Oliver Williamson's Opportunism

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Abstract: In his study of the modern firm Oliver Williamson proposes the concept of opportunism as the reason for vertical integration. Williamson divides opportunism conditionally into ex ante and ex post opportunism by analogy with his classification of transaction costs as ex ante transaction costs incurred prior to concluding the deal and ex post transaction costs, which arise after that. Ex ante screening can prevent ex post opportunism. Opportunism is a synonym of fraud in the market game. It is the practice of cheating, lying or stealing in business relations. It is very common in some cultures and societies which hampers prosperity and economic progress.

Keywords: opportunism; transaction costs; Oliver Williamson; new institutional economics.

JEL Classification: D23; D82; O10.

Introduction

Oliver Williamson makes operational Ronald Coase's theory of the firm. Williamson defines types of transaction costs and relates the different levels of those costs to different governance structures, i.e. organizational forms, using a discriminating approach. Like Coase Williamson supports that transaction costs are the reason for the existence of firms. An essential source of transaction costs to Williamson is opportunism, a demonstration of the transactional and behavioral failures of the market and a result of human behavior. Williamson formulates opportunism as a concept broader than moral hazard, adverse selection, asymmetric information, misrepresented quality or other types of market failure. Opportunism includes all these forms of market failure (Williamson, 1993a). Transaction costs are at the root of all types of market failure.

We study the different aspects of opportunism, as seen by Williamson in his theory of the firm. Williamson's opportunism is essential for economic organization. It is a condition for vertical integration between successive firms along the distribution channel but, more importantly, it leads to complete market failure when due to fraud certain markets disappear. We analyze critically Williamson's concept and its significance for economic theory particularly with relevance to economic development. Using a descriptive approach, we pose the question to what extent opportunism, as defined by Williamson, explains differences in development among economies with varying levels of institutional trust. Section 1 of the paper is a brief introduction. Section 2 reveals the different forms and effects of opportunism, as introduced by Williamson. The paper ends with conclusions.

Opportunism and Its Role in the Market Game

Williamson (1983) borrows the term 'opportunism' from Niccolo Machiavelli and the field of political science. Machiavelli advised the prince that:

> 'a prudent ruler ought not to keep faith when by so doing it would be against his interest, and when the reasons which made him bind himself no longer exist' (Machiavelli 1952, 92).

The ruler can and ought to violate agreements when it is in his interest to do so without fearing a penalty. This is because the other parties to the agreement would also violate the agreement in order to achieve their goals. Williamson (1983, 3) claims that opportunism 'has broad and recognizable significance to social and economic organization.' Human agents are not fully trustworthy in economic dealings (Williamson 1993a).

According to Williamson (1985) there are three levels of selfishness in economic behavior: 1) obedience or lack of self-interest seeking, 2) simple self-interest seeking which is a normal level of selfishness in search of profits, and 3) opportunism as a strong form of self-interest seeking. Obedience is the lack of human selfishness in economic behavior. An example of that is voluntary slavery when someone agrees to be someone's slave or be unlimitedly exploited by another person (Coase 1937). Coase (1937) reminds that such a contract of enslavement would be legally invalid and unenforceable. Williamson provides as an example of obedience the socialist economy when individuals give up their own goals and adopt the macroeconomic goals of the central plan. Thus, individuals in socialist societies sacrifice their own interests for the sake of the state or the central plan.

Simple self-interest seeking is a normal level of selfishness in market transactions. Classical authors like Adam Smith and David Riccardo assumed that economic agents are only normally selfish in pursuit of profits. When they wrote their theories, they did not presume excessive human selfishness in market exchange:

> 'It is not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner, but from their regard to their own self-interest. We address ourselves not to their humanity but to their self-love, and never talk to them of our own necessities, but of their advantages' (Smith, 1776, Book I, chapter II. Of the Principle Which Gives Occasion to the Division of Labour, p. 56).

And when discussing foreign trade, Smith refers to the invisible hand that drives individuals. By 'invisible hand' he means nothing but people's selfishness in pursuit of profits.

