

THE ILLEGAL TRANSACTION COST IN THE RECRUITMENTS OF CIVIL SERVANTS

M. Firmansyah

Economics Faculty, University of Mataram, Indonesia
Address: Jl. Majapait No. 62 Mataram, West Nusa Tenggara
Email: firman_mtr@yahoo.com

Agus Suman

Economics and Business Faculty, Brawijaya University, Indonesia
Address: Jl. M. T. Haryono No. 165 Malang, East Java
Email: agussuma@yahoo.com

Asfi Manzilati

Economics and Business Faculty, Brawijaya University, Indonesia
Address: Jl. M. T. Haryono No. 165 Malang, East Java
Email: asfi_manzilati@yahoo.com

Susilo

Economics and Business Faculty, Brawijaya University, Indonesia
Address: Jl. M. T. Haryono No. 165 Malang, East Java

Abstract

The objective of the study is to deeply understand the process of the existence of transaction cost and the kinds of transaction cost in the recruitments of civil servants in Indonesia. The research was conducted using qualitative approach by conducting in-depth interview with several individuals comprehending that transaction process. The study was conducted in Bima, West Nusa Tenggara, Indonesia. The findings of the study shows that there are several stages of transaction cost processes: 1) ex-ante transaction, i.e. the introduction and the selection of good broker; 2) contract making, i.e. the agreement concerning the amount of money that must be paid; payment terms, whether it is in cash or installment by giving a down payment; payment medium in the form of cash a copy of saving account or a certificate of land; 3) Ex-post transaction, i.e. the applicant tries to fix the broker to seriously keep to the contract by paying several kinds of costs for the broker and the officials. The kinds of the illegal transaction cost consist of the main cost and fix cost comprising communication cost, transportation cost and souvenirs for the broker and the official, a special commodity indicating the area where the applicants come from

Keywords: transaction cost, civil servants, broker and opportunism

JEL Classification: K42, D23

1. INTRODUCTION

The regional autonomy in Indonesia implies that regional governments have total freedom in managing the local governments, freedom in self-planning the development of the regents covering the appropriate determination of development program for the local community, in allocating budgets and in recruiting civil servants.

The recruitment of civil servants in every area in Indonesia attracts hundreds thousands applicants each year. This phenomenon shows that the

number of high level-educated people is still great. According to BPS (2013) the number of unemployment with university educational background amounts to 6.39% or 492,343 people out of the total population in Indonesia. The number of the applicants in the civil servants recruitments is higher than the number of unemployed university graduates, because the university graduated already working in private sectors also join the recruitment as most of the people having worked in private sectors think that the private sector does not guarantee their future lives.

The higher number of applicants in the civil servants recruitment compared with the number of positions available can result in complex dilemma. One of them is the eagerness of the applicant to be successful in the recruitment which encourages them to use illegal method in order to win the competition, for example, by bribing the officials or making use of broker service. This implies that the civil servant recruitment becomes a potential market for brokers and officials who make use of the tight competition the over eagerness of the applicants to be civil servants. The Civil servants candidates not only spend legal transaction costs in the form of administration costs such as certificate legalization, a letter from police office, photo-copy, transportation and stationeries in addition to the illegal cost spent by some of the applicant for paying the officials or other necessities before, during and after the recruitment process.

From the above mentioned phenomenon, this article presents the research results related to how the process of illegal transaction is formed and the kinds of illegal transaction cost spent by the applicants in the recruitment of civil servant program.

2. LITERATURE REVIEW

2.1 Definition of Transaction Cost

The Economic Theory of Transaction Cost (TCE) formerly developed by Ronald Coase in 1937 and popularized further by Williamson (O'Malley, 2008; Chen et al, 2002), has significantly developed conceptually and empirically in economy and business in the last 40 years (Dahlstroma and Nygaard, 2010). The development of TCE happens not only in the business application such as accounting, finance,

marketing and organization theory but also outside business domain such as politics, law, public policy, agriculture and health (Macher and Richman, 2008). The study conducted by Marcher and Richman (2008) involved 3500 abstracts 900 complete journal articles which empirically examined TCE and further categorized the articles into several fields of study: economics, law, political science and others. This shows that TCE becomes one of the main paradigms in research on social sciences.

In a daily life, according to Cheung (1992) transaction cost happens everywhere, except in the life of Robinson Crusoe economy (Wang, 2003). Therefore, every time there is a transaction and a contract arrangement, cost always emerges. This is contrast with neo-classical idealism which assumes that transaction is zero transaction cost, although there is a positive transaction cost which becomes the fundamental insights of transaction cost economic theory (Eggertsson, 2008).

