

TRANSACTION COST AND ORGANIZATIONAL CHOICE IN THE MALAYSIAN AUTOMOBILE INDUSTRY

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ABSTRACT

A review of the literature reveals that many past empirical studies had invoked the transaction cost theory to explain firm's organizational choice. Although evidences contrary to the theory's prediction did occasionally surfaced in several past studies, on balance, there is a general agreement among researchers that the theory is well-supported by empirical findings. This paper examines whether the elements of transaction cost including asset specificity, frequency of exchange and uncertainty in the outcome of states of the world could reliably predict the choice of vertical integration in the Malaysian automobile industry. At the same time, an attempt is also made to control for the impact of government industrial policy on firm's organizational decision since this factor is expected to figure prominently given the long-standing active government participation in promoting the industry. A testable model is developed and then estimated via logistic regression using component-level primary data. This study finds that the regression results do lend significant support to the transaction costs hypothesis and the role of government policy in influencing organizational form.