> '… every individual… generally, indeed, neither intends to promote the public interest, nor knows how much he is promoting it. By preferring the support of domestic to that of foreign industry, he intends only his own security; and by directing that industry in such a manner as its produce may be of the greatest value, he intends only his own gain, and he is in this, as in many other cases, led by an invisible hand to promote an end which was no part of his intention… By pursuing his own interest he frequently promotes that of the society more effectually than when he really intends to promote it' (Smith, 1776, Book IV, II. Of Restraints Upon the Importation from Foreign Countries of Such Goods as Can Be Produced at Home, p. 160).

There is a need for some selfishness in the market game. Individuals who are normally selfish and normally greedy create value and deliver products to the market which brings them profit. But this search of profit is moderate, individuals are not presumed to lie in market dealings, they do not deliver products of lower quality, they deliver the product on time and in the right amount. Thus, classical writers assumed that individuals are relatively well-intended, and that competition is honest.

Such a limited view of human behavior renders classical economics unrealistic. Once opportunism is introduced in market dealings, there is a provision of the transactional and behavioral failures of the market. Economics becomes a realistic subject – individuals are no longer only reasonably selfish and boundedly rational but excessively greedy in their pursuit of profits. They rob or lie to their commercial partner, they mislead, cheat, obfuscate information, they refuse to pay or procrastinate payment, they deliver products of lower than claimed quality, and are generally dishonest. New institutional economics in general and Oliver Williamson's concept of opportunism in particular introduce an element of realism in economic theory. By introducing extreme selfishness in the market game Williamson reveals the darkest aspects of human nature, the worst features of homo economicus. In relation to this is Coase's observation that new institutional economics is economics as it ought to be:

> 'Modern institutional economics should study man as he is, acting within the constraints imposed by real institutions. Modern institutional economics is economics as it ought to be' (Coase 1984, 231).

Opportunism, as defined by Williamson, is extreme selfishness in market dealings. It is a strong form of self-interest seeking, very different from obedience as non-self-interest seeking or simple self-interest seeking as a semi-strong form. Williamson (1985, 47) defines opportunism as:

> 'self-interest seeking with guile. This includes but is scarcely limited to more blatant forms, such as lying, stealing, and cheating. Opportunism more often involves subtle forms of deceit. Both active and passive forms and both *ex ante* and *ex post* types are included.'

Power may not be symmetrically shared between the parties to a contract. The more powerful side may try to appropriate some or all quasi-rents of the other party. The stronger party in effect changes the *ex ante* quasi-rent negotiated before the conclusion of the deal by obtaining *ex post* the economic rent of the other party or what was agreed on as its value added. The stronger party thus changes the rules of the contract *ex post* following a strategic behavior which benefits it but deprives the other party of its value added.

Opportunism is inherently related to contracts. The possibility for opportunism arises with the conclusion of a contract where each of the parties would like to protect itself against the risks associated with the behavior of the other party. Every party to a contract would like to incorporate clauses or safeguards to protect itself against the risky behavior of the other party. Opportunism thus is an indispensable part of the study of contract. It is highly relevant to economic reality since economic activity is based on contracts and all economic agents are susceptible to contractual risks. Furthermore, contracts should not be based on mere promise but should be supported by credible commitments (Williamson 1996).

There is no presumption of opportunism in Coase's theory of the firm. Coase makes no reference to opportunism which is why Williamson (1985, 78, footnote) criticizes him:

> 'Coase (implicitly) acknowledges bounded rationality but makes no reference to opportunism. Indeed, to contend, as he does, that… '[w]e can imagine a system where all advice or knowledge was bought as required', is essentially to deny that markets for information are beset by opportunism. Coase is… silent on the contracting hazards and maladaptations on which I rely to explain nonstandard contracting...'