There are several definitions of transaction cost revealed by some scholars. As one of pioneers, Williamson (1985) defines transaction cost as an investment under the coordination or control of transaction in effort to reduce uncertainty (Lighthart, 2007). North defines transaction cost as the cost in exchanging and in keeping a promise (North, 1997). Arrow (1969) defines the transaction cost as the cost to run an economic system. Benham and Benham, (2001, 2010); Butelaar, 2007; Barzel, 1997) defines transaction cost as the cost related to transfer, capture and protection of rights (Benham and Benham 2010). According to Furuboth and Richter transaction cost include the

cost of resources, utilization for the creation, maintenance, use, change, and so on of institutions and organizations, if applied to the transfer of existing property rights and the establishment or transfer of contract rights between individuals (or legal entities), transaction costs include the costs of information, negotiation, and enforcement (Furuboth and Richter, 2005)

The theory of transaction cost is also known as organization theory which is further put into details by Cordella and Simon to comprise: first, production cost and opportunity cost and second is transaction cost comprising infrastructure cost (internal cost) and coordination cost (external cost) (Shah, 2007). According to Williamson, transaction cost emerges because of human factor and environmental factor. The most dominant factor is human factor since limitation adhering as human is in the form of cognition and information limitation (bounded rationality) and the factor of desire to obtain a higher profit by employing a wrong way (*opportunistic*) (Gronhaug, 1991) whereas environment factor is the complexity of the environment condition and the uncertainty which emerges in the society (Shah, 2007).

Bounded rationality serving as the basis for Williamson is originally proposed by Herbert Simon (1955; 1956) (Dequech, 2001; Salehnejad, 2007; Knudsen, 1993) in which Bounded rationality is a school of thought about decision making that is developed from dissatisfaction with the "comprehensively rational" economic and decision theory models of choice (Jones, 1999). Simon states that Man's rationality is bounded: real life decision problem are too complex to comprehend

and therefore firm can not maximize over the set of all conceivable alternatives (Rutherford, 1994: 70). Therefore, bounded rationality refers to the computational capacity of humans, or to the amount of information they can plausibly collate, for example about agents strategy (Knudsen, 1993) in which human takes into account the cognitive limitations of decision makers in attempting to achieve those goals (Jones, 1999); in other words, there are limitations on human knowledge and human computation that prevent economic actors in the real world (Klaes dan Sent, 2005).

Opportunism is another foundation of transaction cost theory regarded as a form human nature (Chen, et al, 2002). Opportunism is defined by Williamson as "self-interest seeking with guile". It includes the distortion and hiding of information, shrewd actions, and Machiavellian intentions (Aubert, et al, 1996). Opportunistic characteristic was basically defined by Adam Smith two centuries ago in which Adam Smith thought that human is intended to act in accordance with his own interest. Furthermore, inspite of becoming the foundation of transaction cost, opportunism also serves as the emphasis of agent theory in which each party involved in a relationship will be motivated by economic self interest and opportunist behavior (Luo dan Donthu, 2007).

In its development, the implementation of transaction cost theory becomes a relatively broad job in the empirical level. Transaction cost needs to find out who make transacion, inform the supplier and negotiate the requirement, arrange the contract, accomplish the product, and adapt to

the change (O'Malay, 2008; Eggertsson, 2008; Dietrich, 1994). Thus, the broad study of transaction cost gives a chance in the discussion which is generally not revealed deductively. In the transaction cost, there are latent transactions, but they obviously affect the events.

Therefore, understanding transaction cost means deeply understanding economic system in which this understanding tends to be not mentioned by mainstream economics. Behind the economic transaction, there is a normatively invisible long process as expressed by Coase (1988) as follows (Wang, 2003):

"Without transaction cost concept which is mostly absent in today's economic theory, in my opinion, it is impossible to understand the work of economic system, analyze many problems in a good manner or have a basis for determining the policy."

2.2 When does transaction cost emerge?

According to Furubotn and Richter (1997), the type of cost exists because of incomplete and asymmetric information and the fact that human beings are fallible and have limited cognitive and calculative abilities (Platje, 2008). In other words, when the information is expensive, then many activities related to the exchange of possession right among individuals make transaction cost emerge (Benham and Benham, 2001). In this context, transaction cost is also known as an exchange cost in which the amount depends on specialization and frequency of doing transaction, negotiation skill, local knowledge, individual network including the element

of trust and social modal, political connection and ethnic affiliation (Benham dan Benham, 2001).

