

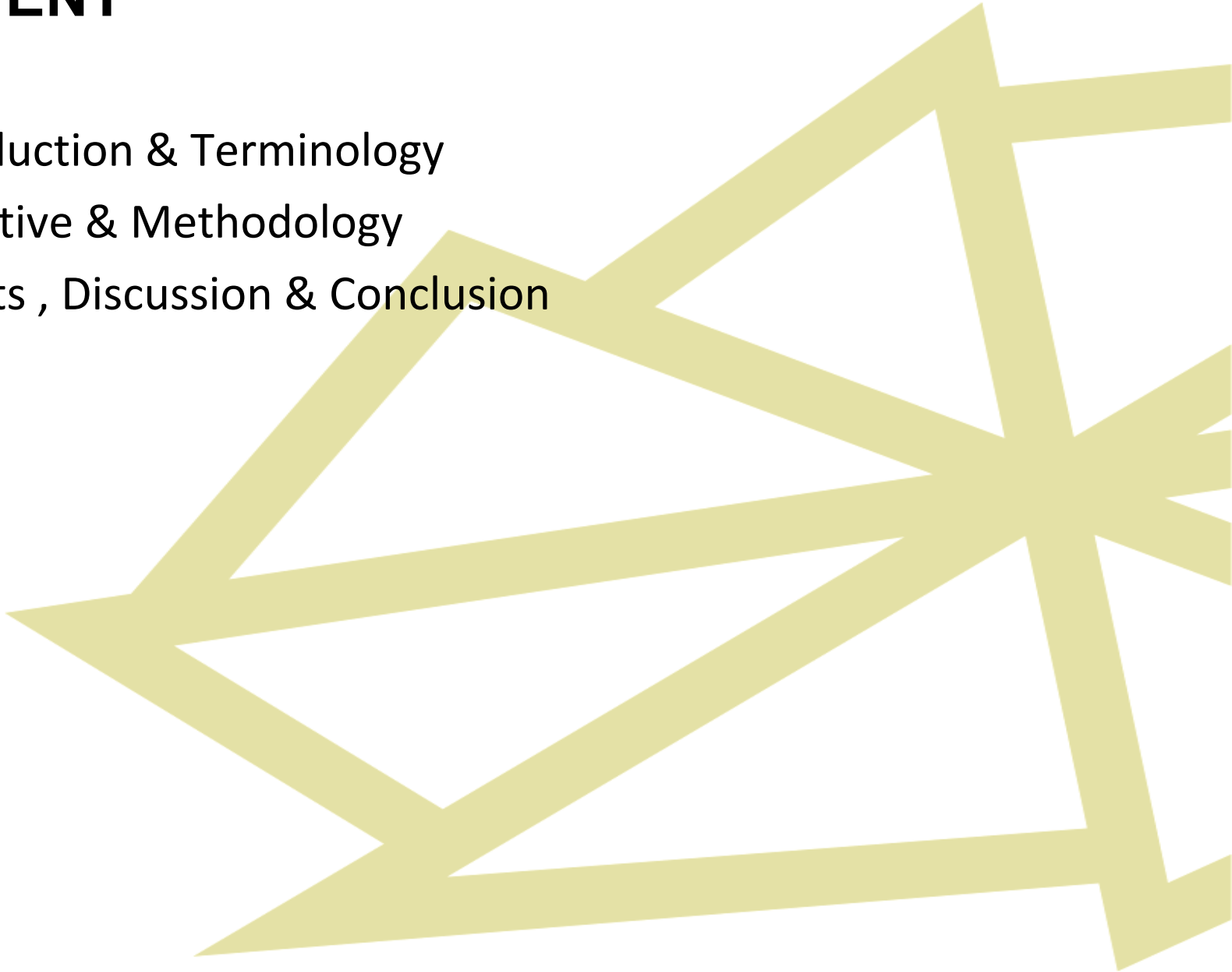
# TRANSACTION COSTS IN CONTRACTING FORESTRY OPERATIONS

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# CONTENT

- Introduction & Terminology
- Objective & Methodology
- Results , Discussion & Conclusion



# INTRODUCTION

**Specific investments / Asset specificity** – no possibility to shift them for other use without loss of their value

- tell us to which level are investments bounded for providing certain service

**Uncertainty level** – high or low – according to knowledge about all possible consequences (and their probability) of our activity

