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Individualism, Collectivism, and Opportunism: A Cultural Perspective on Transaction Cost Economics

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Researchers criticize the transaction cost economics (TCE) paradigm for over-generalizing the assumption of opportunism as human nature. We suggest that opportunistic propensity is affected by cultural prior conditioning of individualism–collectivism (I–C). Specifically, we propose that individualists have a higher opportunistic propensity in intra-group transactions, and collectivists in inter-group transactions. Our cultural specification of opportunism helps TCE to more effectively accommodate some criticisms and more realistically deal with problems of economic organization in today’s global economy.

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“Culture serves as a check on opportunism.”— [Williamson \(1993b: 476\)](#)

First proposed by [Coase \(1937\)](#) and later popularized by [Williamson \(1975, 1985\)](#), transaction cost economics (TCE) has become a major paradigm in social science research ([Masten, 1993](#)). One of its key building blocks is the assumption of opportunism, because individuals “will not reliably self-enforce promises but will defect from the letter and spirit of an agreement when it suits their purposes,” and “a healthy regard for opportunism is *essential*

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to an understanding of the purposes served by complex modes of economic organization” (Williamson, 1985, p. 388, added italics). Because, evidently, not all economic players are likely to be opportunistic, such a reliance on the assumption of opportunism has resulted in a large number of criticisms (Conner & Prahalad, 1996; Granovetter, 1985; Kogut & Zander, 1996). For example, TCE has been criticized as “dangerous” (Perrow, 1986), “unhealthy” (Hirsch, Friedman & Koza, 1990), “bad for practice” (Ghoshal & Moran, 1996), and an “ethereal hand” for organizational researchers (Donaldson, 1990). We believe that a primary reason that TCE has provoked such a debate is because it is centered on the assumption of opportunism, which touches on the fundamental issue of human nature. As Simon stated (1985: 303):

Nothing is more fundamental in setting our research agenda and informing our research methods than our view of the nature of the human beings whose behavior we are studying. It makes a difference, a very large difference. . .

We share this view, and contend that to further develop this paradigm it is necessary to respond to the criticisms by clarifying and strengthening this important assumption (Hesterly & Zenger, 1993). To be sure, TCE scholars never assumed that all (or most) individuals are likely to be opportunistic all (or most of) the time, a clearly indefensible position. Instead, most individuals are assumed to be “engaged in business-as-usual, with little or no thought to opportunism, most of the time” (Williamson, 1993a, p. 98). However, TCE suggests that it is the inability to differentiate opportunists, who may be a minority, from non-opportunists *ex ante* that necessitates the assumption of opportunism. TCEs critics, on the other hand, did not suggest that opportunism does not exist; rather, they cautioned against an “over” reliance on the opportunism assumption, because it may not be realistic to hold this assumption constant across individuals and organizations around the world (Ghoshal & Moran, 1996).

In order to make further theoretical progress, researchers must tackle the harder and more interesting issues of what kinds of individuals are likely to be opportunists, under what circumstances, and to what extent. Such an improved understanding of opportunism is important in today’s increasingly global economy, in which economic players from different backgrounds routinely interact and transact with each other. It seems plausible to assume that the likelihood to behave opportunistically differs among these different economic players. Thus, mechanisms effective for members of some cultures may be inadequate, non-viable, or even counter-productive for members of other cultures. Therefore, the key challenge boils down to how to predict opportunism *ex ante* so that an appropriate amount of opportunism deterrence and control mechanisms can be put in place.

Taking on this challenge, this article introduces a *cultural* perspective to better specify the assumption of opportunism. Drawing upon the social and cross-cultural psychology literature, which is typically overlooked by TCE researchers, we propose that an economic actor’s opportunistic propensity is affected by one’s cultural prior conditioning of individualism–collectivism (I–C) and its associated feelings of moral obligations toward different transaction.

Although scholars, including Williamson (1993b, p. 476) himself, widely acknowledged that culture affects opportunism, there has been no theoretical model that explicitly spells out how an economic actor’s opportunistic propensity is affected by culture. By culturally

specifying opportunistic propensity, we hope to engage more directly in dialogues regarding opportunism as “human nature,” and, consequently, help the TCE paradigm to more realistically deal with problems of economic organizations in today’s global economy.