Transaction cost observed in the context of this study is non market transaction. This concept arises from an awareness that economic transaction does not only involve the market where there are supply and demand, produce price and service mediated by price but non market which is also quite common and often found in the economic life of the society. There are several times

As a pioneer, the study of transaction cost was done by de Soto (1986) (Wang, 2003). There are several non market transaction cost done by the source such as doing business, bribe the official etc). There are several studies on non-market transaction namely resources spent during the waiting period, getting permission to carry out a business, official bribing, etc. Hernando de Soto documented the high cost to meet legal requirement in opening and carrying out business and cost doing business informally in Peru (Wang, 2003).

3. RESEARCH METHOD

Based on the aim to reach in this study which is to deeply understand transaction process and explore the types of transaction cost on civil servant selection and to provide a strong judgement for employing qualitative (interpretive) approach. Qualitative study is generally defined as a research design which tries to understand the meaning of behavior (Gordon, 2010), so that it is more appropriate to be employed in this study. There are some fundamental reasons. First, the availability of secondary data concerning with restricted transaction which can even be said unavailable. Second, it is

not sufficient to understand behavior by distributing questionnaire in the form of question set by the researcher on the desk but it is necessary to give the respondents enough space for explaining their understandings deeply, because economic phenomena is a part of social complexity which is equivalent with puzzle with thousands of crosswords (Chamlee-Wright, 2010).

In addition, matters which is related the communication with respondents needs to be considered deeply and has a situational quality in the field interaction process between researcher and respondents and also with the environment (society) in the site of the study. Based on that consideration, Ulin *et al* (2005) suggest: *“When the central objectives of an inquiry are to explore and explain behavior rather than to describe it, when the subject matter is unfamiliar and insufficiently researched, or when a suitable vocabulary with which to communicate with respondents is not available, researchers are well advised to address their research questions through the use of qualitative methods”*

Third, when study is related to process behind an event, the more appropriate approach is qualitative method as mentioned by Vanderstoep and Johnston (2009) as follows: *“Qualitative research is more likely to explore processes (for example, how the community makes sense of the accident) than outcomes (the frequency of farm accidents). Qualitative research focus on the meanings of experiences by exploring how people define, describe, and metaphorically make sense of these experiences”*

Fourth, furthermore, for qualitative study as revealed by Dabbs in Berg (2001: 2), quality ideas is

important for matters related to the characteristics of individuals being observed. The qualities refer to what, how, when and when from the essence of studied objects including the situation when observation is carried out. As the result, qualitative research refers to approach on meaning, definition, characteristics, metaphor, symbol and description. Knowledge in qualitative research is not only “out there” but is also in the perception and interpretation of individuals. In short, knowledge is constructed or created by the society so that it is called social construction of reality (Vanderstoep and Johnston, 2009).

In this study, the researchers conducted in-dept interview toward several respondents who have experienced in applying as civil servants are those who at least understand the illegal transaction process of civil servant. However, prior to the study, the researchers conducted pre-research to ensure the availability of the data, in other words, the respondent candidates are willing to be interviewed so that the study can be conducted. Generally, the respondents are bachelor graduates who have become civil servant, those who have failed and started a business or those who are becoming honorary staffs in the region of Bima, Nusa Tenggara Barat, Indonesia. The profile of respondents is as follows:

Table. Profile of Respondents

| Respondent | Age | Job | Degree |
|------------|-----|-----------------|--------|
| 1 | 28 | Civil Servant | S1 |
| 2 | 31 | Entrepreneur | S1 |
| 3 | 31 | Honorary Staffs | S1 |
| 4 | 33 | Civil Servant | S1 |
| 5 | 36 | Civil Servant | S1 |
| 6 | 27 | Civil Servant | D3 |

Concerning the methods to identify this transaction are, first, illegal transaction phenomena in the research site is customary, so that who transacts, how much the cost is spent and who the broker become shared knowledge in that environment. Therefore, the source of qualitative data is not only obtained from the respondent statements but also from direct observation in the field. Second is to ask another party whether the particular respondent have experience in doing illegal transaction. Third is to understand the answers of respondents, for example the researcher asked how the transaction cost was done and the respondent answered: *"at the beginning, I joined the selection without spending any cost, but the broker came to my home and compromised with my parents"*. Next, if the researcher asked another question on what is the respondents' opinion about the this illegal transaction is the answer is *"I feel sad because I have to pass the selection by using this particular way"*, however, in fact, the researchers' question is general (does not refer to the respondent). These answers show that the respondents are the doers of the transaction.

