Opportunism

Opportunism is a foundational assumption of many economic theories that claims human beings are generally self-interested and will take advantage of others when possible. For example, some economic actors will take advantage of another party to advance their interests by making false promises, misrepresenting intentions, reneging on agreements, or changing the terms of a deal to benefit themselves. Other economic actors will be less deliberate by attempting to benefit from free riding. Such behavior, deliberate or otherwise, leaves the "honest" party to the exchange worse off.

Scholars assuming that people are opportunistic do not necessarily believe that everyone is perniciously self-seeking. Rather, they believe that the presence of *a few* opportunistic individuals means economic exchanges should be structured to protect against *potential* opportunism. Opportunism is thus a theory of exchange that assumes the worst about individuals and makes predictions as though the worst were reality. One influential economic theory based on the assumption of opportunism, transaction cost economics, claims market exchanges fail when a transaction becomes vulnerable to opportunistic behavior. When the threat of an exchange partner behaving opportunistically becomes particularly high (which is said to occur when the transaction is characterized by substantial uncertainty, small numbers, and irreversible investments to support just that transaction), economic exchange will shift to hierarchies such as firms, rather than occurring in spot markets. According to transaction cost economics, hierarchies have supervisory, monitoring, and incentive mechanisms that are able to detect and deter opportunism.

This view of human nature (which is ultimately what opportunism represents) has been vigorously challenged. Many sociologists, biologists, ethicists, and even economists and management scholars argue that humans consistently exhibit cooperative and altruistic behaviors, which belie an overreliance on the assumption of opportunism found in much economic literature. Moreover, they argue that opportunism is greatly reduced when individuals are part of an organization with a shared purpose, such as a firm. Indeed, some of the scholars who believe in the essential cooperative nature of economic agents claim that economic theories assuming opportunism invite managers and firms to inadvertently promote the very kind of opportunism that organizational hierarchy is assumed to lessen. In short, this side of the debate believes that people's cooperative and trustworthy tendencies should be highlighted and stressed in economic and management theories, instead of their opportunistic tendencies. And, as with many such debates, there is no widely agreed-on conclusion.

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Further Readings

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