While Coase does not mention opportunistic behavior explicitly, he presumes it because he refers to Knight (1933) who discusses human nature in the context of uncertainty. Knight views human nature as the unpredictability of human actions and the uncertainty it brings when human knowledge about the future is limited. To Williamson 'human nature as we know it' is a synonym of selfishness, greed, unpredictability and lack of trust. Williamson's contractual man is unpredictable, he is lured by the full economic profit, he wishes to appropriate the full rent of his contractual partner and is unlimitedly greedy. Williamson expands Knight's concept of human nature and introduces an element of realism in economic theory. Knight (1933, 260) studies 'human nature' and moral hazard in the context of risk and uncertainty but his work is a basis for Williamson to introduce opportunism as 'a subtle and pervasive condition of human nature with which the study of economic organization must be actively concerned' (Williamson 1985, 6).

Coase discussed transaction costs generally. These are 'some marketing costs' or what it costs to use the market mechanism. He did not specify all the sources of transaction costs. There may be different sources of transaction costs, both objective and subjective. Transaction costs which arise objectively stem from the technical difficulties in leading prolonged negotiations between multiple parties, the technological time it takes to draft a contract, the objective differences between the parties and the time and effort it takes to overcome these differences. To Williamson there is a substantial subjective source of transaction costs where a party to a transaction may intentionally try to take advantage of the other party. Opportunism represents this essential type of subjective transaction costs which arise of the intentional, ill-intended human behavior. One of the parties to a transaction realizes that his commercial partner is trapped in a contractual relationship and purposefully wishes to appropriate his quasi-rents. Hodgson (2004) is critical of this view. He believes that individuals are far more cooperative in business dealings and different misunderstandings can occur due to the cognitive and perceptional differences among them. Hodgson, however, discusses objective obstacles such as human cognition and perception within the firm where individuals may unwillingly face communication problems because they differ in their cognitive processes when involved in mutual work. Hodgson does not discuss interfirm problems of cognition during the negotiation process, that is, across different technologically separable stages of the market interface when one phase of the exchange process ends, and another phase starts.

Some believe that there has always been opportunism and that it existed prior to Williamson. He argues opposite:

> 'I seriously dispute that opportunism has been the operative behavioral assumption. Public goods, insurance, and oligopoly aside, there was little or no provision for opportunism in most textual or other treatments of economic organization as recently as 1970… Simple self-interest-seeking, rather than opportunism, was plainly the ruling view.' (Williamson 1985, 65)

There was no reference to opportunism in the literature or its practical significance was not recognized. In describing the situation with firm studies before 1970 Williamson (1985, 65) mentions that there was no reference to efficient

governance and the attenuation of opportunism in relation to labor union organization. Regulatory prescriptions regarding contractual complications stemming from opportunism were dismissed. The theory of contracts relied on the concept of differential risk aversion, while concerns over the hazards of opportunism were suppressed. In support of Williamson that there was no theoretical provision of fraud in the market game Peter Diamond (1971, 31) remarks:

> 'Economic models [treat] individuals as playing a game with fixed rules which they obey. They do not buy more than they know they can pay for, they do not embezzle funds, they do not rob banks.'

Except Knight there were other economists who hinted at opportunism back in time. As an organizational theorist Herbert Simon studied the quantitative dimensions of organizational design. Simon (1957) hints at organizational opportunism in that individuals in organizations may pursue their own goals or identify with local goals which contradict the global goals of the organization.

Arrow also believes that people can be opportunistic. Arrow (1969, 506) claims that 'mutually advantageous agreements are not arrived at because each party is seeking to engross as much as possible of the common gain for itself.' There is severe asymmetry and opportunism in the markets for information. An example is the 'knowledge paradox' when the buyer of some knowledge is unwilling to pay for it before he obtains it but once he obtains it, he is no longer willing to pay for it.

Williamson emphasizes market opportunism more than internal organizational opportunism. He refers to organizational opportunism only on two accounts: 1) organizational form for the firm as a governance structure and 2) conflict and conflict resolution within the firm.

