Effect of Social Capital on Transaction Cost: A Multiple Case Study of Small Enterprises in Sri Lanka

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Abstract
This paper attempts to study how social capital facilitates the mitigation of opportunism and bounded rationality which leads to the minimization of Transaction Cost (TC) particularly in Small Enterprises (SEs) in Sri Lanka. Results of multiple case study show that SEs have ability to access low cost, reliable and quick information and information about exchange partners together with their reliabilities using their Social Capital (SC). Such information facilitates SEs to improve the irrationality indecision making process. SEs usually get support from network members to assess information to make more rational decisions on transactions. Accordingly, SC facilitates SEs to access and assess information that affect the mitigation of bounded rationality and provide information about exchange partners that helps SEs to mitigate opportunism. Thus, SC affects the decrease of TC of SEs through the mitigation of bounded rationality and opportunism. Therefore, SEs need to maintain a strong social capital that leads to the minimization of TC.

Key Words: Small Enterprises, Social Capital, Transaction Cost, Information.
1. Introduction

In the real world, market mechanism is not perfect due to the existence of market failure and various government involvements (Shafaeddin, 2004; Storey, 1999). Therefore, consumers/producers fail to make full rational decisions, because imperfect market generates asymmetrical information\(^1\) (Hobbs, 1996; Hubbard, 2001; Spraakman, 1997). Due to the asymmetrical information, business firms need to incur cost for searching new buyers and suppliers, negotiating with exchange partners, long-term contracting and monitoring the transaction agreements (Dyer, 1997; Hobbs, 1996; Williamson, 1985). Those costs are termed as Transaction Cost\(^2\) (TC) (Coff, 2001; Dyer, 1997; Williamson, 1979, 1985; Zhang, 2009).

Market mechanism, particularly in Less Developed Countries (LDCs), discriminates against Small Enterprises (SEs) in favour of large enterprises in relation to both the factor market and the product market\(^3\) (Stiglitz, 1993; Storey, 1999). TC is also a reason that leads discriminate against SEs (Bijman, Ton and Meijerink, 2007; Carmel and Nicholson, 2005; Nooteboom, 1993; Storey, 1999). It is often difficult and costly to obtain accurate information for SEs in LDCs due to imperfect market (Bijman, Ton and Meijerink, 2007). Therefore, SEs face two problems. One is the problem of having not enough or not accurate and reliable information that helps to make full rational decision (Hubbard, 2001; Pitelis, and Pseiridis, 1999; Spraakman, 1997). Although people may intend to make more rational decisions, asymmetrical information and lack of knowledge to evaluate information lead to block the rational decision which is called bounded rational. As a result, SEs suffer higher TC than the large enterprises (Nooteboom, 1993). The second problem that arises due to lack of information is the risk of opportunistic behavior of exchange partners (Bijman, Ton and Meijerink, 2007). SEs usually suffer hazard from opportunistic behavior of exchange partners (Bijman, Ton and Meijerink, 2007). Therefore, they suffer higher TC than the large enterprises.

Market mechanism and public policies in LDCs are not powerful to provide adequate information for SEs. Instead, SEs in LDCs use informal and personal relationships in order to obtain necessary information (Premaratne, 2002). These relationships do not have formal and written agreement but these relationships are based on network relationship, inter-personal trust and norms (Premaratne, 2002). According to the social network theory, basic purposes of network relationships is passing information from one to another (Baker, 1990; Burt, 2000; Donnell, 2004; Granovetter, 1976; Uzzi, 1996, 1999). Network dense and complexity help SEs to gather information, ideas, advice, support, etc. (Baker, 1990; Premaratne, 2002). Network ties allow SEs to become a source of information about a partner’s capabilities and reliability (Bhagavatula, 2009; Gulati, 1998). However, less attention has been given by scholars to study how social capital affects the decrease of TC, particularly in small enterprises in LDCs? Therefore, this study attempts to fill this gap addressing the research question, “How does social capital facilitate to mitigate bounded rationality and opportunism that lead to minimize TC of SEs?”

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\(^1\) Asymmetrical information means that all parties to the transaction no longer possess the same levels of information.

\(^2\) Transaction cost is the costs of using the market mechanism or the cost of participating in a market (Coase, 1937). Transaction costs are simply the costs of carrying out any exchange (Anderson and Weitz, 1992; Hobbs, 1996). Williamson (1985) regards transaction cost as a transfer of a good or a service between technologically separable interfaces.