Opportunism: Propensity and Behavior

The most influential (and most frequently critiqued) version of the assumption of opportunism was put forth by [Williamson \(1985: 47–48\)](#):

By opportunism I mean self-interest seeking with guile. This includes but is scarcely limited to more blatant forms, such as lying, stealing, and cheating. Opportunism often involves subtle forms of deceit ... More generally, opportunism refers to the incomplete or distorted disclosure of information, especially to calculated efforts to mislead, distort, disguise, obfuscate, or otherwise confuse. It is responsible for real or contrived conditions of information asymmetry, which complicate problems of economic organization.

Although the above definition clearly refers to opportunism in behavioral terms, opportunistic behavior is assumed to be ultimately caused by the nexus of a given human nature of self-interest with certain situational or structural conditions ([Williamson, 1985](#)). At issue with this assumption are two questions: (1) To what extent are human beings predisposed to act opportunistically, namely, seeking self-interest with guile at the expense of others? (2) If there is such an opportunistic propensity, is it the primary determinant of opportunistic behavior?

TCEs assumption of opportunism has been countered on two major fronts. First, economic behavior in general, and opportunistic behavior in particular, has been demonstrated to be largely constrained by social relationships or institutions with shared beliefs, norms, and mores ([Etzioni, 1988](#); [Ghoshal & Moran, 1996](#); [Granovetter, 1985](#); [Grief, 1994](#); [Griesinger, 1990](#); [Ouchi, 1980](#); [Perrow, 1986](#); [Ring & Van de Ven, 1994](#)). However, this literature tends to focus on how embeddedness reduces or prevents opportunistic behavior rather than how a party’s opportunistic propensity is preconditioned *in the first place* ([Ashforth & Mael, 1996](#); [Baum & Dutton, 1996](#)).

The second main criticism against the assumption of opportunism is that the assumption paints a narrow, “undersocialized” view of human motivation ([Donaldson, 1990](#); [Granovetter, 1985](#); [Griesinger, 1990](#); [Moschandreas, 1997](#); [Noorderhaven, 1995](#); [Perrow, 1986](#)). Drawing on classical management theory ([Barnard, 1938](#); [McGregor, 1960](#); [Miner, 1980](#)), these critics contended that commitment, co-operation, and respect for authority are all part of human motives within an organization, and that these alternative motives serve as self-regulating forces that prevent individuals from acting opportunistically. Nevertheless, these critics still did not directly address whether and to what extent human beings are likely to be opportunistically predisposed.

Continuing a constructive dialogue on the assumption of opportunism, [Ghoshal and Moran \(1996\)](#) undertook important conceptual steps. First, the authors unbundled the concept of opportunism by differentiating opportunistic attitude (i.e., proclivity, inclination, and propensity) from opportunistic behavior. Second, they proposed that opportunistic attitude and behavior affect and are affected by each other. Third, they specified independent

determinants of opportunistic attitude and behavior. For opportunistic attitude, two additional determinants were proposed: prior conditioning and feeling for the entity. Prior conditioning refers to those “attitudes and values formed through exposures to conscious as well as subliminal stimuli and possibly due to heritability factors”; feeling for the entity “represents the individuals’ favorable or unfavorable assessment of the specific transaction partner, the group or the organization” (Ghoshal & Moran, 1996, p. 21).

Ghoshal and Moran’s conceptual clarification of opportunism opens up ways for exploring the role of culture in shaping opportunism. Before we analyze cultural effects on opportunism, we make three clarifications. First, Ghoshal and Moran’s attitude includes both a stable and enduring type (fundamental beliefs and values) and a temporary and specific type (inclinations toward specific persons under a specific circumstance) (Rokeach, 1973). In this article, we are interested in the more enduring aspect of opportunism, which, we argue, is conditioned by cultural beliefs and assumptions about self-group and ingroup–outgroup relationships. Hereafter we use the term opportunistic propensity in place of opportunistic attitude. Second, although prior conditioning and feeling for the entity had been proposed by Ghoshal and Moran as two separate antecedents, affecting, respectively, the general and specific types of attitudes, we incorporate both determinants by way of culture. This is because, as we will show later, culturally shaped self- and other-orientations can significantly affect feeling for entity. Lastly, opportunistic propensity does not mean that a person with such propensity will routinely behave opportunistically in all transactions. Rather, a party’s opportunistic propensity is more likely to be triggered when transacting parties perceive or experience conflict of interest in competitive situations, in which each party tries to maximize its own interest by taking advantage of the other party (Carr, 1968; Williamson, 1975, 1985, 1993a). Our discussion of culture’s impact on opportunistic propensity therefore assumes similar competitive situations. Our principal argument is that, in competitive situations, members from different cultures will display different levels of opportunistic propensity depending on the social relationships between the transacting parties as well as the parties’ individualist–collectivist value orientations.