**Uncertainty** comes from **bounded rationality** – the idea that in decision making, rationality of individuals is limited by the information they have, the cognitive limitations of their minds, and the finite amount of time they have to make decisions

# INTRODUCTION

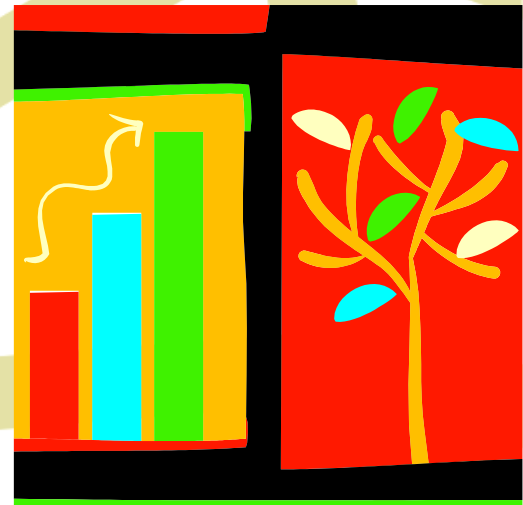
**Transaction costs** – costs of capturing and protecting property rights, and transferring them from one agent to another (Barzel, 1997)

- include the costs of discovering, exchange opportunities, negotiating contracts, monitoring and enforcing implementation, and maintaining and protecting the institutional structure (Pejovich, 1995)

# OBJECTIVE

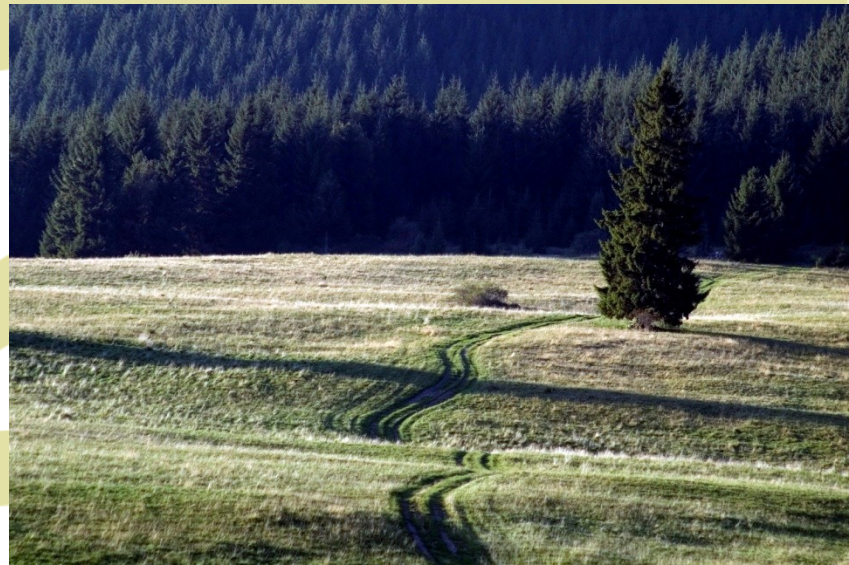
- Introduce an issue of transaction costs connected to the contracting of forestry operations
- Present partial results of reflections on externalisation of services within the selected interviewed forestry contractors in the Slovak Republic

Contribution is based on the selected results of a wider project aimed at the overall analysis of the contractors market in forestry



# METHODOLOGY

- Theoretical assumptions – based on the New Institutional Economy / especially on the Transaction Cost Economics (the TCE approach)
- Standardised interview – basic research method
- Interview structure – part dealing with contracts and transaction costs contains 15 questions
- The answers were opened and have been discussed and recorded

