

Trust and Transaction Costs in Industrial Districts

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Abstract

Social capital is becoming a core concept in economics, political science, sociology and public policy. Trust, norms and social networks constitute the three major components of social capital. These three factors interact with each other and play a significant role in transactions between people and organizations. However, there is no consensus about the influence of social capital on transaction costs. Some researchers have stated that social capital could reduce transaction costs associated with adapting, monitoring and enforcing transactions; some have analyzed the negative impacts of social capital on transaction costs; and still some have focused on transaction costs in the formation of social capital.

Using organizations as the unit of analysis and concentrating on trust, this paper analyzes how trust, the central concept of social capital, impacts transaction costs in inter-organizational transactions. At the same time, it argued that trust building is costly, and some activities that constitute transaction costs help to form a mutual-trust between organizations. Further, the paper points out that transaction costs and trust differ depending on the characters of transactions.

The paper also studies the lock-in effects of trust on inter-organizational relationships and the role of intermediaries to mitigate the negative impacts. Finally, the paper intends to find policy and strategy implications for organizations and government to build a healthy and vigorous transaction environment.