Culture and Prior Conditioning

Culture can be approached either as pertaining to the external objective world or the internal subjective world of the individual actors (DiMaggio, 1997; Parsons & Shils, 1951). In their sociological theory of action, Parsons and Shils (1951) posited that culture (in terms of beliefs and values) may be perceived by the actor as objects, just like other situational objects such as natural resources, to be cognized and responded to. On the other hand, when viewed from a micro-psychological perspective, culture may be a “constitutive part” of the actor, much like other internal attributes such as perceptions, motives, and attitudes (Schwartz, 1994; Schwartz & Bilsky, 1987). This constitutive (psychological) perspective of culture is consistent with Barnard’s (1938) discussion of management’s influence on the “state of mind” of organizational members and Ouchi’s (1980) organizational “clan culture” as a result of members’ internalization of organizational goals and values. However, while Barnard and Ouchi appealed to those attitudes that are by and large shaped by the cultural conditioning of the organization, we focus on the more fundamental human

propensities conditioned by *national* culture, which could be well shaped prior to joining work organizations (Hofstede, 1980).

Two general rationales can be offered in support of culture's prior conditioning effect on an individual's opportunistic propensity. The first is the continuous enculturation, that is, the transmission of cultural values and norms from the old to the new generation by formal and informal means such as child rearing and school education (Berry, Poortinga, Segall & Dasen, 1994). To the extent that societies differ in values and the ways that such values are transmitted to their younger generation, people's opportunistic propensity may differ across different cultures. Second, culture's prior conditioning results in values that are relatively stable (Rokeach, 1973), and are systematically different across nations (Hofstede, 1980; Schwartz & Bilsky, 1987; Triandis, 1995). In this article, instead of being concerned with the process of how opportunistic propensity is enculturated, we explore how an individual's opportunistic propensity varies according to their values of I–C.

Individualism–Collectivism and Opportunistic Propensity

The cultural dimension of I–C is particularly appropriate for specifying human opportunistic propensity because it offers insight into culturally conditioned views of self-identity (Markus & Kitayama, 1991) and the primacy of self versus group interest seeking (Parsons & Shils, 1951), both of which affect individuals' cognitive, affective, and behavioral orientations toward others (Markus & Kitayama, 1991). Individualists define the self as autonomous and independent whereas collectivists define the self as interconnected and interdependent with significant others of various groups. Furthermore, when individual and collective interests are in conflict, individual interests have the primacy in individualist cultures whereas collective interests have the primacy in collectivist cultures (Triandis, 1995).

From an embeddedness perspective (Dacin, Ventresca & Beal, 1999; Granovetter, 1985), I–C captures the degree to which individuals from different cultures are embedded in various collectivities. Ashforth and Mael (1996) illustrated how shared collective identities serve as an embedding factor, which not only controls members' organizational behavior but also defines what is appropriate and desirable. On the average, collectivists, relative to individualists, are more imbedded in their various ingroups and have stronger social identification with these ingroups. However, Ashforth and Mael also discussed the double-edged effects of collective identities. People with salient social identities are more likely to categorize themselves as well as others along group rather than individual boundaries and they are also more likely to assign prototypical group characteristics to all individual members. Such self and other social categorization and stereotyping trigger stronger solidarity, affiliation, and co-operation with ingroups but greater distinctiveness, prejudice, and competition with outgroups.

Self-Identity and Self-Interest Seeking

According to social identity theory (Tajfel, 1978; Tajfel & Turner, 1985; Turner, 1984, 1985), a person's self-identity consists of two components: a personal identity and a social identity. Personal identity consists of idiosyncratic characteristics such as attributes,

abilities, traits, and interests, whereas social identity comprises various social affiliations and group memberships. The personal and social identities, however, are not equally important but are structured in an identity hierarchy of salience; the more salient is an identity to an individual, the more potent it is in affecting this person's cognition, motivation, and behavior (Ashforth & Mael, 1989; Stryker, 1987).

