

# Rational Choice and Social Exchange Paradigms

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**Course:** MGT 360

**Title:** Management and Organizational Behavior (3 units)

“Whenever a theory appears to you as the only possible one, take this as a sign that you have neither understood the theory nor the problem which it was intended to solve.”

---Karl Popper (1902-1994)

“[At General Electric]...an individual has to make the numbers and live the vision.”

---Jack Welch (1935-)

## Purpose

The purpose of this document is to help clarify the distinctions between two dominant paradigms important in the life of a manager. A paradigm is a collection of theories, models, and frameworks that guide the theory and practice of a discipline. Often, management in general, and successful management interventions specifically, lie at the *intersection* of two or more academic theories and/or two more professional practices. In particular, the proper application of organizational behavior concepts requires a deep understanding of multiple, *and often competing*, theories.

## Comparing and Contrasting the two Paradigms

As used here, rational choice theory includes, among others, the ideas of “rational expectations” and “rational actors”. As used here, social exchange theory includes, among others, the idea of “dynamic relationships” and “network structures”. All categorizations below are overly general and overly summarized. Reference to other source materials is beneficial. The learning outcomes for MGT 360 are embraced and extended by this perspective; that is, we wish to develop nascent managers that embody transdisciplinary breadth (i.e., across subject matter domains) and situational depth (i.e., across various contexts).

## Enduring Value

Taken together, an understanding of both theories and an application of both theories to a contemporary organization might be labeled a “value network”. A value network is an amalgam of knowledge, skills, and abilities. The *knowledge* is the contribution detail each paradigm makes to a manager’s understanding. The *skill* is the manager’s application of each paradigm, or the combination of the two paradigm’s, to address an organizational issue. The *ability* is the manager’s demonstrable, repeatable, and documented skill with knowledge in prior situations that can be seen to apply to future situations.

For each dimension below, the first line is at the *conceptual-level* (i.e., a description of one or more core ideas) and the second line is at the *practical-level* (that is, an example of how that dimension might be observed in practice).

<b>Dimension</b>	<b>“Rational Choice” Paradigm</b>	<b>“Social Exchange” Paradigm</b>
Academic Discipline	Economics ( <i>required</i> for Bus. Majors)	Psychology or Sociology ( <i>elective</i> for GE)
	“many business students will become managers”	“many managers will have never taken a single course in business”
Worldview	<i>Market</i> -orientation resulting in <i>efficient</i> allocation of scarce resources	<i>Network</i> -orientation resulting in <i>effective</i> leverage of (occasionally abundant) resources
	“the level of productivity in a society is best measured and managed quantitatively”	“individual behavior is too complex to be measured and managed without qualitative approaches”
Chief Critique	Social Exchange theory is interesting, but it must be shown to lead to market or organizational efficiencies	Rationality theory is interesting, but bounded in practice.
	“you can only manage what you can measure”	“cognitive, working memory in individuals is extraordinarily limited”
Value Creation	Self-interest leading to organizational optimization (and profit-maximization)	Self-concept leading to community maximization (and profit-optimization)
	“stick to your knitting (we focus on doing what we do best) ”	“our firm focuses on developing leadership skills”
Key Structural Artifact	Entity	Relationship
	“any tangible, recognizable organization with measurable goals”	“any organic linkage that binds entities together in some manner”
Nominal Unit of Analysis	Organizational	Individual
	“we evaluate the performance of the unit”	“we assess an actor with a role in an environment”

Key Measurement Assumption	All observations are assumed to be <i>independent</i>	All observations are assumed to be <i>interdependent</i>
	“we want our sample to represent the population in the large”	“what is defined as the population is nebulous and itinerant”
Key Analytical Technique	Simple random sampling; compare to theoretical distribution	representative sampling; compare to random graph model
	“objective probability is idealistic and aggregates well at the macroscopic-level”	“subjective probability is realistic and simplifies well at the microscopic-level”
Manifestation of Utility	Endeavor to make <i>implicit</i> preferences <i>explicit</i> (distinguish between “needs” and “wants”)	Some implicit preferences cannot be explicated (“you know more than you can describe”)
	“I will sign the invoice to buy that bicycle.”	“I will show my younger brother how to ride a bicycle.”
Medium of Consideration	Pecuniary units are always tangible	Expectations are often intangible
	“Does this transaction result in a net economic benefit and increase my short-term survival?”	“Does this transaction result in an increase the mutual trust among parties and increase my long-term survival?”
Method of Evaluation	Quantitative (measured in numbers) benefit-cost analysis	Qualitative (measured in words) benefit-cost analysis
	“What is the return on investment?”	“What is the shape of the learning curve?”
Study Approach	Analytic (deductive and inductive reasoning)	Synthetic (constructionist and critical reasoning)
	“first, understand the laws; second, analyze the data; third, generalize findings”	“first, look at the data; second, interpret in the context of the laws; third, construct new meaning”

Target of Explanation	Prediction	Understanding
	“What will a similar future event look like?”	“What are the factors involved?”
Assessment of Stability	Equilibrium	Equitable
	“the market indicates that this production and consumption environment is maximally efficient”	“an organization or society indicates that this environment is optimally desirable”
Relationship Granularity	Relatively small	Relatively large
	“I bought my last car from the car dealer with the lowest price”	“I use the same laundry detergent as my mom uses”
Relationship Duration	Relatively short	Relatively long
	“I switch between FM stations during commercials”	“I have been in the construction business for past 30 years”
Relationship Reciprocity	None, or almost none	Almost always some
	“I own a small business, but I buy my milk at Vons”	“May I borrow Betty for a few months for a special project?”