The Explanatory Power of the Constructs of Transaction Cost Economics Theory

Abstract:
This paper analyses the explanatory power of the constructs of transaction cost economics theory (environmental uncertainty, behavioral uncertainty, asset specificity and transaction frequency) in order to determine possible constructs for an endogenous theory of ITO. To analyze this, we employ a large project data set from a German IT outsourcing vendor. We find that only environmental uncertainty and transaction frequency have a high explanatory power and therefore should be considered for an endogenous theory of ITO. Behavioral uncertainty and asset specificity are only of minor relevance. The research is limited by the fact that we employed a data set from only one vendor. We contribute to theory by suggesting possible constructs for an endogenous theory of ITO and to practice by showing that the danger of opportunistic behavior is low. This paper contributes to the ongoing discussion on the applicability of transaction cost economics theory.

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