Although the relative salience of personal versus social identities may vary among individuals or across situations (Stryker, 1987; Turner, 1982, 1985), cross-cultural psychology research has demonstrated that individualists and collectivists differ significantly in self-identities. Markus and Kitayama's (1991, pp. 224–227) review showed that the individualist self is “an independent, self-contained, autonomous entity who comprises a unique configuration of internal attributes (e.g., traits, abilities, motives, and values),” whereas the collectivist self is “part of an encompassing social relationship.”

In addition to the fundamental differences in self-identities, social norms differ regarding the legitimacy of pursuing self versus group interest (Chen, Meindl & Hunt, 1997; Earley, 1989, 1993; Hofstede, 1980; Triandis, 1995; Wagner & Moch, 1986). Parsons and Shils (1951, p. 60) called it the “permissibility” to pursue a person's self-interest versus the group interest. In individualist societies, it is permissible for individuals to put self-interest ahead of group interest. However, in collectivist societies, it is legitimate for individuals to do just the opposite. Legitimacy and permissibility work through both internalization of these values in the individual actors and the external inducement and sanction by social formulations such as families, schools, and communities (Etzioni, 1996; Hofstede, 1991).

It is noteworthy that one's personal identity and individual self-interest are primarily defined in reference to other individuals, whereas social identity and collective interest are primarily defined in reference to other collectivities. Hui (1988) argued that the basic unit of survival in individualistic societies is the self, and that the basic unit of survival in collectivist societies is the group. Consequently, the boundary between the individual self and other individuals is likely to be more distinctive and salient for individualists than for collectivists, whereas the boundary between the individuals' ingroup and other groups may be more distinctive and salient for collectivists (Iyengar, Lepper & Ross, 1999).

I–C and Moral Obligation to Others

Moral obligation to others refers to the degree to which persons feel that they must “behave in the prescribed way,” “that they are in fact obligated, duty bound” to act in the interest and welfare of others (Etzioni, 1988, p. 42). By contrast, “moral exclusion occurs when individuals or groups are perceived as outside the boundary in which moral values, rules, and considerations of fairness apply” (Optow, 1990, p. 1). A lack of moral obligation or commitment to others would lead to a wide range of opportunistic behaviors such as incivility and free riding (Etzioni, 1988).

We argue that I–C affect individuals' moral obligation to related and unrelated others. To the extent collectivists have stronger social identification with their ingroup and endorse the priority of group interest than do individualists, collectivists should have relatively greater moral obligation to both the ingroup itself and its individual members. Implications of I–C on potential moral obligation to outgroups, however, are less straightforward. One could argue that since both individualists and collectivists lack social identification with

outgroups, they should equally lack moral obligation to outgroup others. We, however, argue that although moral obligation to outgroup others is lower than moral obligation to ingroup others in all societies (e.g., people generally treat friends better than strangers), there are two reasons why collectivists may feel even less moral obligation toward outgroup others than may individualists.

The first reason pertains to social and cultural norms regarding the treatment of people with whom one has no special relationships. I–C research has found that collectivist societies (e.g., Chinese) are more likely to prescribe particularistic norms and standards for treating people differently depending on whether they are ingroup or outgroup (Leung & Bond, 1984; Redding & Wong, 1986), whereas individualist societies (e.g., the United States) prescribe a universalistic norm of dealing with all others with ethical consistency (Waterman, 1988). The legitimacy of differential treatment of ingroup versus outgroup members therefore provides a greater zone of moral indifference to outgroup members.

Second, to the extent desirable ends to self are used by transaction parties to justify morally questionable means toward outgroups, collectivists can appeal to self-interest, ingroup interest, or both to justify opportunistic behavior against outgroups whereas individualists rely primarily on self-interest justifications. When opportunistic behaviors toward outgroups are expected to bring benefits to the ingroup but sanctions to the individual actor, given that self-sacrifice is highly valued in collectivist societies, acting opportunistically on behalf of ingroup interests becomes morally less repugnant to collectivists. In summary, the same self-collective dynamics that make collectivists feel more morally obligated to ingroups will also likely make them feel less morally obligated to outgroups. Such is the double-edged effect of social identification (Ashforth & Mael, 1989, 1996).

Propositions

Cultural differences in self-identity, interest seeking, and moral obligation to others have a profound effect on opportunistic propensity. Our overarching argument is that one's opportunistic propensity is smaller to the extent that one is socially identified with another party, that one takes into account another party's interest, and that one feels morally obligated to another party. Given that individualists and collectivists differ in self–other relationships both within and between groups, we advance three sets of propositions according to intra- and inter-group transactions.