\(^3\) Market failure discriminates against SMEs in favor of large firms (Storey, 1999; Vadnjal and Nikolovski, 2011). The formal financial sector tends to discriminate against small compared with larger firms (Stiglitz, et al., 1993). Since the failure rates of small firms are much higher than the large firms, particularly for new firms, lenders discriminate against small firms providing credits for established and reputed large firms. On the other hand, labor market distortions have a negative impact on small firms. In formal sector, the wage is well above due to several factors including minimum wages, social security etc. But, small firms tend to operate in a more labor-intensive manner than large firms and small firms fails to employ skill labors which higher the cost. Considering the product market, small firm fails to compete with large firms due to the problems of marketing information, management and business experiences, technology, product quality and reputation.

\(^4\) Opportunism is defined as self-seeking behavior with guile. Guile involves dishonesty in transaction (Williamson, 1979). It may include hidden information and hidden action (Bergen, et al., 1992).
2. Theoretical Background

Two theories: Transaction Cost Economics (TCE) and Social Capital, have been reviewed to study the effect of social capital on the improvement of the capacity to access and assess information to mitigate bounded rationality and opportunism that lead to the minimization of TC.

2.1 Transaction Cost Economics

The major reason for the occurrence of TC is information asymmetry (Coff, 2001; Joskow, 1985, 1990; Williamson, 1979) which affects business firms in two ways: bounded rationality and opportunism (Williamson, 1981). TCE recognizes that many business exchanges are characterized by asymmetrical information which lead to increase TC (Hobbs, 1996). Business firms face three constraints: a) limited and unreliable information is available, b) human mind has only limited capacity to evaluate the information, and c) only a limited amount of time is available to make a decision. Bounded rationality explains that these constraints limit (bound) to make rational decisions (Macher and Richman 2008; Williamson, 1981). This issue is serious particularly in SEs in LDCs. They fail not only to obtain reliable information (Bijman, Ton and Meijerink, 2007) but also to make more rational decisions due to the lack of knowledge and capacity to evaluate information (Hubbard, 2001; Pitelis, and Pseiridis, 1999; Spraakman, 1997).

Asymmetrical information leads to encourage exchange partners to behave opportunistically. Opportunism refers that the exchange partners will seek to exploit a situation to their own advantage (Macher and Richman 2008; Williamson, 1981). Opportunism includes guile in pursuit of one’s own interests (Hobbs, 1996; Pitelis, and Pseiridis, 1999; Vosselman, and Kooistra, 2006). Asymmetrical informational leads to opportunistic behavior in two ways; adverse selection (ex-ante opportunism) and moral hazard (ex-post opportunism). Ex-ante opportunism where information is hidden prior to a transaction is called adverse selection, which is the phenomenon of misdirecting other organizations based on an organization’s private information that is not shared with other organizations in the transactions. It refers to incomplete or distorted disclosure of information, especially calculated efforts to mislead, distorts, disguise, or confuse transacting parties (Williamson, 1979). Moral hazard is post-contractual opportunism (ex-post opportunism) in the presence of unobservable asymmetric information. This is ex-post opportunism which occurs after a transaction because of the hidden actions of individuals or firms. These parties may have the incentive to act opportunistically to increase their economic welfare because their actions are not directly observable by other parties (Hobbs, 1996). This means that a business firm can avoid opportunism if they have reliable information and capacity to evaluate information which leads to mitigate opportunism and in turn affect the minimization of TC.

2.2 Social Capital Theory

Putnam (1995) defines social capital as the features of organization such as networks, norms, and trust that improve the efficiency of society. Social capital theory suggests that it is a long-lived asset into which other resources can be invested with the expectation of a future flow of benefits such as superior access to information and resources (Burt, 1997, 2000; Uzzi, 1996). Direct benefit of social capital is access to information: for the focal actor, social capital facilitates access to broader sources of information and improves information's quality, relevance, and timeliness (Adler and Kwon, 2002). Uzzi (1997) found that social embeddedness allows firms to exchange information and resources. Burt (1997) shows how social capital enables brokering activities that bring information from actors to the focal actor; to the extent that this brokering activity relies on a reciprocal outflow of information, the entire network will benefit from the dissemination of information. Therefore, small enterprises have a possibility to access necessary information.
and support via social capital. Nahapiet and Ghoshal (1998) identified three dimensions of social capital; structural, relational and cognitive.