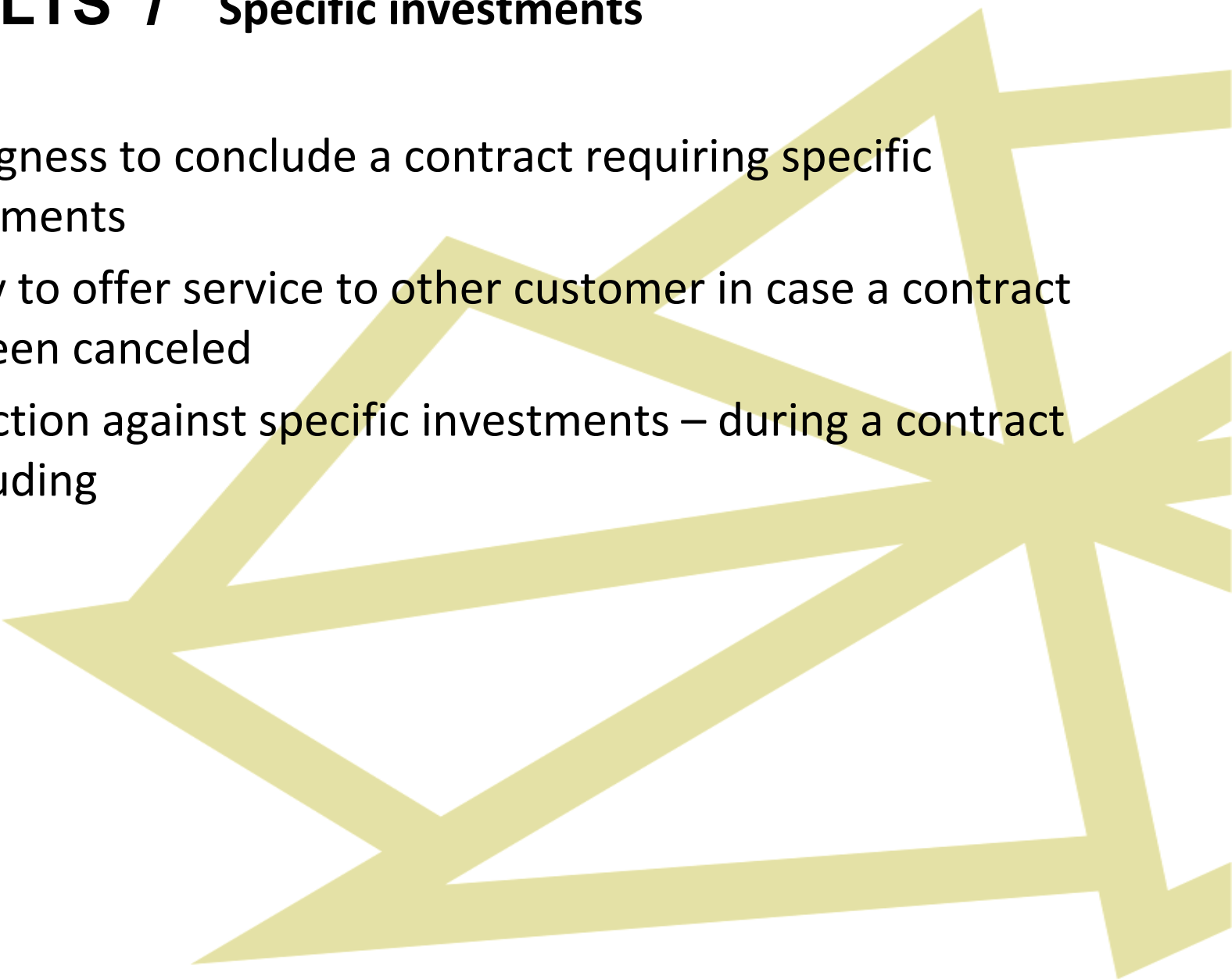


# RESULTS

- Standardised interviews with seven respondents representing contractors of forestry operations
- All respondents represent private sector companies



# RESULTS / Specific investments

- Willingness to conclude a contract requiring specific investments
  - Ability to offer service to other customer in case a contract has been canceled
  - Protection against specific investments – during a contract concluding
- 
- An abstract graphic composed of several thick, olive-green lines that intersect to form a complex, multi-pointed star-like shape. The lines are of uniform thickness and extend across the right and bottom portions of the slide, partially overlapping the text area.