Transactions Between Self and Ingroups

Intra-group transactions occur between the self and the ingroup to which the self belongs, or between the self and other individual members of the group. As discussed above, collectivists in general are more deeply embedded in ingroups than are individualists. Due to the salience of social identities and the primacy of collective interest, collectivists see themselves and other ingroup members as interconnected, pursuing common interests, and bound by strong norms of mutual obligation, accommodation, and co-operation. For individualists, however, due to the salience of personal identities, the primacy of self-interest, and weaker moral obligation to others, individuals are presumed or suspected to be capable

of exploiting all means including guileful ones to gain competitive advantage. In a way, collectivists assume greater trust of benevolence from their ingroups and fellow group members (Mayer, Davis & Schoorman, 1995) than do individualists. Such an assumption of trust itself is often capable of triggering “others-regarding” behavior described by Granovetter (1985) and Perrow (1986); conversely the suspicion or anticipation of guileful self-interest seeking behavior by others can trigger opportunistic tactics for self-protection (Lewicki & Spencer, 1991).

Cross-cultural research has generated consistent and abundant evidence that collectivists in ingroup situations exhibit more pro-social attitudes and behaviors than do individualists (Markus & Kitayama, 1991; Triandis, 1989, 1995). In a study of eight countries, Graham, Mintu and Rodgers (1994) found collectivism to be correlated with a negotiation style characterized by willingness to attend to ingroup others’ needs. Particularly relevant to a party’s opportunistic propensity, it was found that individualists were more inclined to commit social loafing than do collectivists when working in groups, especially when there was a lack of individual accountability (Earley, 1989; Wagner, 1995). In summary, when there is an intra-group conflict of interest, individualists are more likely to resort to zero-sum game playing than are collectivists, in which case ethically questionable means become either permissible for gaining advantage or justifiable for self-protection. Collectivists in contrast are more likely to view intra-group conflict of interest as compromisable and expect self-constraint on all parties. Guileful acts that advance self-interest at the expense of ingroup others are neither permissible nor justifiable based on the prescribed ingroup moral obligations. We therefore propose:

Proposition 1a: When there is a conflict of interest between self and an ingroup, the individualist will have a greater opportunistic propensity than will the collectivist.

Proposition 1b: When there is a conflict of interest between self and an ingroup peer, the individualist will have a greater opportunistic propensity than will the collectivist.

Transactions Between Self and Outgroups

Transactions with outgroups include those between the self and a collectivity of which the self is not a member, or those between the self and individual members of that outgroup. In such transactions, the bond between self and peers due to common group identification is absent and the collectivist self is largely free from the moral obligation or social pressure to act in the interest of the other party. Furthermore, not only is there no assumption of good will from strangers, there may even be negative expectations, that is, “Watch out for strangers. They will exploit you!” Redding (1993, p. 66) noted that the Chinese, who are considered collectivistic in small ingroups, held *negative* expectations of co-operation from anyone other than one’s ingroups. This phenomenon of negative expectations of strangers is consistent with the idea that outgroup stereotyping is exacerbated by ingroup social identification. Under circumstances when others are members of a known outgroup with whom the ingroup has had a history of competition and conflict, it sets off even greater negative stereotyping. In summary, the moral indifference toward and the negative expectations about other outgroup

individuals and collectivities would trigger guileful acts either to take advantage of others or to protect oneself from being taken advantage of.

Although individualists also differentiate ingroups from outgroups, such a distinction may be moderated by their more salient personal identities and the primacy of self-interest considerations. First, strangers are simply individuals that the self does not know rather than representatives of any outgroup. Second, just as ingroups are not as positively regarded by individualists, outgroups are not as negatively stereotyped. Finally, to the extent that a norm of universal ethics applicable to all individuals and groups is internalized, individualists will be more restrained in violating the rights of other groups. As a result, we do not expect a dramatic increase in opportunistic propensity by individualists in transactions with outgroups.