4. FINDINGS AND DISCUSSION

4.1 Process on Forming the Transaction Cost

Arrow (1969) defines transaction cost as the certain cost for performing

economic system (Benham and Benham, 2001, 2010; Buitelaar, 2007). Based on Indonesian dictionary, the word system is defined as a set of elements in which one and another is related and forming totality. System is an initial process until the end of activity process.

In similar context, civil servant selection forms admission system of civil servant covering the elements, ways of conduct, rules, requirements, and selection process of civil servants. This system is series of activities starting from preparing the materials, administration selection, written test, interview and furthermore to be announced pass or fail. For some applicants, transaction cost is done to influence the final system by means of eliminating the tight competition in acquiring the graduation of civil servant.

Judging from the payment process of the transaction cost, it is proved that despite the elements which can be seen by the applicants, there are invisible elements which can influence the system of civil servant selection. The invisible elements are a form of illegal behavior in making agreement, contract or engagement between some applicants with certain parties. In this illegal process, the sense of trust between the transaction doers is built, so that commonly the activity of paying transaction cost is not equipped with certain document as a receipt or

contract or, in other words, the transaction is built by social capital value. Therefore, the concept of transaction cost elaborated how the invisible transaction is formed and subsequently creates contractual engagement (Wang, 2003) which is built based on social capital, so that the social capital and TCE complete each other (Pingwu dan Choi, 2004).

Parties who are doing the transaction and creating the contract are the applicants, certain bureaucrats, brokers. The applicant prepares transaction cost to be paid to the broker, next the broker gives it to the certain broker as the main agent in determining the selection of the applicant. It is hard to know exactly who is this certain bureaucrat is, because commonly the applicant only knows the broker as a person who is considered as an actor in the field who frequently communicates with the applicant. Some of the applicants consider the bureaucrat concerned are the official in the capital city while some of them said that the bureaucrat concerned is local official or local high functionary as expressed by the following respondent.

"It is hard to mention because this job is very secured and is a secret and it is hard to prove, but we commonly hear from mouth to mouth about who becomes to broker until the applicant succeeds and we cannot get the address if we ask the pertinent directly except particular people who are usually with the person concerned" (Respondent-5).

In choosing broker that will be used for supporting them to be civil servants, the applicants have several

certain criteria. First, it depends on the broker's experience in helping applicants to be civil servants, second, the broker is believed to have a close relationship with the applicant, for example, the family relationship or friendship. This means that the transaction cost is also important to determine with whom an applicant is doing transaction.

Concerning the big cost to be sent by the applicants, there are many ways to comply with the cost. The applicants' family, who are civil servants or retired civil servants (pension), will apply for a banking credit, sell agricultural land and borrow money from other families or relatives. The other way, the parent sells the rice field; for years the money from the sale of that field is managed and kept for the preparation to be civil servants.

Ex-Ante Transaction

According to Diectrich (1994) ex-ante transaction is a transaction cost of drafting, negotiating, and safeguarding agreement. According to Vithrana and Dharwadkar (2007) ex-ante is the screening process on the contracting cost. In the Ex-ante stage, the introduction is the important stage for applicants to decide which broker can be trusted and has capability to help the applicant to pass test (the recruitments of civil servant). In the introduction process the applicant or family visits the broker or the other way round, by so doing the broker's capability is known, and even the applicant who wants to apply to be civil servant by paying transaction is also detected by broker. However, the limitation of information is still being a problem in the objects of the options and therefore, based on Saleth and Dinar (2004: 65) 'We believe that an

ex-ante approach can be operationalized through the perception fee-based subjective approach where economic and non economic factors can be treated within the same analytical framework. In other words, perception can be used as a mechanism to capture the effects of both subjective and objective factors. There are many deception cases which are experienced by other applicants because of the lack of understanding of the process of ex-ante transaction.