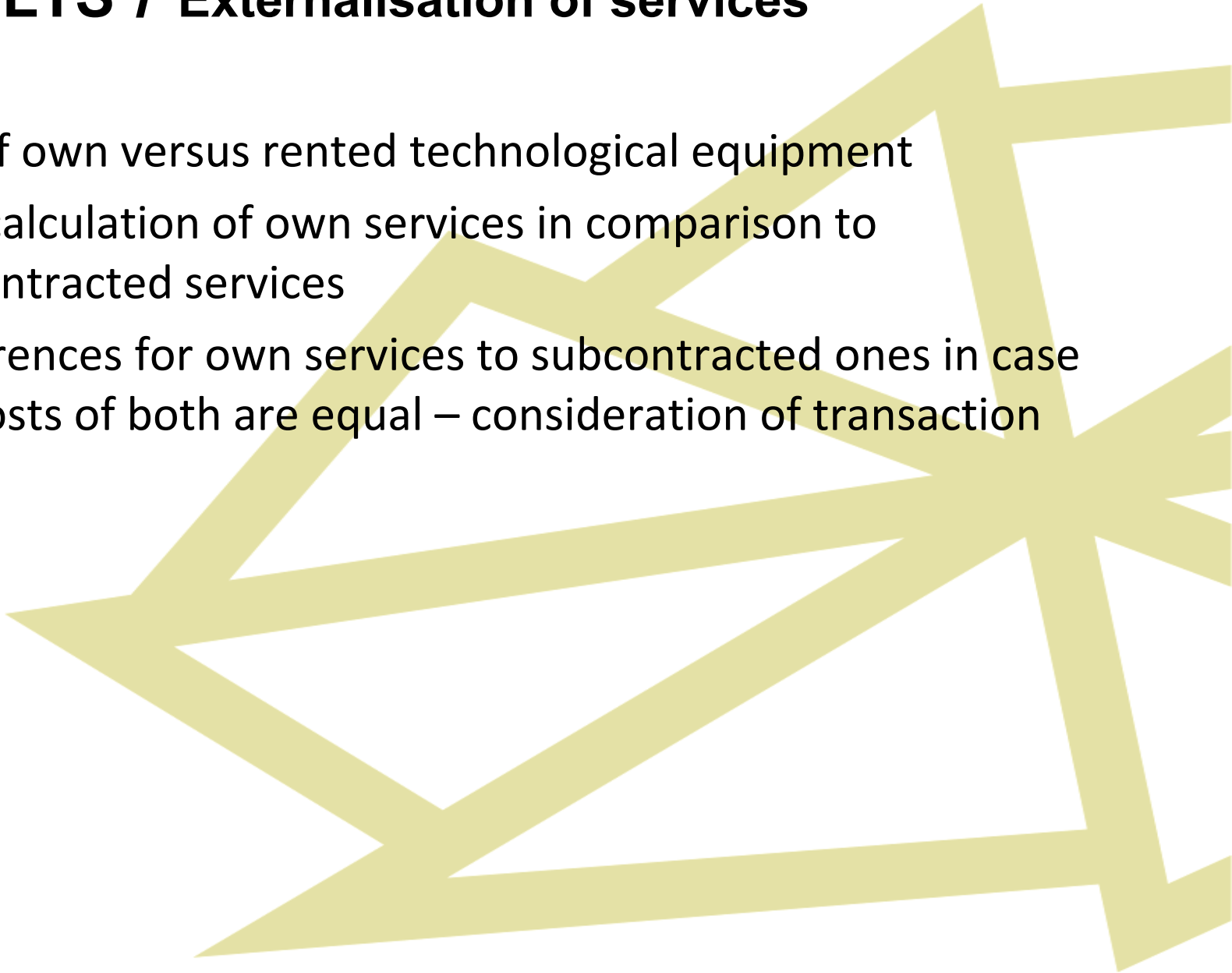
# RESULTS / Contract period and duration

- Flexibility of a contract period
- Periodicity of contracts
- Duration of contract with new customers