Cross-cultural research has accumulated some empirical evidence to support the above arguments. For example, although the Japanese tend to be collectivists and are known to have great respect for ingroup authority, [Frager \(1970\)](#) found that Japanese students showed lower conformity rates and higher anti-conformity rates in *ad hoc* groups formed with people from outgroups than students in similar American studies. Also, although [Earley \(1989\)](#) found that Chinese subjects were less likely to free ride than were the Americans when working in ingroups, [Gabrenya, Latane and Wang \(1983\)](#) found similar levels of free riding in *ad hoc* groups of Chinese school children as in comparable American studies. Hong Kong Chinese were also found to be more likely to pursue conflict with an outgroup person than Americans ([Leung, 1988](#)). Indians, who are typically collectivists, were less likely to help strangers than Americans even when the cost of helping was minimal ([L'Armand & Pepitone, 1975](#)). [Iyengar and colleagues \(1999\)](#) found that in accounting for negative or antisocial activities, Asian students made more charitable, less censorious attributions about friends than about strangers, whereas Caucasian students showed no such distinctions. Finally, [Triandis \(1994\)](#) found that when negotiating with outgroup others, collectivists tend to first lay down what is not negotiable, while individualists attempt to seek common ground with both in- and outgroups. According to the above reasoning and the preliminary research evidence, we propose:

Proposition 2a: When there is a conflict of interest between self and an outgroup, the collectivist will have a greater opportunistic propensity than will the individualist.

Proposition 2b: When there is a conflict of interest between self and an outgroup individual, the collectivist will have a greater opportunistic propensity than will the individualist.

Transactions Between Groups

Inter-group transactions occur when two individuals each act as representatives of their respective groups. Such transactions lend themselves most easily to social categorization in which individual actors are categorized as exemplars of their respective ingroups. Again, due to the salience of social identities and strong group identifications, collectivists are more sensitive to the intergroup cues, hence more vulnerable to social categorization and more indifference toward outgroups. Further, inter-group transactions present a most vigorous test for collectivists to demonstrate their willingness to self-sacrifice for the preservation

of their ingroup's interest. Collectivists therefore are more likely to be faithful agents of their ingroups than will individualists. Not only will collectivists be more willing to give priority to the ingroup interest, but also they will be more willing to fight on behalf of their ingroup against the outgroup, employing all possible means including guileful ones.

Empirical research has shown that collectivist group members showed consistent ingroup favoritism, whereas individualists showed ingroup favoritism only when the ingroup enhances self-esteem and self-interest (Chen, Brockner & Katz, 1998). In our case discussions with MBA students involving inter-organizational conflicts, we observed that relative to American students, students from Asia often showed a greater willingness to hide or distort information in order to help their employing company gain competitive advantages. Furthermore, in discussing potential sanctions against such guileful behavior, Asian students tended to underestimate the negative consequences to themselves because they expected the organization to bail them out, compensate, or even reward their self-sacrificial, albeit guileful acts. To sum up:

Proposition 3: When there is a conflict of interest between an ingroup and an outgroup, the collectivist will have a greater opportunistic propensity on behalf of the ingroup than will the individualist.

Discussion

Contributions

The TCE paradigm has faced a large number of criticisms leveled at its taken-for-granted assumption of opportunism. In this article, we sought to clarify and strengthen TCE by specifying the impact of one's cultural prior conditioning and feeling for the transaction entities on opportunist propensity. In other words, we do not assume opportunism as human nature simply "as we know it," but seek to specify how an economic actor's opportunistic propensity systematically varies according to socio-cultural situations by drawing on recent advances in social and cross-cultural psychology. Typically overlooked by TCE, this literature offers a set of powerful insights that can enrich the understanding of opportunism. In a nutshell, the cultural perspective we propose in this article specifies that when transacting with ingroups and others in ingroups, individualists will tend to be more opportunistic than collectivists, and that when transacting with outgroups and outgroup others, collectivists will tend to be more opportunistic than will individualists.

While our propositions focus on an individual's opportunistic propensity, a hallmark of TCE is its multilevel nature, branching out to and connecting micro-personal actions and macro-organizational behaviors (Williamson, 1975, 1985). To the extent that organizations in a given society are likely to be managed by top managers holding the predominant cultural values (e.g., individualism or collectivism) and that the strategic choices made by these organizations embody these top managers' value systems (Hambrick & Mason, 1984), it is plausible to argue that organizational decisions made by these top managers may follow some of the logic outlined above. For example, when there is a conflict of interest

between a focal organization and its ingroup (e.g., suppliers, alliance partners, industry association members), the focal organization in an *individualist* culture is likely to have a greater opportunistic propensity than will the focal organization in a *collectivist* culture.¹ Conversely, when there is a similar conflict between a focal organization and its outgroup (i.e., entities with no identifiable link with the focal organization), the focal organization in a *collectivist* culture will have a greater opportunistic propensity than will the focal organization in an individualist culture.