The structural form of social capital refers to the overall pattern of connections between individuals (Burt, 1997; Patulny, and Svendsen, 2007). Structural embeddedness is concerned of the properties of the social system and of the network of relations as a whole (Nahapiet and Ghoshal, 1998). Network relationships are an important attribute of structural dimension of social capital and generally is defined as a specific set of relations amongst various groups or actors (Abbane et al., 2013; Burt, 2000; Donnell, 2004). Major purposes of network relationships are communication, information and sharing resources (Baker, 1990; Burt, 2000; Uzzi, 1996, 1999). Interactions between the network members by physical or electronic means such as meetings, emails or online discussion forums facilitate the access to knowledge. As a result, the overall knowledge creation increases. Important aspects of this dimension are ties between the members of network; network structure is based on density and complexity (Nahapiet & Ghoshal, 1998).

The relational form of social capital refers to the kinds of personal relationships that people have developed with each other through a history of interactions (Patulny, and Svendsen, 2007; Silkoset, 2013). Relational dimension of social capital consists of assets which are created through relationships. These relationships are the source of fulfillment of social needs such as sociability, approval and prestige (Nahapiet & Ghoshal, 1998) and lead to the development of trust and identification with one another (Bolino, et al., 2002). It also describes the degree of trust ensuing from social interaction (Chow & Chan, 2008). Along with the network of relationships, trust and norms are important sources of social capital (Adler & Kwon, 2002).

The cognitive dimension of social capital is embedded in the properties such as common language or vision that support a common understanding of shared goals and norms of action in a social setting (Tsai & Ghoshal, 1998). Cognitive social capital is the outcome of frequent interactions while sharing the same practices, which lead the individuals to learn skills, knowledge and common conventions. This dimension includes attributes such as shared language, shared narrative, common perspectives and communal congruence, or generally agreed upon meanings (Nahapiet and Ghoshal, 1998; Silkoset, 2013). Meaningful communication is an essential component of networking and requires the sharing of some context between parties to the exchange. This sharing may come about through the existence of shared language and vocabulary, i.e., the means through which people exchange information. Shared language facilitates businesses’ access to others in the network and helps build relationships (Nahapiet and Ghoshal, 1998; Patulny, and Svendsen, 2007; Silkoset, 2013).

### 3. Conceptual Research Model

The present study develops an integrative approach based on the synthesis of social capital theory and TCE to study the research question. Figure 1 shows the research model for the study. It demonstrated how structural, relational and cognitive forms of social capital relate with TC matters (bounded rationality and opportunism)?
Network ties play an important role in mitigating information asymmetric (Granovetter, 1976; Uzzi, 1996, 1999). The assistance gained from network function as a mechanism for reducing information incompleteness. This in turn enables SEs to improve rational decisions and to safeguard transaction from ex-ante and ex-post opportunism of exchange partners (Baker, 1990; Burt, 2000; Donnell, 2004). Frequent and close interactions between Owner of Small Enterprises (OSEs) and exchange partner permit them to know one another and to develop good faith relationship between them. Hence, a SE occupying a central location in a network is likely to be perceived as trustworthy by exchange partners in the network (Tsai and Ghoshal, 1998). Therefore, risk of opportunism may be averted and rationality in decision making process may improve, if SEs have strong network relationship (Myesen et al., 2011). Thus, opportunistic behavior of exchange partners becomes decrease and rationality of decision making process will increase if the OSEs have strong network relationship.

Inter-personal trust plays an important role in mitigating information asymmetric. Dahlstrom and Nygaard (1999) justify empirically that opportunistic behavior consistently increases TC and inter-personal trust reduces opportunism. Heide and John (1992) highlighted that relational exchange limits opportunism through the sharing of information and resources. Morgan and Hunt (1994) suggest that trust exists when a firm has confidence in the exchange partner’s reliability and integrity and in sharing right information. Business transactions are mostly based on interpersonal trust and norms embedded in informal relationships. Thus, relational form of social capital (trust) between SE and exchange partners become strong; both parties get discouraged to behave opportunistically and share information which lead to minimize transaction cost of SEs.