In most cases, the broker comes to the applicant's family and offers the services to help the applicants to be a civil servant. The broker will tell that he has a friend who can allow the applicant to be the civil servant. It is explained by the respondent below:

"Firstly, I want to pass the test legally, but before taking that test, there was a person visiting my parents and promising that he can help me to pass the test" (Responden-1)

"Sometimes there will be someone who come into the house and offer a help, he tells that he had a friend who is an official and can help him to be a civil servant" (Responden-2)

The actors who have the role in helping the applicants pass the selection are in hierarchical level that is the bureaucrat assisted by the broker, and the broker also has a messenger, so it could be the arrangements of the actors that made the transaction cost higher. The cost charged by the bureaucrat might be much cheaper than the one charged the broker's but because of the opportunistic factors, the cost in society becomes higher. Moreover, the other transaction costs (it will be discussed in

the next sub-chapter) which is required by the broker or given by the applicants to the broker as a form of agreed transaction, the applicants' gratitude to the broker and others. Therefore, the amount of the transaction cost is also determined by the number of people who are involved with that transaction, and the unclear information about the real transaction required by the bureaucrats, many applicants usually consider that cost as "burnt cost".

Contract Making (Agreement)

After doing the introduction step and doing earlier agreements, the next step is contract making (dealing agreement). This step becomes an important step in discussing and dealing with the amount of money that must be paid by the applicants, how to pay that cost and what the case if the applicants cannot pass the selection, as explained by the respondents below:

"Usually, the parent plays the main role to find channel (broker), but sometimes there is someone coming to our house and offering his service, and telling that he had a friend who is an official who can help him to pass the recruitment of civil servant, and then inviting the applicants to visit him, after discussing all the points, it continued to the next step, that is talking about the transaction costs, after deciding the cost, we discuss the way of paying that costs, through bank saving accounts or cash, after everything is completed, we sign an agreement saying that if the applicant does not pass, the money will be fully returned" (Responden-2).

Whatever the cost requested by the broker, usually the applicants agreed as long as it is not far from the cost paid by other applicants, or the cost on the market. There is no special technique to determine the cost; this cost just emerges suddenly and usually becomes the standard cost in the transaction. Usually the market transaction costs increased annually.

"My parent agreed on whatever the cost that should be paid and this is without my knowledge" (Responden-1).

"Then, there came the messenger to the applicant's house, he requested 100 (million rupiah), while the market cost at that time, the cost is still 80 (million rupiah). Wow, why the cost is so high increasing, while other applicants pay only 70 (million rupiah) it is too far different" (Responden-2).

The same thing is confirmed by the other respondent.

"Usually, the parent is really motivated and never think about money, the most important thing is the cost is appropriate, they will pay it directly, appropriate with the agreement, some people pay in two installments and others pay once if they have already graduated (Responden-5).

The amount of the transaction determined depends on who the broker is and who the networks are, if the broker is considered often help the applicants successfully, so the cost will be higher than the others because the opportunity to pass the recruitment of

civil servant is larger. It is true that the transaction cost would be different for everyone, it depends on the capacity of the broker, the capability of negotiating, and other knowledge.

There are several alternative of transaction cost payment agreed between the applicant and the broker. The first one is payment media, the cost is paid in cash, but prior to this the copies of a savings account must be showed, then after the applicant passes the selection, the money is paid by applicants in cash or in the form of an agricultural land. The second is cash payment, by firstly giving the down-payment fee, and the rest is paid after the applicant passes the selection, as expressed by the respondents as follows:

"At first, it was said to only use accounts (Bank), no cash. Approximately a month or two they will insist: "send the money! The SK (Letter of appointment) will come out soon. The money must be paid first. Finally I send the money, because I want it badly" (respondent-4)

Ex-Post Transaction

After the agreement (contract), the applicants will ensure that everything goes well, in other words they do monitor the contract (Vithrana and Dharwadkar, 2007). The applicants will provide utmost comfort to the broker, so the promise to make them pass the selection is taken seriously by the broker. The broker or their agents usually come to the applicants with many reasons, such as, they must go to Jakarta to meet the big boss, or they want to contact internal people (the

bureaucrats) to ensure that the applicants' personal data have been accepted by the bureaucrats. The personal data submitted is the copy of the applicants' examination number submitted previously by the applicants. Thus, the long process of contract formation until the waiting period of the announcement (after the test) is a series of transaction costs.

After the selection process is completed, there would be two chances, to pass the test and not to pass the test. When the applicant has been recruited, he will never know for sure whether he can pass because of his own capabilities by following the selection process or by the broker's help. There is no accurate information explaining that applicants pass the selection test by the broker's help. There are some facts that generate this question. There are many people who can pass the exam without any broker's help and there are many people who do not pass although they have used the broker's service and paid a great deal transaction cost, as experienced by some of the respondents in this study. Thus, the transaction costs do not always successfully enforces the agreement. The transaction costs can potentially become higher because of applicants' limited information and their excessive desire of being civil servants which is exploited by the broker.

