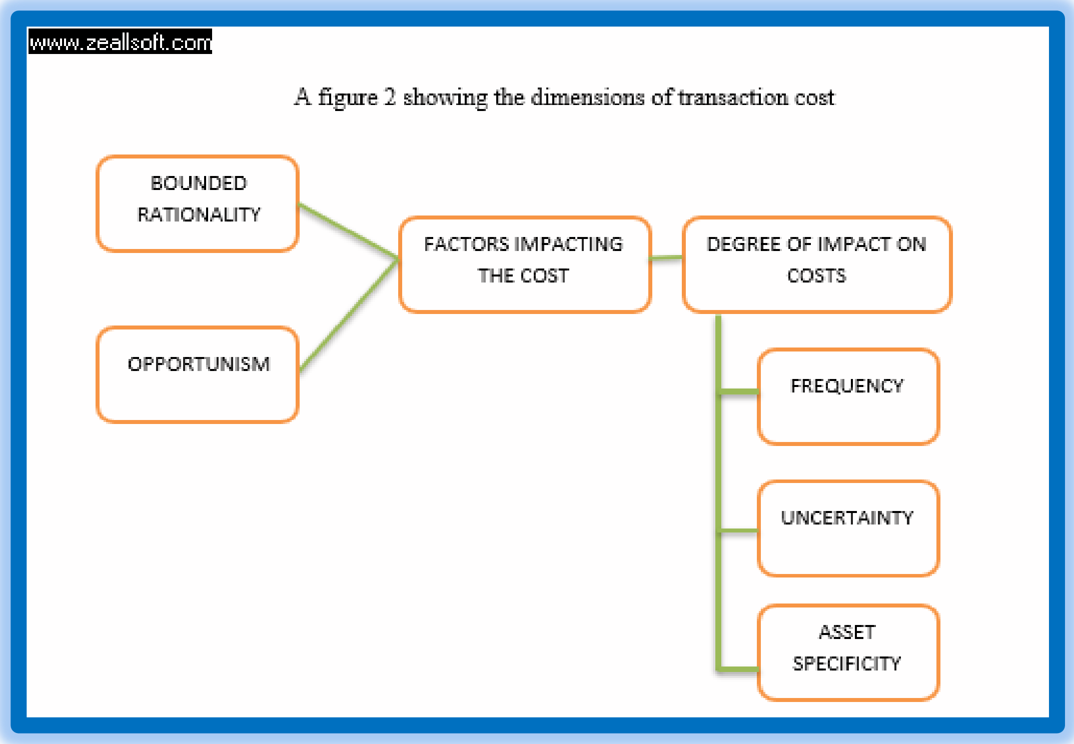


The company can determine its control over the transactions if it is able to organize its work and thus control the costs, its in the interest of the administration to absorb the connections as much as possible and remove these costs as well as the resulting risks and doubts around values and quality. For a good example, a company that owns a group of factories and suppliers may try to eliminate the problems of negotiating prices among the suppliers and the dealer. Transaction costs can be more affected by the elements or dimensions of the transaction cost theory, as in the following [Rabia Arzu: 2013] .

- Bounded rationality: It is the limited ability to understand business situations, which affects the limitations of factors taken into account when making a decision.

- Opportunism: It is taking the best measures for the benefit of one individual without the other, which in this case may create a state of uncertainty in transactions and lack of trust between the contracting parties.

The importance and degree of influence of these standards give the company an opportunity to decide whether to expand internally (through vertical integration) or if it will deal with an external party. [Brian, et.al.,: 2006] .



A figure 2 showing the dimensions of transaction cost

The variables or dimensions that rule the impact on the transaction costs are:

- ❖ Frequency : how often such a transaction is made.

- ❖ Uncertainty : long term relationships are additionally uncertain; close connections are more uncertain; lack of trust leads to uncertainty.

- Asset specificity : how unique the constituent is for your desires.

In light of the foregoing, the economics of transaction cost consists of four main elements, which are as follows: [https://ebrary.net/3735/ : 2020]

- Because of **the uncertainty** in the world, it is difficult to predict.

- Limited rationality and not pure rationality, because of the limited information individuals can obtain and process, and this is reflected in the available options from which they can choose to be limited.

- The opportunism inherent in individuals, especially in economic relations, makes long-term contract application difficult.

- The peculiarity of assets and bargaining in small numbers makes leaving them costly to the parties involved in economic relations.

2.2 The concept of agency theory

The concept of agency theory is based on the fact that there is a relationship between the owners and the management, and it is based on the idea that the owners, due to their lack of capacity or lack of capacity, assign the management to manage their money (investments) under an explicit and implicit contract under which the agent (management) manages the facility and makes decisions. This contract guarantees the rights of both parties and is specified by numbers such as: [Susan P. Shapiro: 2005].