The major attributer of the cognitive dimension of social capital is the shared vision (Tsai and Ghoshal, 1998). Shared vision consists of common goals and ambitions of the members of a social network. Common understanding about the ways of interaction leads to more and better opportunities for sharing information without any misunderstanding. Hence the shared vision amongst the network members, leads to share information (Tsai and Ghoshal, 1998). Thus, shared vision helps SEs to minimize information asymmetric. On the other hand, a shared vision represents the collective goals of the members of network. When network members have the same perceptions about their mutual success, for an example, they can avoid their possible opportunism and support each other exchanging their ideas and information (Tsai and Ghoshal, 1998). Collective goals and values provide the harmony of interest that erases the possibility of opportunistic
behavior (Tsai and Ghoshal, 1998). Thus, cognitive form of social capital leads to sharing of information among network members and helps to avert opportunism of exchange partners.

4. Methodology
Qualitative method was applied to collect and analyze data. This research attempts to investigate perception of the OSEs and their behavior. The research method involves the purposive selection of six SEs for the case study selected from Ratnapura District in Sri Lanka. This study defines SEs as employment between 5 and 24 persons engaged that the definition used by the Department of Census and Statistics in Sri Lanka and considers only manufacturing industries. Sample consists of two enterprises from Wood and Wood Products, another two from Non-metallic Mineral Products (cement products), one from Food, Beverages and one from Metal Product because these categories contribute the majority of ESs in the District. All the OSEs are male and married. The age of establishment of small enterprise is more than eight years. All OSEs have more than 10 year business experiences. Half of OSEs have up to tertiary level education and the rest have over secondary level education. The majority of OSEs are over 40 years old except one owner, whose age is 32 years. It is observed that all the firms show satisfactory performances in their businesses considering the growth of employment, sales revenues and profitability.

Information was obtained using a questionnaire containing a combination of open and closed questions. The questionnaire was administered using face-to-face interviews. Data were collected from OSEs considering that they are the most knowledgeable persons who manage SEs. In order to analyze the data, the study employed qualitative content analysis which is regarded as a flexible method for analyzing text data (Bhattacherjee, 2012). The study used the directed approach to content analysis because the TCE and social capital theory guides to develop variables to analyze.

Criteria for analyzing social capital was based on three dimensions: structural, relational and cognitive as suggested by (Nahapiet and Ghoshal, 1998). Structural dimension was measured using network ties of the owners of small enterprises. Network relationship of small enterprise is measured using network density and network complexity. Items adopted by Abban, et al. (2013), Premaratne (2002) were used to assess network density and complexity. The relational form of social capital is measured using inter-personal trust. Inter-personal trusts were measured employing three components reliability, predictability, and fairness which are adapted by Zaheer et al., (1998). The study adopts the items developed by Chow and Chan, (2008) and Miller et al. (2007) to measure the shared vision. Bounded rationality is measured using two items: capacity to access low cost, reliable and quick information and get support to assess information which improve the capacity to make more rational decision. Opportunism of exchange partners is measured using items developed by Anderson (1988), Dahlstrom and Nygaard (1999), and Mysen et al. (2011). Achrol and Gundlach (1999) measure opportunism using four items: sincerity, truthfulness in dealings, good faith bargaining, and breach of agreement engaged in by the exchange partner.

5. Results and Discussion
The paper attempts to analyze how social capital facilitates to mitigate TC particularly in small enterprises in Sri Lanka? The results of the multiple case studies are discussed under two headings; 5.1) the mitigation of bounded rationality, and 5.2) mitigation of opportunism.

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5Directed approach to content analysis is to validate or extend conceptually a theoretical framework or theory. Existing theory or research can help focus the research question. It can provide predictions about the variables of interest or about the relationships among variables, thus helping to determine the initial coding scheme or relationships between codes. This has been referred to as deductive category application.
5.1 Mitigation of Bounded Rationality
OSEs highly believe that they have the ability to access necessary information about new suppliers and buyers, input and product prices and quality, product techniques, business uncertainties (environmental, demand and supply uncertainties) etc. which lead to make better decisions on transaction, using their interpersonal connection. All the OSEs have strong connections with different category of networks mainly business network (friends who involving in the same business or some other businesses, suppliers and some customers), supportive networks (officers of banks, financial institutions, government officers of different department and ministries, politicians, various professionals) and social network including family members, relatives, religion leaders, laborers of the business and different kinds of friends in the civic society. The majority of OSEs frequently interact with their business and supportive network expecting information and advice. Most of them explain that they devote a lot of time a day to interact with the members of network not only to handle business matters but also to engage in personal chats and social events (gatherings, weddings, funerals etc.) which allow to gather important information. They can allocate more time to interact with network members because regular business activities are handled by bonding capital (family members, relations) or chief executive officers under the supervision of OSEs who act as a final decision maker.