These insights may enable us to explain some empirical “anomalies.” For example, on one hand, while the United States is known to be a highly individualistic society (Hofstede, 1980; Triandis, 1995), it is also found to be among societies with a higher level of spontaneous trust (Fukuyama, 1995). On the other hand, while the Chinese are classified as collectivists and found to be less likely to free ride than the individualist Americans when working in small groups (Earley, 1989), there is evidence of greater interpersonal and interorganizational distrust in the larger society in China than in the United States (Fukuyama, 1995; Redding, 1993). Why is this the case? Such seemingly contradictory findings could be accounted for by our propositions on the interactions between I–C and intra–inter-group relationships. That is, compared with individualists, collectivists will show stronger trust in ingroup others but weaker trust in outgroup others. In the trust typology proposed by Mayer and colleagues (1995), one could argue that relative to individualists, collectivists have stronger trust of benevolence in ingroup others but weaker trust of integrity in outgroup others. In a global, loosely connected world, where more economic transactions take place among new and not so familiar actors, individualist societies with higher generalized trust may indeed enjoy a competitive advantage over collectivist societies where trust is only limited to densely connected ingroups.

Another example is that our cultural perspective may help explain why there are so many enduring enterprise groups and networks in Asia (Gerlach, 1992; Hamilton & Biggart, 1988; Peng, 2000, 2002), while strategic alliances among Western firms are only a relatively recent phenomenon. One startling finding is that despite the closer cultural distance, US–US joint ventures are more likely to dissolve than US–Japanese joint ventures (Park & Ungson, 1997). One plausible reason is that Asian firms, grown out of their collectivist mentality, may believe that building ingroups of firms is the most effective means of reducing ingroup–outgroup opportunism. Having invested in cultivating ingroup relationships as evidenced in their alliances with US firms, Japanese firms may be more reluctant to dissolve joint ventures, an action which may be viewed as opportunistic (Park & Ungson, 1997). On the other hand, Western firms, based on their individualistic tradition, may be more comfortable in undertaking arm’s-length transactions with stand-alone entities, since they do not assume that ingroup status itself safeguards against opportunism. Such an assumption may reduce a firm’s incentive to organize or maintain costly ingroups of firms (i.e., alliances), even with domestic partners (Park & Ungson, 1997).

Overall, as acknowledged by Williamson (1985, p. 390), TCE is “crude” in at least three ways: “The models are very primitive, the tradeoffs are underdeveloped . . . and there are too many degrees of freedom.” Our contributions in this article can therefore be viewed as an attempt to (1) convert the crude assumption of opportunism into one that takes cultural differences into consideration, (2) specify the tradeoffs involved when dealing with potential and real problems of opportunism in different cultures, and (3) limit the degree of freedom

when making sweeping statements on opportunism. The end result, we believe, is a set of more realistic and accurate predictions on the circumstances under which economic players are likely to behave opportunistically.

Research Implications

This new model has a number of important implications awaiting future research. First, it calls for more complex and refined approaches to cross-cultural comparisons. A simplistic cultural generalization would be that individualists are more likely to be opportunistic than collectivists. Our theoretical propositions refute such conventional wisdom. Instead, both collectivists and individualists could be opportunistic depending on relational factors. Researchers should resist making blanket comparisons between cultures, but instead should look into conditions within each culture that could induce certain behaviors (Chen, Chen & Meindl, 1998).

Second, as the term “group” refers to a collectivity of any size (e.g., work team, department, organization, country), opportunism can be assessed by observing how people conduct business transactions within and between small work groups, departments, organizations, and countries. As long as the ingroup–outgroup boundary is clearly specified, opportunism assumptions and behaviors can be systematically compared and controlled between collectivists and individualists.

Third, although we had the national cultural differences of I–C in mind when we made the propositions, we believe that the effect of I–C can be extended to individual differences within a given culture as long as there is sufficient individual variation on I–C. Within-culture studies therefore can be conducted to test the propositions. Furthermore, research on opportunistic propensity can be conducted in relation to different dimensions or subtypes of I–C, such as vertical and horizontal individualism and collectivism (Triandis, 1995; Chen et al., 1997). It is possible that as vertical individualism refers to the individualist competitive orientation and vertical collectivism to the primacy of the collective interest, they are more likely to affect opportunistic propensity than are horizontal versions of individualism (equality orientation) and collectivism (relational harmony).

