Available online at www.sciencedirect.com
ScienceDirect

Journal of Business Venturing 22 (2007) 412–426

JOURNAL of BUSINESS VENTURING

Transaction cost entrepreneurship

Steven C. Michael *

Department of Business Administration, 350 Commerce West, 1206 South Sixth Street, Champaign, IL 61820, United States

Abstract

When offering a novel product, the entrepreneur desires the customer to choose to "buy" (from the entrepreneur) rather than to "make." Transaction cost economics provides guidance to firms considering a make-versus-buy decision. In this paper we extend transaction cost economics to examine the novel transactions proposed by the entrepreneur. Application of the theory identifies three crucial considerations for the transaction: the cost of quality measurement, the risk of overconfidence by the entrepreneur (here termed identity risk), and the required cost of necessary transaction specific assets. By extending transaction cost analysis to cover novel transactions across customers, entrepreneurship can be analyzed using established theories and measures to generate novel propositions.
© 2006 Elsevier Inc. All rights reserved.

Keywords: Entrepreneurship theory; Transaction costs; Organization

1. Executive Summary

Much attention has rightly been focused on the entrepreneur as the agent of innovation, but the *customer* of the entrepreneur has been much less examined. From the standpoint of the customer of the entrepreneur, the entrepreneur proposes a transaction that causes the customer to change from providing a product or service for himself to buying it from an outsider. In short, the entrepreneur causes the customer to choose to buy rather than to make. Considerable theory exists regarding vertical integration, principally transaction cost economics. The purpose of this paper is to apply the logic of transaction cost economics to the entrepreneurial transaction, the make or buy decision by the *customer* of the entrepreneur, to examine how the entrepreneur

* Tel.: +1 217 265 0702.
E-mail address: smichael@uiuc.edu.

0883-9026/$ - see front matter © 2006 Elsevier Inc. All rights reserved.
doi:10.1016/j.jbusvent.2006.04.005

can induce the customer to choose to buy rather than to make. The main analytical tool is transaction cost economics, broadly defined, so the ideas developed here are termed Transaction Cost Entrepreneurship.

When presented with a novel transaction representing the entrepreneur's innovation, how does the customer choose? Building on the two branches of transactions cost economics, the measurement branch and the governance branch, theory suggests two primary sources of uncertainty that can affect the choice of a customer to make rather than to buy. First, the cost of quality measurement is an important transaction cost. No matter how quality is defined, the customer must be assured that the product will perform as expected. How quality is measured is a characteristic of the good, the transaction, and the entrepreneur. In the absence of quality measurement, a market cannot form. The inability to credibly measure and assure quality causes the customer to make rather than to buy.

Second, governance takes a different form when the entrepreneur proposes a novel transaction. Identity risk is the risk that the entrepreneur will be unable to deliver on the commitments necessary to fulfill the transaction. This identity risk occurs because the entrepreneur is overconfident yet also uncertain regarding his or her own abilities. This risk can arise from many sources. Given the strong psychological fact of entrepreneurial overconfidence, it might represent a failure of the entrepreneur to assess his own abilities correctly, whether it is particular skills or aptitude for self-employment generally.

A set of prescriptions for entrepreneurs follow from this theoretical model. Aspiring entrepreneurs need to eliminate uncertainty for the customer by making quality measurement simple and cheap, by eliminating or reducing identity risk, and by reducing or eliminating the need for transaction specific investments that the customer forfeits should the entrepreneur fail. Managerial prescriptions are likely to vary from venture to venture, depending upon industry context, but every entrepreneur must be able to address these three issues. In addition, measurement strategies can be used to offset identity risk and identity strategies can be used to offset measurement risk. For example, the identity of the entrepreneur can be an assurance of quality. Thus, the entrepreneur should stress personal and professional capability as part of a measurement strategy.

Also, transaction cost entrepreneurship has application to transactions with other resource suppliers of the entrepreneurial firm. Entrepreneurs must engage in transactions with suppliers of raw materials, with prospective employees, and with financiers such as banks and venture capitalists. Further study is warranted to explain how transactions with those resource suppliers can be facilitated by entrepreneurs.

2. Introduction

At the heart of many definitions of entrepreneurship is innovation. Innovation can be defined as the introduction of a new product, process, technology, system, technique, resource, or capability to the firm or its customers (Covin and Miles, 1999). The entrepreneur introduces innovation into the circular flow of the economic system, and receives a return commensurate with monopoly profits for a time (Schumpeter, 1950, 1969). When innovation takes place, the entrepreneur brings the innovation to the customer, functioning as the agent of change (Nelson, 1984). The entrepreneur innovates to offer a novel product that the customer considers buying.

دریافت فوری ← متن کامل مقاله

ISIArticles
مرجع مقالات تخصصی ایران

- ✓ امکان دانلود نسخه تمام متن مقالات انگلیسی
- ✓ امکان دانلود نسخه ترجمه شده مقالات
- ✓ پذیرش سفارش ترجمه تخصصی
- ✓ امکان جستجو در آرشیو جامعی از صدها موضوع و هزاران مقاله
- ✓ امکان دانلود رایگان ۲ صفحه اول هر مقاله
- ✓ امکان پرداخت اینترنتی با کلیه کارت های عضو شتاب
- ✓ دانلود فوری مقاله پس از پرداخت آنلاین
- ✓ پشتیبانی کامل خرید با بهره مندی از سیستم هوشمند رهگیری سفارشات