"Surely every person worries that they may lose their money and there are many incidents of losing money. But they are still coming back because of the strong desire of being civil servants, things that are not make sense then become make sense. (Respondent-6)

With limited information, if the applicants pass the selection, it was certainly regarded as a broker's help and transaction process ends. However, if the applicants do not pass, the applicants will ask the money back (without other costs assigned to the broker). In many cases, most brokers are not able to refund the transaction cost in a short time, the broker will promise to pay it off in installments as the transactions money paid by applicants had been handed to corrupt bureaucrats. This is often reported to the police because the broker does not refund the money, the broker issued to do a kind of fraud and there are a lot of brokers go to jail because of that.

4.2 Type of Transaction Costs in being Civil Servant

In the context of transaction cost is similar to what a company does when paying a surcharge, tribute, kickbacks or other terms related to corrupt government bureaucrats. For those who pay, there are some beneficial opportunities in paying it, and for the recipients, there would be more benefits because they get additional income. For example, when a businessman wants the government to facilitate their business licensing, to get a project tender, get a special treatment, or get a certain quota, they will try to pay some money. Thus, from both sides, the broker and the applicants would accentuate their opportunistic nature in forming the transaction cost agreement.

The transaction cost paid by the applicants in the civil servants selection is categorized into two, the first one is the main cost (the principal) the one that is generally based on the market value (of applicants mostly) or by an agreement between the applicant and

the broker. It is found in most cases that there are no receipts given to the applicants as the proof of payment, although there are some respondents getting a kind of receipt. In the interview, the respondents are not willing to show the receipt. The respondents just explained that the receipt is not written that it was the payment to become the civil servants, but as "cash deposit". The Second one is the supporting cost that consists of the communication cost, transportation cost from the broker to the applicants and to the bureaucrats or officials, and also gifts such as honey, horse milk, sarong (traditional clothes), or venison.

This main cost presumably will be given to the person who has a network or an insider, whose existence is generally not understood by the applicants. However, some applicants revealed that the insiders are known as some leading officials in that area. The total main cost paid by the applicant depends on the broker's demand, even though there is a value which is considered as the market value, as expressed by the respondent below.

"There came a messenger, asking for 100 million rupiahs when the market value at that time was only 80 million rupiahs" (Respondent-2)

The words "market value" based on the dictionary means the official price in the market, in the transaction cost payment context. The "marked value" shows the prices or the costs typically paid by most of the applicants. There is no formal charge in this closed transaction. The most important one is the agreement between the applicant and the broker, although the broker generally is the decision maker in the of

the transaction costs. If the market value is 100 million then the applicant has no choice; he must pay that amount and this total transaction cost has increased each year, as the following respondent's expression:

*If you have money, pay higher ..., this is what makes the value of "civil servants" so high.
(Respondent -1)*

The applicants will pay higher than the market value and this condition continues from time to time in every civil servant selection. Considering the big amount of money paid by the applicant, most of them assume that civil servants have a high value and therefore not everyone can afford to pay. So, the nature of being self interest and opportunist is quite visible in this process, which ignores other applicants who do not have enough money and the desire to win the competition by using unhealthy ways.

Beside the main costs, applicants are usually burdened with additional costs arising in the waiting period of announcements (*Ex-post transaction*). Various obligations in supporting their passing the selection, enforcing the contracts, giving pleasure to the broker are done by the applicants and their families. The results of field observations and information from respondents indicate that additional costs can be elaborated as the souvenirs cost, information cost (credit) and transportation costs for the broker. This fact is confirmed by the respondents in the following statement.

"Yes ... money for pulse, transportation, and cigarette depend on the demand of the person who link (broker) to

someone who is supposedly said to be officials in local government. The gift is customary. And it is hard to predict, different people have different requests "(Respondent 3)

Money for pulses and cigarette does not mean literally (metaphorical). It means that the money paid was not the same as the price of cigarettes. Money for pulse and cigarette is only a symbol, which is interpreted as asking for additional money beyond the main transaction costs of which the value could be in millions. That money for cigarettes is regarded as symbols is also described by the respondents earlier,

"The importance is the deal. The money for cigarettes for you (the broker) is already prepared". (Respondent-2)

The words money for cigarettes in the sentence above means that when the applicants can pass the civil servant selection, there will be additional money beyond the main costs. The applicant will also provide some money for the broker separately. The other words usually heard referring to this extra money is a "token of gratitude" which is synonymous with giving extra money after they passed the selection. The amount is not in hundreds of thousands rupiah, but it is in millions rupiahs because if the money paid is low, then it will be mockery or disrespect for the applicants' family. So the transaction cost to be a civil servant is a balance form between the value of money spent and the high social status of the applicants and their family and the excessive opportunistic desire to become civil servants.