Fourth, regardless whether a party’s opportunistic propensity is a cultural or an individual characteristic, it may or may not translate into opportunistic behavior depending on the existence of an ethical culture in a group or organization (Lewicki, Poland, Minton & Sheppard, 1997). It would be interesting to examine how, given the opportunist propensity of an individual or a general population, opportunistic behaviors in a specific collective can be effectively controlled by the presence of a strong organizational ethical culture.

Finally, we have taken a relatively static view of culture and have not incorporated the possibility of cultural changes and interactions. Exposure to other cultures, such as collectivist immigrants living in an individualist culture and individualist organizations transacting with counterparts based in collectivist societies, may lead to certain changes in values and behaviors, which need to be taken into account when conducting empirical work. Furthermore, theoretical and empirical attention should be paid to possible interactions between I–C and other cultural dimensions such as power distance, uncertainty avoidance, and low versus high context.

Practical Implications

We believe that TCE equipped with a cultural perspective may be good for practice in a number of ways. First, the cultural perspective calls for better sensitivity to opportunistic propensity among people from different cultural backgrounds (Tung, 1993). To assume all people to be opportunistic in all situations may result in pitfalls suggested by Ghoshal and Moran (1996), such as alienation, lack of trust, and eventually opportunism induced by such “over monitoring” (Gulati, 1995; Zajac & Westphal, 1994). To the extent our propositions are supported by future empirical research, the dominant problem of opportunism in individualist cultures seems to be seeking self-interest at the expense of others regardless of whether they are ingroup or outgroup others. One key to curbing such individualist opportunism is the alignment of self-interest with the interest of others. In collectivist cultures, the dominant problem of opportunism may be of an intergroup nature, namely, seeking ingroup interests at the expense of other individuals or groups. Therefore, one key to curbing such collectivist opportunism is the building of overarching ingroups or the alignment of intergroup interests (Fukuyama, 1995). From a resource-based perspective (Barney, 1991), organizations more capable of solving these problems may be more likely to gain competitive advantage relative to their competitors.

Second, TCE enriched by the cultural perspective may also suggest appropriate governance mechanisms to deal with interorganizational opportunism. Specifically, assumptions of opportunism may affect foreign market entry mode: managers from cultures with a more prevalent assumption of self-interest seeking (e.g., the United States) are more likely to favor direct foreign investment to licensing (Shane, 1994). Furthermore, collectivists’ social control preference may orient them toward engaging in activities seemingly unrelated to the business at hand, but considered essential for semi-ingroup relationships, which have the potential to turn into ingroups. Alternatively, individualists’ contractual control preference may orient them toward proactively laying down specific legal protections uncharacteristic of what collectivists consider a trustful ingroup relationship (Gulati, 1995). Similar arguments can be made for international trade, which tends to feature higher transaction costs than domestic transactions because of large cultural distances (Peng, Hill & Wang, 2000). Overall, a lack of mutual understanding of the cultural preferences and their implications for opportunistic propensity could easily lead to business failure when doing business internationally.

Conclusion

“Every stream of research . . . has strengths and weaknesses and stands to benefit from good critics” (Williamson, 1999: 1093). Since TCE “aspires to influence as well as understand behavior” (Masten, 1993, p. 120), it needs to respond to the strong criticisms leveled at its under-specified assumption of opportunism. Instead of asking “Is this economic player (an employee or a supplier) opportunistic?” We suggest that a more relevant question is “Under what circumstances is this economic player likely to be opportunistic?” and argue that one answer to this question lies in one’s cultural prior conditioning of individualism and collectivism. In conclusion, we believe that with this article as an important first step,

an expanded TCE paradigm equipped with a cultural perspective represents a move toward more realistically and sensitively dealing with problems of economic organization in today's global economy.

Note

1. Recent press coverage about the mutual charges of opportunism between partners of the Airbus Industries in Western Europe is a case in point. Ingroup membership of a consortium did not seem to be effective in curbing opportunism even though the relevant parties have been involved in collaboration for a long time. One could attribute such a phenomenon in part to the individualistic orientation of the transacting parties.

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