If OSEs need particular information, they usually consult some suitable network members to get such information. They sometimes meet particular network members or contact over the telephone to get such information. The method of contacting depends upon the importance of information they need. If such members do not have enough knowledge, they sometimes advice the way to get such information, or they may search their network (bridging) to get the information. OSEs can easily make conclusions when different network members provide the same information. If different information is received, the OSEs search for further information from some other members to confirm as to which information is correct before making transaction decision. All the OSEs accept that they have common goals about the success of other businesses that are doing close friends in the network. The existence of common goal among the network members facilitates the sharing of information. Network members have mutual understand and it affects the decrease of the opportunistic behavior, business uncertainty and improves the rationality of decision making process.

Interpersonal trust plays an important role in finding information. Trustworthy members of network devote their time and money to provide information they have, on the request of OSEs. Interpersonal trust encourages OSEs to believe in such information. OSEs always pass information among network members who produce similar productions about prices both inputs and outputs when determining prices since similar producers have common vision to determine similar prices for the same products and inputs. Thus, the social capital of OSEs affects the quick, low cost and reliable information. All OSEs agree that they can access any information with low cost, reliable information and find information about reliable buyers and suppliers.

OSEs accept that they have not enough knowledge and experiences to evaluate complex information to make more rational decision regarding transaction. They need to take decisions very carefully because they have limited resources to invest on such transaction. Therefore, they always expect support from network members to evaluate information before making transaction decisions. They mostly consult, discuss and get advice from close friends, professionals, government officers and bank officers to assess information to make decisions. Inter-personal trust between OSEs and network members facilitates to provide good faith support to evaluate information. Trustworthy members spend time and cost to support to assess information.
and make effective decisions. Close friends of supportive network (lawyers, engineers, architects, accountants etc.) provide their help OSEs on free of charge to assess information in order to make more rational decision.

Strong inter-personal trust and relationship encourage both parties to support each other without considering financial losses. OSEs try to search and learn, when gathering network members and having a chat when meeting them. Network members sometimes share their experiences explain previous stories about handling cunning persons, handling complex matter, facing challenges etc. When gathering network members in different social events, knowledge and experience of OSEs improve due to sharing such experiences. Most of OSEs believe that their decision making power, ability and knowledge improve due to social capital.

5.2 Mitigation of Opportunism
OSEs believed that almost all the customers are innocent and sincere who do not have sufficient pervious experiences in purchasing commodities (relevant only cement products and wood products). They need only quality product at the lowest possible prices. They do not exaggerate needs to get what they want. Although all the transactions with customers are based on verbal agreement, majority of them have not break these agreements to their own benefits. Most customers provide completely true picture when negotiating and are not willing to behave opportunistically. However, a small number of customers try to behave opportunistically breaking agreements previously agreed. Some customers behave dishonestly about certain things in order to protect their interests. OSEs have experiences and knowledge to observe who behave opportunistically and how to deal with, and treat them. OSEs accept that most suppliers do not behave opportunistically because they are regular suppliers who develop good faith with OSEs. They provide a completely true picture when negotiating. Most suppliers do not exaggerate needs to get what they want. The majority of them have not broken agreements with their own benefits because they expect to make frequent transaction for a long period of time. However, a small number of suppliers try to behave opportunistically breaking agreements.

OSEs always scan and search for information through social capital about the capability, reliability, honesty and opportunistic behavior of their regular customers and suppliers to make decisions to avoid hazard from opportunism. Meanwhile, OSEs have close relationship with their regular suppliers and customers. In the meantime, they attempt to build up relationship with new exchange partners particularly customers who purchase cement products and wood products, having little a chat with them. If such customers order products paying advanced payment, OSEs attempt to offer products on time. After building up relationship with regular customers, OSEs search information about reliability of the customer using social capital. Then OSEs make a judgment about customer’s reliability and supply products that customers need on credit basis. Such customers also try to show their good faith paying credit payments as soon as possible or negotiate with OSEs of payment procedure. OSEs develop close relationship aiming to maintain regular transaction with particular customers and such customers introduce and recommend new faithful customers leading to them mitigate opportunism on the one hand and to increase market share on the other.