The souvenirs for the respondent are customary, reflecting that the

behavior is considered normal and common. Different applicants have different experience in giving additional transaction cost depending on the types or characters of the brokers who brought them. The souvenirs may vary, such as local native sarongs (traditional clothes) that cost hundreds of thousands rupiahs per sheet, honey and sometimes wild horse milk that is specific from the Bima. As expressed by the respondents below.

"Being given the souvenirs, Bima local native sarongs, honey, venison and wild horse milk" (Respondent 4)

"The amount of money they take from me varies based on their needs as the reason, such as the big boss (the officials) are going to Jakarta and including other costs that has to be provided ... I give money them (the brokers) gradually until it reaches Rp. 131 millions "(Media Funnel NTB, 2011).

In some cases, the brokers do not ask for a souvenir. Sometimes it is the applicant's initiative to give souvenirs as an expression of gratitude that the broker has been willing to help the applicants pass the civil servant selection. In other cases, the respondents are asked by the broker to buy a gift for the head of the network (the bureaucrats) as a token of gratitude. This additional money surely costs millions rupiahs. The words "vary" shows that the payment is not only the main cost agreed by the applicant and the broker, but depending on the brokers' needs in supporting the success of passing the selection.

5. CONCLUSION

Transaction costs arise because of the opportunistic nature of the persons who do the transactions. Viewed from the applicant's perspective, that behavior reflects anti-competitive, self-interest, hoping to pass instantly and ignoring the existence of other applicants who do not have much money. While from the broker's perspective, the opportunistic behavior reflects in the exploitation of the applicant's excessive desire to become a civil servant by requiring high transaction costs. There are several processes passed by applicants and brokers in the process of paying the transaction of becoming civil servants, they are: ex-ante, making the agreement (contract) and ex-post transaction. Ex-ante transaction consists of: first, introduction and selecting a broker; second, applicants' preparation of some money for transaction costs, the money is at least equal to the market value of civil servants at certain levels, obtained from selling assets such as inheritance or others; third, either the applicant go to a trusted broker or certain people (agents of broker) offers a transaction to become civil servant to the applicant's family. If the transaction is approved, a contract would be made; the contract consists of an agreement how much money to be paid and how it would be paid in what form. Ex-post transaction is generally paid in cash, passing the copy of saving account book containing the balance according to the agreement or handing over paddy fields when applicants can pass the selection.

Transaction costs consist of the main cost and the additional cost. The main cost is the value of a particular

agreement between the applicant and the broker that is intended for the insider (the bureaucrats), while the additional cost is the money paid by the applicant in the waiting period. It is usually in the form of money for pulses, transportation and souvenirs which are worth millions rupiah. The transaction costs do not guarantee that the applicants will pass the selection and even there are some applicants whom the broker convinced to be passed. In reality, they did not pass. Meanwhile, there are some applicants who do not pay any transactions cost at all but they still pass the selection. Thus, the transaction costs do not always uphold the contract. Bounded rationality will increase the money paid because of the long process of waiting period (ex-ante and ex-post), as it will likely increase the transacting parties.

REFERENCES

- Aubert, B. A., Rivard, E., and Patry, M, 1996. Research A Transaction Cost Approach To Outsourcing Behavior: Some Empirical Evidence. *Information & Management*, 30, pp. 51-64
- Benham, A., and Benham, L, 2010, The Costs of Exchange. In *The Elgar Companion to Transaction Cost Economics*, Klein, P.G., and Sykuta, M.E., (Eds). Edward Elgar: USA, pp. 107-119.
- Benham, A and Benham, L, 2001. The Costs of Exchange. *Ronald Coase Institute Working Papers*, Number 1. <http://www.coase.org/workingpapers/wp-1.pdf>
- Buitelaar, E, 2007. The Cost of Land Use Decisions: Applying Transaction Cost Economics to