# RESULTS / Externalisation of services

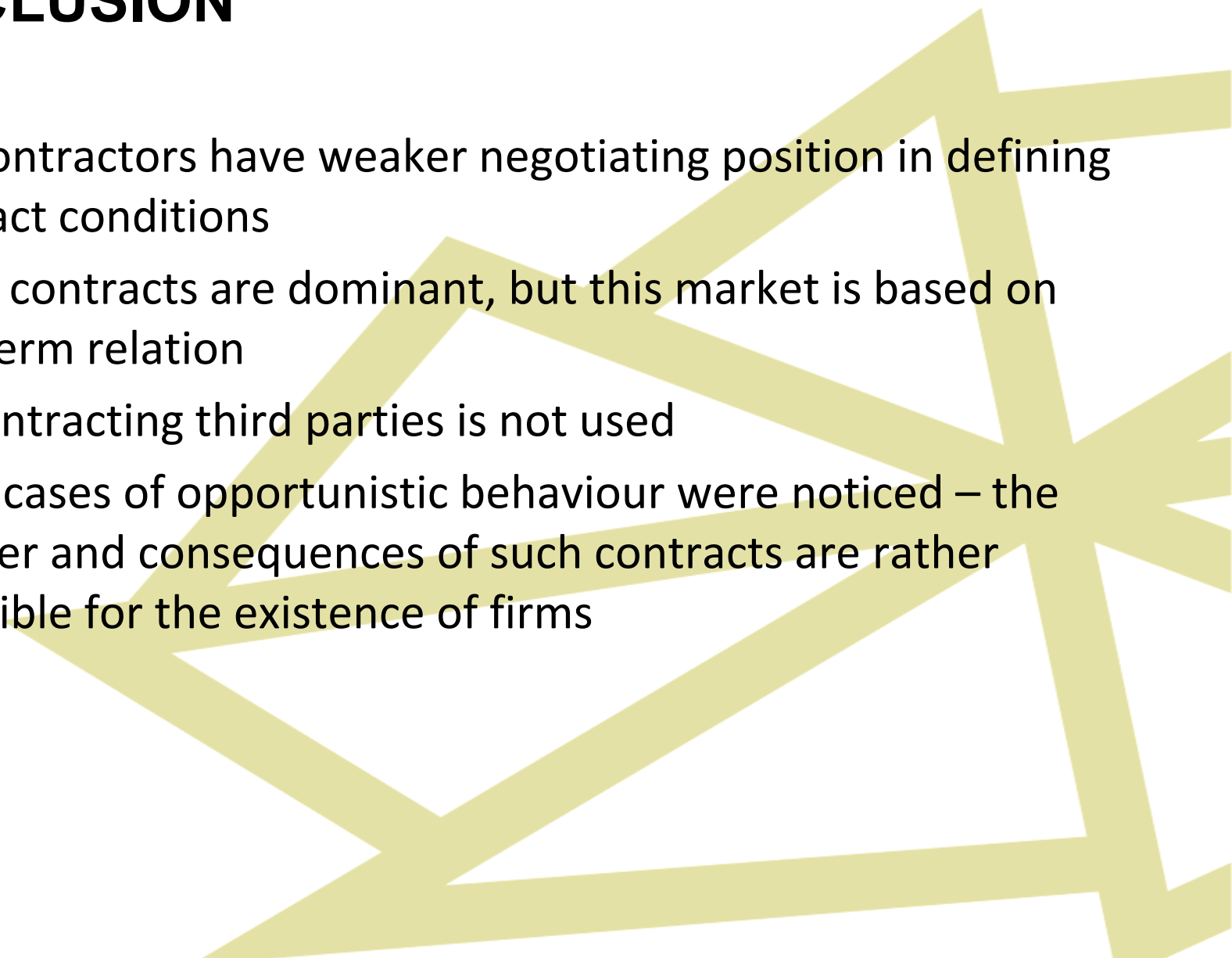
- Use of own versus rented technological equipment
- Cost calculation of own services in comparison to subcontracted services
- Preferences for own services to subcontracted ones in case the costs of both are equal – consideration of transaction costs



# RESULTS / Transaction costs (TC), Opportunism

- TC related to the time spent to seek customers, meetings and negotiations
- Lost of a concluded contract
- Including an agreement describing responsibilities into the contracts – against opportunistic behaviour
- Move / sharing proportional part of TC to the customer
- Experience of additional cost resulting from the opportunistic behaviour of customer

# CONCLUSION

- The contractors have weaker negotiating position in defining contract conditions
  - Single contracts are dominant, but this market is based on long term relation
  - Subcontracting third parties is not used
  - Some cases of opportunistic behaviour were noticed – the number and consequences of such contracts are rather negligible for the existence of firms
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**Thank you for your attention!**



# RESULTS

- Specific investments 1,2,4
- Contract period / periodicity / duration of contracts 3,5, 6a, 6b
- EXTERNALISATION: Use of own or rented technological equipment 7
- EXTERNALISATION: Cost calculation of own comparing to subcontracted services 8a, 8b (preferring own services)
- Transaction costs 9, 10 (time spending)
- Lost of concluded contract 11
- Including an agreement describing responsibilities 12
- Move / sharing proportional part of TC to the customer 13
- Experience of additional cost 14