The firm should not be seen as a production function but as a governance structure. Organizational form, therefore, matters with different types of forms economizing on transaction costs differently. The multidivisional form to Williamson is optimal for the large corporation not only because it relocates transaction costs and informational load optimally between: 1) the strategic management which takes the long-term decisions of the corporation related to its mission, vision, etc. and 2) the operational, day-to-day management of the separate unit, division or subsidiary charged with the task to organize its smooth operation. The multidivisional form has advantages over other firm forms such as the holding or the conglomerate in that it subjects the different units, divisions or subsidiaries to the organizational goals. They no longer follow their own goals or maximize their own profit at the expense of the company profit but pursue the organizational goals and maximize the cumulative firm profit. Thus, in Williamson's view the multidivisional form overcomes local opportunism within the organization. This conclusion is fully consistent with Herbert Simon's view of organizational goals. Simon's influence over Williamson, who was his student in organizational theory at Carnegie Melon, is obvious.

Williamson also refers to internal opportunism in the context of conflict resolution. The firm has its inbuilt mechanism of solving conflicts, something which is missing in conflicts between parties across the market interface. In interfirm, market disputes it is the judge who solves the conflict between the parties. To Williamson, the manager assumes the role of the judge in solving disputes within the firm. Williamson calls this process 'fiat,' by which conflicts get more easily resolved within the firm. It takes less time following the internal rules of the organization; the parties and the manager as a mediator are more competent and familiar with the circumstances and may come up with a better solution, compared to an external figure such as the judge. The judge may need more time to understand the conflict and take the right decision. Also, the firm may not want to disclose the nature and details of the conflict. It may be too costly to use the court system to resolve conflicts (Williamson 1993c).

Williamson pays a lot of attention to external opportunism which occurs across the market interface. It arises between two independent firms involved in a contractual relationship and results from the dishonesty of one of the firms. This interfirm or market opportunism is not common:

> '[This] does not imply that I believe that most economic agents are engaged in opportunistic practices most of the time. Rather, most economic agents are engaged in business-as-usual, with little or no thought to opportunism, most of the time. That opportunism does not continuously intrude is partly because many economic agents are well-socialized' (Williamson 1993a, 98).

Therefore, a major reason why some economic agents act opportunistically is the lack of socialization in Williamson's view. Opportunism arises with specific assets[1] which can hardly be replaced with universal or general-purpose assets in a specific deal. Specific assets on their own cannot be a source of transaction costs. Because opportunism causes asymmetric information and transactional and behavioral uncertainty, it is potentially risky for specific assets. What is initially a general-purpose asset turns into a specific asset once the contract is signed.

[1] Specific assets include: 1) dedicated assets, 2) human asset specificity, 3) site specificity, 4) physical asset specificity, 5) brand name capital.

What is a large number of bidders at the outset, turns into a single provider of the good or service upon conclusion of the contract. This very much resembles a marriage contract. When a person is single, he or she may have many suiters. But once the person gets married, out of the many suiters remains only one. The party is then trapped in a contractual relationship where the other party may or may not be faithful.

Williamson stresses the risks associated with commercial contracts. There could be opportunistic behavior with spot markets, but it does not have long-term consequences because it is a one-time deal. With prolonged market contracting where specific assets are involved and parties are boundedly rational, the consistent opportunism by one of the parties results in a merger of the two firms. Transactional and behavioral failures such as consistent opportunism by one firm lead to the vertical integration of the two firms along the distribution channel. The merger could be between the producer and an opportunistic supplier or between the producer and an opportunistic distributor. An opportunistic supplier may fail to deliver the right parts to the producer, or may deliver parts of lower quality, or fail to deliver them on time. An opportunistic producer may refuse to pay for the parts ordered or may not pay the full amount to the supplier or may delay the payment substantially. The hazard of opportunism by a contractual partner may result in significant underinvestment in specific assets. Their application in alternative uses is limited which results in losses for the investing party. An opportunistic distributor may fail to distribute, promote or exhibit the product of the producer, as contracted or agreed on. If this behavior persists, the producer may be forced to acquire the opportunistic distributor. Opportunism can be observed at any level of the distribution channel. Both *ex ante* and *ex post* opportunism are present. To prevent *ex post* opportunism ex *ante* safeguards can be designed at the stage of contract formulation or a careful *ex ante* screening of potential commercial partners may be necessary. Higher *ex ante* transaction costs incurred prior to signing the deal may reduce the risk of *ex post* opportunism.