Most of the exchange partners are close friends of OSEs and do not expect to behave opportunistically. Any issues related to transaction are solved having negotiation. Regular exchange partners attempt to maintain the trustworthy developed OSEs aiming continuous transaction in future. Most OSEs believed that developing inter-personal trust with business partners and other members of the network highly affects the decrease of opportunism. Therefore, most of OSEs try to develop and maintain strong inter-personal trust
with the members of social, business and supportive networks and the internal staff of the business. OSEs always try to show their reliability, predictability, and fairness to network members and exchange partners. Most of them mention that they do not tend to behave or not to do anything that leads to the destruction of inter-personal trust. One OSE specified that;

‘Inter-personal trust is a worthier asset than financial benefits. I normally devote financial benefits to develop inter-personal trust because trust is a great investment which helps to safeguard my business from various obstacles and develop reputation that facilitates to increase the market share of my product in future’.

If an exchange partner behaves opportunistically, the information about the particular person spreads among the network members since the network members have a shared vision. It harms the particular exchange partner. Sometimes network members force such exchange partners not to behave opportunistically in order to safeguard from opportunism.

If OSEs need new suppliers, they search information about suitable and capable suppliers using their social capital and select most suitable suppliers who are capable to work in a more cooperate and reliable manner. If a network member introduces a supplier or a customer, the particular trade partners try to protect agreements and mostly not try to behave opportunistically. OSEs believed that social capital helps to find suitable and reliable exchange partners on the one hand and finding exchange partners with the support of social capital leading to decrease opportunism on the other because exchange partners try to protect the dignity and trust of the member who introduced and recommended him. Thus, social capital helps to mitigate opportunism which leads to the minimization of transaction cost.

6. Conclusions

Based on the analysis, the following conclusions are made. First, the study demonstrates that SEs use relational governance to mitigate their TC, developing and maintaining strong network relationship with social, business and supportive network members and developing inter-personal trust with network members because almost all the transactions of SEs are based on informal and verbal agreements. This finding supports the views of Dyer, (1997), Noordewier, et al. (1990), Heide and John (1990) who found that the governance emerges from the values and agreed-upon processes found in social relationships. The salient feature is that SEs have a small market share which is limited to a small region. They sell their output for regular buyers and purchase inputs from regular suppliers who have close relationships with OSEs. SEs have capacity to maintain a strong social relationship with manageable number of network members with regular interaction, expecting to obtain information. OSEs believed that developing a strong social capital is a valuable asset and they devote a lot of time and money to maintain it. But, they do not consider such money and time a waste because their social capital generates numerous valuable benefits which are not available in the open market to purchase. One OSE explains;

‘Benefits are received even at an unexpected time without spending a single cent. Though I am willing to pay, I can’t purchase some important benefits from the market because such benefits are not available to purchase in the market’.

Secondly, the finding indicates that the capacity and ability of OSEs to access and assess information to make more rational decision have been improved due to the use of social capital that lead to mitigate bounded rationality which affects the minimization of transaction cost of SEs. They use their network relationships to obtain various information that are needed to improve the capacity of OSEs to make more efficient transaction decisions. They have sufficient time to search information, and necessary information
are obtained quickly (over the phone) with minimum cost. The same finding has been presented by Baker (1990), Bergen, et al. (1992), Burt (2000), Donnell (2004), Granovetter (1976), and Uzzi (1996, 1999). They have explained that network ties play an important role in mitigating information asymmetric. OSEs usually get support from network members to evaluate, get ideas and advice to make transaction decision. Decision making power of OSEs improves due to the information access through social capital and support given by network members to evaluate information.

Thirdly, the capacity and ability of OSEs to access and assess information to make decision to avoid opportunism of exchange partners have been improved due to the use of social capital. The ability of OSEs has improved to search information about the capabilities and reliabilities of regular and new suppliers and customers leading the decision to avoid opportunism, using their network relationships. The study of Mysen et al. (2011) have revealed that SEs can consult via social capital to know in advance if the potential exchange partners are honest and creditable and exchange details are correct. Interpersonal trust leads to mitigate the opportunism of exchange partners. Common vision of network members to share information also affects the mitigation of opportunism. Thus, OSEs access and assess information to make decision to mitigate opportunism resulting in the minimization of TC of small enterprises. The same finding has been made by the scholars; Heide and John (1992), Svensson (2001) who emphasized that opportunism has negatively been associated with trust.

The results of this study suggest that OSEs need to know the importance of the development and maintain strong social capital which affects the decrease of TC through the improvement of the capacity to access and assess information. SEs in LDCs can achieve better performance decreasing TC, by maintaining a social capital. Encouraging SEs to develop strong social capital facilitates to develop SEs, and it will be a solution to higher failure rate recorded in SE sector in LDCs.

References