1. Determining the management's remuneration with a certain percentage of profits.
2. Debts to equity do not exceed a specific ratio.

Agency theory focuses on ways to make the corporate governance system more effective so that shareholder interests and performance expectations are given every opportunity to be fulfilled by the chief executive officer (CEO) .

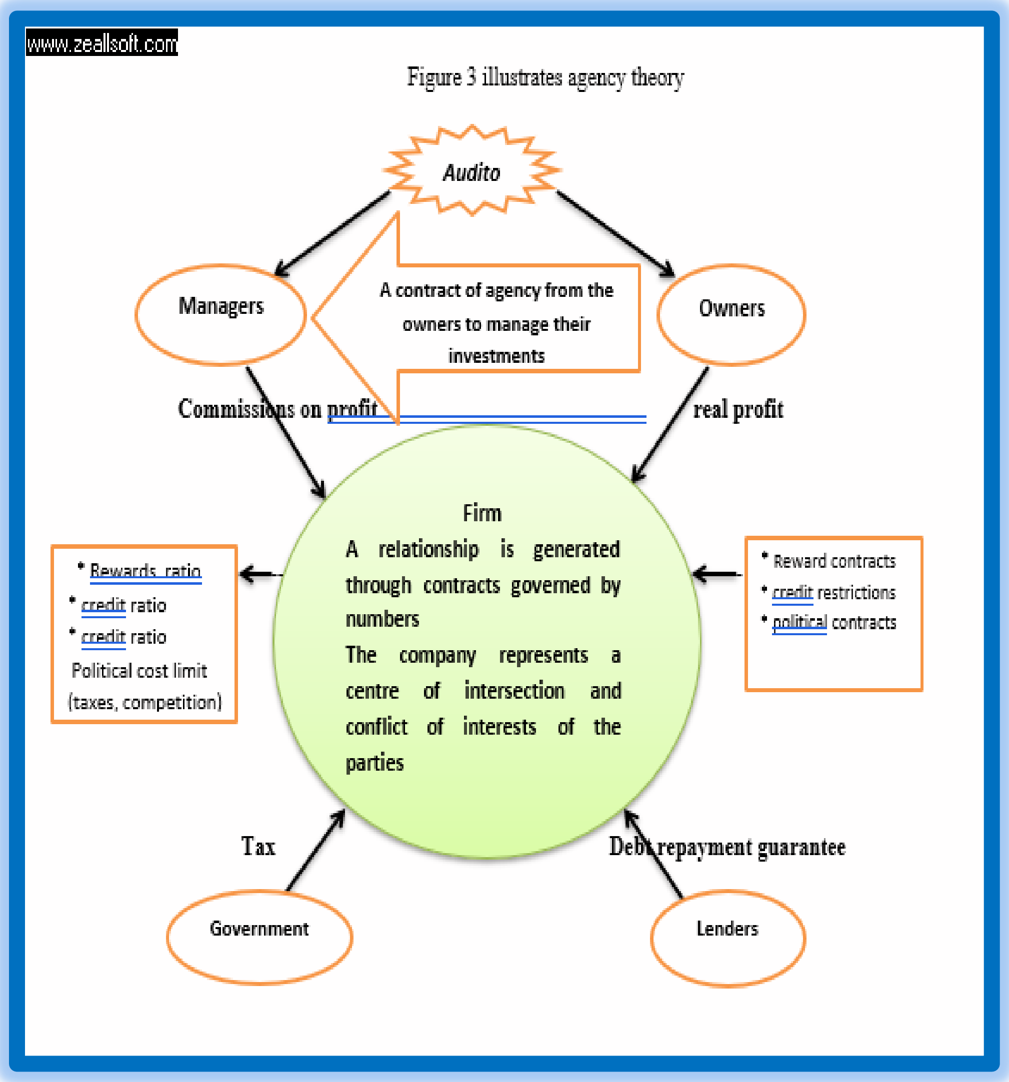


Figure 3 illustrates agency theory.

2.2.1 Agency theory hypotheses

Agency theory depends on a collection of hypotheses affect the relationship amongst directors and investors directly, and the most important of these hypotheses are: [Armando Jorge, el, : 2019]

1. <u>Market efficiency hypothesis:</u> It's a concept based on the value of the financial instruments being supplied and their impact on the value of securities in the market. It varies based on the availability of relevant data and the market's efficiency. Market efficiency is divided into three categories: low, semi-strong, and strong.

2. <u>The extreme disposition hypothesis</u>: It's a hypothesis that CEO prioritize their own personal interests over the interests of the company's owners and shareholders.

3. Differential preference hypothesis: Managers and stockholders have competing interests, according to this viewpoint. Shareholders want management to work hard in their best interests, while the manager prefers to pursue his own goals regardless of other factors.