Interfirm opportunism is a factor for vertical integration when combined with asset specificity, bounded rationality, uncertainty and continuous market exchange. Therefore, the conditions for vertical integration are: 1) specific assets, 2) contractual opportunism by one of the parties, 3) bounded rationality, 4) uncertainty, and 5) long-term contracting. Bounded rationality and opportunism weaken market contracting as a form of economic organization. This gives advantage to nonmarket forms of governance such as nonstandard forms of contracting (franchising and joint ventures), specialized mediation (arbitration), and complex hierarchical structures (administrative organization) (Williamson 1983).

Williamson (1993a) draws a direct parallel between opportunism and some specific forms of transactional behavior. He considers opportunism less technical than adverse selection and moral hazard. Adverse selection is an example of *ex ante* opportunism when a party to a contract fails to reveal its true attributes to the other party. A typical case is the employment contract when a job candidate does not reveal his adverse features to the employer prior to signing the contract. The employer finds out about the true potential of the employee only after the contract is signed and the employee starts working. With human asset specificity the employee develops a set of skills and knowledge strictly relevant to the particular company. This creates the possibility for the employer to act dishonestly. As time goes by and the employee develops more firm-specific knowledge, it becomes harder for him to find alternative employment increasing thus the opportunity cost of his leaving the firm. Such firm-specific knowledge and talents turn into sunk costs for the worker. This creates an opportunity for the manager to extract more of the employee's rents stipulated in or implied by the employment contract. Likewise, employees would try to extract as much of the quasi-rent of the firm attributable to human capital. Employees could go as far as expropriating the full rent of the employer, unless the labor contract is terminated prematurely. Asset specificity which arises with labor can be the cause of transaction costs on both sides of the employment contract.

Moral hazard is a case of *ex post* opportunism where once the contract is signed, one of the parties becomes negligent and fails to perform its contractual obligations. A common example provided in the economic literature is the insurance business where once a person gets insured, he becomes more irresponsible when it comes to his health or property. He fails to abide by the insurance contract.

Shirking within the firm is another example of *ex-post* opportunism. It could be an illustration of the principal-agent problem from agency theory where the manager is not the owner of the firm and fails to manage the firm in a way that is profit-maximizing for the owner. Shirking can also occur at a very low level when workers simply underperform and do not provide the maximum of their marginal product. Workers may provide lower quality than what is desired or expected. They shirk on the effort of other team members. Shirking can also take the form of absenteeism and procrastination. The most extreme form of shirking on the part of both workers and managers is stealing from the firm or the workplace. All three categories, adverse selection, moral hazard and shirking, fit ideally within the concept of opportunism.

Asymmetric information and quality misrepresentation are forms of external opportunism which take place over the market interface. Buyers may not be perfectly informed about the features or functions of a product. The seller may not present the information about the product accurately. More specifically, he may sell a product of lower quality as one of superior quality thus appropriating the rents of the buyer. Since buyers expect the seller to cheat on quality, they refuse to buy at any given price level. Demand becomes so low that it can no longer meet supply. The market thus falls into a low-quality equilibrium which is essentially a lack of equilibrium. Mutually advantageous transactions are lost due to the loss of trust caused by potential or real opportunism. Transaction costs stemming from contractual opportunism cause deadweight social loss where sizable total social surplus is being lost. This effect of informational asymmetry which stems from behavioral opportunism is well described by Akerlof (1970) in the 'lemon market' example of second-hand car markets. Akerlof's conclusion is that mostly 'lemon' cars are traded in second-hand car dealers, and they are presented as 'peaches.' Because customers know that mostly lemons are offered in second-hand markets, they refuse to buy at any price level. Akerlof also discusses the behavior of cheating with lending and credit markets in underdeveloped countries. Indian housewives must carefully clean the rice from 'stones of the same color and shape which have been intentionally added to the rice' (Akerlof 1970, 496). 'Any comparison of the heterogeneity of quality… suggests that quality variation is a greater problem in the East than in the West' (Akerlof 1970, 496). It seems that opportunism is a bigger problem in less developed and transitional countries without solid traditions and customs in the operation of markets.