- Planning & Development.
Blackwell Publishing: Singapore
- Edition. The University Of Michigan
Press, USA
- Chemle-Wright, E, 2010. Qualitative Methods and The Pursuit of Economic Understanding. Rev Austrian Econ. 23, pp. 321–331
- Chen, C. C., Peng, M. W. and Saporito, P. A, 2002. Individualism, Collectivism, and Opportunism: A Cultural Perspective on Transaction Cost Economics. Journal of Management, 28(4)), Pp. 567–583
- Dietrich, M, 1994. Transaction Cost Economics and Beyond: Towards A New Economics of The Firm. London and New York: Routledge
- Dobrovolny, J.L., and Fuentes, S.C.G, 2008. Quantitative Versus Qualitative Evaluation: A Tool to Decide Which to Use. Performance Improvement, Vol. 47(4) April, pp. 7-14
- Dahlstroma, R., and Nygaardb, A, 2010. The 2009 Nobel Prize in Economics to Oliver E. Williamson: Recognition of The Influence of Transaction Cost Economics on Business Research. Journal of Retailing 86 (3), Pp. 209–210.
- Dequech, D, 2001. Bounded Rationality, Institutions and Uncertainty. Journal of Economic Issues Vol. Xxxv (4) December, Pp. 910-929
- Furubotn, E.G., and Richter, R, 2005. Institutions And Economic Theory The Contribution Of The New Institutional Economics, Second Edition. The University Of Michigan Press, USA
- Gordon, W, 2011. Behavioural Economics and Qualitative Research—A Marriage Made in Heaven? International Journal of Market Research Vol. 53 Issue 2, pp.171-185
- Gronhaug, K, 1991. A Transaction Cost Approach to Consumer Dissatisfaction and Complaint Actions. Journal of Economic Psychology, Issue. 12, pp. 165-183
- Herreros, F, 2004. The Problem Of Forming Social Capital: Why Trust? Palgrave Macmillan, New York
- [Http://Bps.Go.Id/Tab_Sub/View.Php?Kat=1&Tabel=1&Daftar=1&Id_Subyek=06&Notab=4](http://Bps.Go.Id/Tab_Sub/View.Php?Kat=1&Tabel=1&Daftar=1&Id_Subyek=06&Notab=4), accessed on 10/01/2013.
- Jones, B.D, 1999. Bounded Rationality, Annu. Rev. Polit. Sci. 2, pp. 297–321.
- Klaes, M and Sent, E.M, 2005. A Conceptual History of The Emergence of Bounded Rationality. History of Political Economy. 37(1), pp. 27-59
- Knudsen, C, 1993. Modeling Rationality, Institutions and Processes in Economic Theory. In Rationality, Institutions and Economic Methodology, Mäki, U., Gustafsson, B., And Knudsen, C (Eds). London And New York. Routledge. pp. 267-299

- Luo, X and Donthu, N, 2007. The Role of Cyber-Intermediaries: A Framework Based on Transaction Cost Analysis, Agency, Relationship Marketing and Social Exchange Theories. *Journal of Business & Industrial Marketing* 22(7), pp. 452–458
- O'malley, D, 2008. Transaction Costs And The Governance Of Social Innovation. Working Paper. The History and Future of Social Innovation Conference, Adelaide, 19-21 Juni 2008.
- Platje, J, 2008. "Institutional Capital" As a Factor of Sustainable Development –The Importance of An Institutional Equilibrium. Technological and Economic Development *Baltic Journal on Sustainability*, 14(2), pp. 144–150
- Pingwu, W And Choi, W.L, 2004. Transaction Cost, Social Capital And Firms' Synergy Creation In Chinese Business Networks: An Integrative Approach. *Asia Pacific Journal Of Management*, 21, pp. 325–343.
- Shah, M, 2007. *Analysis Of Transaction Cost*. India: Sunrice Publiser
- Salehnejad, R, 2007. *Rationality, Bounded Rationality And Microfoundations Foundations Of Theoretical Economics*. Palgrave Macmillan.
- Saleth, R.M., and Dinar. A, 2004. *The Institutional Economics of Water A Cross-Country Analysis of Institutions and Performance*. Edward Elgar: UK and USA.
- Ulin, P.R., Robinson, E. T., and Tolley, E.E, 2005. *Qualitative Methods In Public Health: A Field Guide For Applied Research*, Jossey-Bass: San Francisco
- Vitharana, P., and Dharwadkar, R, 2007. Information Systems Outsourcing: Linking Transaction Cost And Institutional Theories. *Communications of the Association for Information Systems* (20), pp 346-370
- Wang, N, 2003. *Measuring Transaction Costs: An Incomplete Survey*. Ronald Coase Institute Working Papers, Number 2. <http://www.coase.org/workingpapers/wp-2.pdf>