4. Risk tolerance hypothesis: It is a hypothesis that determines who is the major carrier of the risks that arise, and management must be involved in bearing a percentage of the risks in order to work for the gain of the firm and its objectives.

5. Information dissimilarity hypothesis: It is a notion that the employer is unable to follow up on the job, and the manager offers false information, resulting in both parties' commercial interests being harmed.

Some institutions have found adequate ways to handle all of these challenges that arise as a result of the premises of agency theory, including: [2017, Brahmader]

1. In exchange for their services, the shareholders should grant the directors a part in the firm.

2. That the shareholders keep track on the situation and the managers' actions.

3. That the shareholders endeavor to relate the agents' incentives and rewards to the appraisal of their performance and the company's success.

2.3 Synergy between Transaction Costs Economics,Human Being and Agency Theory

Transaction cost theory is part of collective authority and agency theory [https://kfknowledgebank.kaplan.co.uk] . This theory is based on a basic principle that costs will appear when you make someone else do a certain work for you, for example, that the manager of the department you own works for you. Governance frameworks can be portrayed as the net impacts of internal and external transactions, rather than contractual connections with third parties like shareholders, according to the transaction cost theory , which is an alternative to the agency's interpretation of governance assumptions. [https://www.nasdaq.com : 2017]The two theories, transaction cost economics and agency theory, are complementary to each other, so there is complementarity between the two theories, given that agency theory aims to solve two problems (the agency problem and the risk-sharing problem) , It may be difficult for the employer to verify what the employee (the mastermind) is actually doing, and because of the risks, the employer and the manager prefer that there be different procedures due to the different risks, so the two parties must act out of self-interest. As for transaction costs, they are linked to negotiation, monitoring, evaluation, and implementation of exchanges between the parties, and those costs are incurred in order to make those exchanges more efficient. So there are at least two ways to reduce transaction cost problems: one is results-based contracts, and the other involves monitoring to verify behavior. [https://ebrary.net/3735/management ; 2017].

What Stops TCE from Behaving in a Behavioral Way?

TCE is not a behavioral theory of the business, according to the preceding evaluation. Nonetheless, if it can focus on constrained rationality, it has the potential to become one. To do this, we must **first** determine what stops TCE from being behavioral. Several elements, we imagine, are at play. First, the assumptions of opportunism and constrained rationality are difficult to quantify and describe (Verbeke and Greidanus ,2009). Whereas TCE does not assume that agents are always unprincipled, it does assume that they are consistently opportunistic (Williamson 1979: 234, 1993: 98), Owed to representatives' alleged incapacity to distinguish chancers since nonopportunists onetime stake (Foss and Weber 2016, b; Williamson 1979 , 1985), and the fact that even individuals not inclined to cunning take their value, opportunism is 'important' to TCE (Williamson 1979). Bounded judgement is considerably further hard to assess, and so a cause, it wa rarely assessed in the TCE literature . 26 G. Z. PENG) In truth, limited rationality isn't the best approach to convey what Herbert Simon was getting at. Here, it no such a matter when constrained by logic, just 'limited excusing procedure,' and the right method to research bounded rationality is to look at how cognitive constraints affect governance systems. As a result, it's understandable. Instead of bounded rationality Rationality is only a nebulous aim that businesses strive to reach through lengthening their learning and decision-making processes.TCE's absence of consideration for the variations among values, attitudes, and conduct in its consideration of opportunism and constrained rationality may have contributed to the measurement difficulties. Values, attitudes, and behavior are different and diverse ideas, bestowing to the value -attitude-behavior (VAB) order (Fishbein and Ajzen 1975 ; Homer and Kahle 1988 ; Rokeach 1973). Opportunism and limited rationality are generally treated as abstract values rather than actions-tailored manners in TCE. Because values are difficult to assess and dont immediately impact behavior, this technique prevents them from becoming behavioral assumptions (Dietz et al. 2005; Schwartz 1996).

Second, the literature frequently conflates important words in TCE, such as opportunism , constrained rationality, and uncertainty. TCE, for example, claims that constrained rationality and opportunism produce transaction costs when combined (Williamson 1985). TCE, on the other hand, is unclear about how this occurs since it melds the two concepts (Dietrichi ,1994) and utilizes them periphrastically (Foss ,2003 ; Pessali 2006). Opportunism is defined by Williamson (1985: 47) as "personality striving via dishonesty" as well as "incomplete or misleading presentation of information." Dietrich (1994) shifts the focus away from opportunism and toward restricted rationality. The conflation of opportunism and restricted rationality in speech does not allow for the different or interactive repercussions of these two ideas (Foss 2004). TCE also differentiates between external and internal uncertainty. The former is defined as environmental unpredictability, which is further divided into initial and secondary uncertainty. The former is caused by random acts of nature and unpredictably changing environmental conditions (Williamson 1985). Both are triggered by "a breakdown in communication, that is, one decision maker having no way of understanding the contemporaneous decisions and plans made by others," as well as "computational inefficiency," which is defined as "the inability to determine the structure of the environment" (Williamson 1975: 23). Secondary uncertainty and constrained rationality are often confused (Williamson 1985: 57).