Williamson does not make a direct reference to the underdeveloped world. In his theory opportunism is a condition for the vertically integrated firm. Williamson does not discuss opportunism in the context of the low-end equilibrium trap when cheating by one market participant can destroy the entire market. Because opportunism is more prevalent in some countries, cultures or societies, such cultures are more susceptible to complete market failure and economic underdevelopment than others. The presence of individuals who are more likely to cheat in the market game is an obstacle to development in such societies. This is beyond what Williamson observes. He admits that transaction costs are at the root of market failure but does not relate opportunism to economic backwardness. Williamson does refer to Akerlof (1970) and Banfield (1958) on how cheating can be a cultural trait. Japan is a culture of high trust in business relations (Dore 1983), while there is a very low degree of trust outside the family in villages in Southern Italy (Banfield 1958). Fraud is very common in less developed countries. In Williamson's view the propensity for opportunism varies among individuals and between cultures (Williamson 1996).

Economic agents should not be contractually naive and allow 'user-friendly' terms like promise and trust disguise the objective features of the deal (Williamson 1993a, 105). The parties which foresee the potential contractual risks and include preventive clauses *ex ante* have a clear advantage over those shortsighted which risk blindly and knock on wood. If one contract turns out to be riskier than another, this should be accounted for in the value of the deal. Between two contracts the parties should choose the one with less potential for opportunism. If the risks are prohibitive, then the deal is not worthwhile (Williamson 1993a, 105). The hazards of opportunism should be addressed openly rather than suppressed. Williamson seriously objects to Bradach and Eccles (1989) that the growing interdependence between two commercial partners who bargain continuously strengthens trust between them. Just the opposite, transaction cost economics posits that a stronger interdependence that develops with time is a prerequisite for opportunistic behavior. As time passes, the parties to a contractual relationship may become less and less alert and, hence, more vulnerable to the opportunistic behavior of the other party. Williamson (1993b) considers trust an elusive notion. It is inevitably related to risk. Trust is the reaction of an individual when he takes on certain risks which depend on the behavior of another individual.

Because it is unlikely that opportunistic agents will stick to their own promises, it is necessary to design credible threats or commitments that guarantee contract compliance. Credible commitments serve as incentives for contract observance. Williamson thinks that trust undermines the continuous contractual relationship between two parties and confuses economic analysis.

> 'Transactions that are subject to *ex post* opportunism will benefit if cost-effective safeguards can be devised *ex ante*. Rather than reply to opportunism in kind, the wise prince is one who seeks to both give and receive credible commitments. That is a much deeper and more important contractual response, but it requires that the hazards of opportunism be faced candidly rather than suppressed (Williamson 1993a, 105).'

Inside the organization the most opportunistic and dishonest individuals take advantage of the honest, non-opportunistic individuals. Opportunistic individuals easily invade, and exploit organizations built on high trust and cooperation. Solid organizations, therefore, are those which have mechanisms for detecting and preventing internal opportunism.

'One of the implications of opportunism is that 'ideal' cooperative modes of economic organization, by which I mean those where trust and good intentions are generously imputed to the membership, are very fragile. Such organizations are easily invaded and exploited by agents who do not possess those qualities. 'High-minded' organizational forms – those which presume trustworthiness, hence are based on nonopportunistic principles – are thus rendered nonviable by the intrusion of unscreened and unpenalized opportunists. Accordingly, those who would have cooperatives succeed must, of necessity, make organizational concessions to the debilitating effects of opportunism. Viable cooperatives will attempt to screen against, socially recondition, and otherwise penalize opportunistic invaders (Williamson 1985, 64).'

