

Effect of Information Accessed Through Social Capital on Transaction Cost: A Case of Small Enterprises in Sri Lanka

Priyanath, H. M. S.¹, Premaratne, S. P.²

¹Department of Economics and Statistics, Sabaragamuwa University of Sri Lanka

²Department of Economics, University of Colombo

priya@sab.ac.lk

In the real world, perfectly competitive market is far away from the reality. The existing imperfect market generally provides asymmetrical information which leads exchange partners to behave opportunistically and limits the decision making power (bounded rationality). Both opportunism and bounded rationality are the root causes that increases Transaction Cost (TC) that discriminates, particularly against small enterprises. Therefore, small enterprises face serious difficulty in governing TC due to asymmetrical information. Instead, small enterprises develop informal and personal relationships, inter-personal trust and norms (social capital) with external actors expecting information which leads to govern TC in economizing manner. However, scholars have not given adequate attention to study how information accessed through social capital affects the TC particularly in small enterprises? This paper attempts to fill this gap. Case study method was mainly applied to collect data. Purposively selected five small enterprises from Balangoda Divisional Secretariat in Ratnapura District were used to gather information. Data was analyzed employing directed approach to content analysis.

Owners of Small enterprises (OSEs) believe that they can find low cost and quick information using their social capital. They have the ability to find information regarding new suppliers, input and product prices and quality, product techniques which facilitate rational decisions and the information of new exchange partners with their capability and reliability that mitigates opportunism. OSEs accept that they have no sufficient knowledge and experience to evaluate information. Therefore, they usually get support from network members to assess information before making specific transaction decisions. It is observed that OSEs always search for information and try to learn trends in order to make better decisions. They accept that their decision making power has improved due to the support given by network members. Information access through social capital facilitates small enterprises to improve their capacity to evaluate information on one hand and to mitigate opportunism on the other hand. Thus,

information access through social capital affects the improvement of rationality and the mitigation of opportunism which lead to minimize TC of small enterprises.

Key words: *Information; Small Enterprises; Social Capital; Transaction Cost.*

NCAS Symposium Proceedings
2015