IS TRANSACTION COST ECONOMICS BEHAVIORAL , as defined by TCE? Internal uncertainty is defined as that which may be attributed to partners' ambiguity mixed with opportunism here. It is critical that important terminology be clarified in order for TCE to become behavioral. **Third,** several words for internal and external uncertainty have been employed in the literature, producing a conceptual quagmire (Ahsan and Musteen 2011 ; De Weck et al. 2007; van Asselt and Rotmans 2002). Despite their abundance, these concepts do not capture the subjective or perceptual component of uncertainty, making it difficult for TCE to become a behavioral theory of the company. Because the issue of "internal or external to whom" is rarely raised and answered, the adjectives "internal" and "external" are deceptive and ambiguous.

Furthermore, because TCE is concerned with what to internalize and what to externalize , the terms 'internal' and 'external' suggest outcomes rather than variables. The phrases "internal uncertainty" and "external uncertainty" appear to be a tautology in their current usage. Instead, a valid assumption for a behavioral theory should be variable risk preferences (Chiles and McMackin 1996; Martynov and Schepker 2017).

Behavioral economics is a catch-all term for a number of strategies aimed at improving the explanatory power of economics by giving it a more realistic psychological foundation (Camerer and Loewenstein, 2003).

3. Conclusion

Through what has been reviewed from previous studies and the definition of the two economic theories, each of which constitutes a lifestyle approach related to the fate of organizations with their various activities and sizes, large, medium, or small, each of these organizations concludes deals with another party to carry out its business, and the conditions of this contract are that all required procedures are clear and proven, and the use of governance, i.e Oversight over the work of the managers in charge and those who contract with the owners, given that opportunism is an inherent characteristic of human beings. Weakness or strength of the decision. As for the complementary economic theory, which is the cost of transactions, the rise of which may negatively affect the profits of the company, which leads to which leads to its failure and withdrawal from the market. Therefore, organizations with different activities must strive to compress transaction costs in a way that secures profits and continues their work. So, through the course of research and through our humble views on the subject, we got to know the full picture of the relationship between transaction cost and agency and their impact on the economic activity of organizations and its reflection on humanity. Transaction cost theory suggests that managers may arrange transactions in an opportunistic manner. We believe that there is no way to dispense with these two theories if a set of clear procedures is identified for the contracting party between the two parties to ensure full compliance with the terms of the agreement, which is reflected positively in activating the cost of transactions away from opportunism. This affects the behavior of the organization towards society and what serves humanity in order to avoid the problems that may occur due to the misapplication of the two theories. Governance must be used, which is a control process for the cost of transactions and not merely the protection of property rights.

Therefore, the possible conclusions from the theory of transaction cost are that resourceful behavior can have serious consequences on the financing and business strategy within organizations, and therefore this may negatively affect by discouraging potential investors, so organizations must organize themselves to reduce the impact of limited rationality and opportunism as much as possible. The most important recommendations that can be used to reduce transaction costs is to resort, especially small companies to giving up credit cards because they impose fees on merchants as a percentage of the volume of sales, which inevitably leads to a significant reduction in profits, and the most appropriate solution to this problem may be the existence of mobile financial services, which Mobile gives an opportunity for organizations and consumers to complete transactions with cash or cards they absolutely desire. Many companies fail to achieve profits, and the high transaction costs between banking fees, customer service, and general expenses play a big role in this. Any firm that can reduce transaction costs has a better chance of being profitable. The other way to reduce transaction costs is to improve customer service channels because customer service is expensive, so there are ways to improve resources by taking advantage of the company's presence effectively on social media, which is possible for the company to dispense with display stores that are expensive, weakening the company's ability to obtain and that is by taking advantage of the company's presence effectively on social media, Managing contact with its customers is possible for the company to dispense with the display stores that are expensive, which weakens the company's ability to obtain profits and thus finance its business well, as well as the negative effects that may result from raising prices, which causes, in human terms, harm to society in general. That is, it can be an online store instead of a physical store, and this leads to a significant reduction in costs, including (rent, utilities, and employees), which leads to significant savings in the cost of transactions in a relatively short time. So what affects the human side is the reduction in costs, which is reflected in the company's ability when its costs decrease to reduce the price of the service or product.

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