Williamson does not give the rationale for opportunism in contractual relationships. He only detects it and its effect on contracts, markets and organizations. He does not study the motivation for opportunistic behavior and admits that reputation effects are no contracting panacea (Williamson 1985, 396). Opportunism is still not widely accepted among economists. Its different forms are studied separately and outside its context. One reason is that some economists have developed their own models of certain types of market failure. For instance, Stiglitz (1975; 1985; 2000) introduces a model of information, information costs and information asymmetry. Arrow (1985) studies the principal-agent problem. Some economists (Hodgson 2004) question that opportunism is the reason for the existence of the firm. To deny opportunism is to deny standard concepts like moral hazard and adverse selection in economic theory.

More recent studies reveal the role of opportunism in various contexts. Zardkoohi, Harrison and Josefy (2017) and Wagner (2019) study opportunism in the context of agency theory. To Wagner (2019) the problem is one of reciprocal nature. While economic analysis is preoccupied with the opportunistic behavior of the agent, there is reverse opportunism, that of the principal, which originates from power and dominance, rather than information asymmetries. The principal can humiliate, harass, undermine, overrule or overload the agent.[2] Hennart and Verbeke (2022) discuss opportunism in international markets and reveal transaction cost theory as a framework for finding optimal governance structures in the process of value creation in international business. Stephen (2017) relates institutional and economic underdevelopment to culture. More specifically, economic reform and the attempts of the Chinese government at building the new normal economy depend on law enforcement which has its roots in legal tradition and culture. Pejovich (2003) traces the high transaction costs and mishaps of development in Eastern Europe to culture.

The concept of opportunism is important not just in the context of the vertically integrated firm but also in the general context of economic development. Opportunism is a behavioral source of transaction costs and as such is the reason for market failure. It could be seen as a regional, ethnic or cultural trait. Societies dominated by opportunistic individuals where opportunism is a national characteristic are more prone to market failure than non-opportunistic populations. Such opportunistic societies enjoy high transaction costs of market exchange, where due to behavioral failures it is more costly to use the market mechanism. Economic development is significantly hampered by ethnic or culturally embedded opportunism.

Conclusion

Opportunism is an extreme form of selfishness in economic activity. It arises in the process of market contracting and is inevitably related to contracts. Williamson proposes opportunism as a comprehensive category which incorporates all types of behavioral failures in the process of transacting. According to Williamson all types of behavioral failures fit very well within the concept of opportunism – adverse selection, moral hazard, shirking, the principal-agent problem, asymmetric information, quality misrepresentation, etc. Opportunism is generally any kind of cheating in the market game when one of the parties to a contract attempts to acquire the quasi-rent of the other party with as little effort as possible on its part. It includes lying, cheating, distorting, hiding information, stealing and other forms of deceit. Opportunism is a major subjective source of transaction costs in economic exchange. Once the concept of opportunism is introduced in economic theory, the economic system becomes realistic. Opportunism has two essential effects on the economy. It is the reason for vertical integration when two firms along the distribution channel merge to form a bigger firm. This increases market concentration and monopoly power but reduces the transaction costs faced by the firms in the industry. This outcome is also more favorable since no productive value or welfare is lost. Market transactions are internalized within the firm. A second effect of contractual

[2] Of course, while the manager is a principal of the worker who is an agent in the employment contract, the former is an agent of the owner(s) of the company whose interests he represents in managing it. A misbehaving principal may turn out to be an underperforming agent or a principal may be underperforming just because he is an opportunistic agent. We should stress here the relative nature of the problem.

opportunism is complete market failure when commercial fraud drives the market into disequilibrium. Since some societies and cultures are more opportunistic than others, this prevents economic development. As a behavioral, subjective source of transaction costs opportunism causes market failures of different types and economic backwardness. Opportunism is an essential obstacle to economic development in third world and transitional countries.

Declarations

Declaration of Competing Interest: The author declares that she has no known competing financial interests or personal relationships that could have appeared to influence the work reported in this paper.

Declaration of Use of Generative AI and AI-assisted Technologies: The author declares that she has not used generative AI and AI-assisted technologies during the preparation of this work.

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