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Antecedents and consequences of opportunism in buyer–supplier relations: Research synthesis and new frontiers

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Abstract

Buyers and suppliers must concern themselves with opportunism, a phenomenon empirically established in exchange relationships. What causes firms to behave opportunistically? What are the consequences of firms' opportunistic behavior? To date, these antecedents and consequences have not been comprehensively synthesized. Herein, the opportunism phenomenon is revisited to expose research gaps and chart new directions that will enhance our understanding of buyer–supplier relationships. First, we provide a brief review of two critical theories of exchange that provide a theoretical foundation for opportunism. We next provide an overview of opportunism. Then each of the antecedents and consequences is discussed with emphasis on the contribution of each finding. Finally, and most importantly, several promising paths for further research are proposed.

Keywords: Opportunism; Transaction cost economics; Relational exchange theory; Buyer–supplier relationships

1. Introduction

A central precept of Western capitalism is its selfish and individualist nature (Helper, MacDuffie, & Sabel, 2000; Hofstede, 1991). Firms tirelessly and aggressively pursue advantages in cost leadership, product/service differentiation, and product/service excellence (Porter, 1980). Because competition is the "constant struggle among firms for comparative advantages in resources that will yield marketplace positions of competitive advantage for some market segment(s) and, thereby, superior financial performance" (Hunt, 2000: p. 138) firms are expected to leverage their advantages in the marketplace. However, the continuous struggle to improve performance creates the potential for decision-makers to choose to behave opportunistically.

Transaction cost analysis (TCA) theory is an integral part of both the buyer–seller and channel research traditions (e.g., Heide & John, 1992; Morgan & Hunt, 1994, 1997). Furthermore, researchers continue to integrate TCA theory with relationship marketing theory. One of the central premises of TCA is the assumption of opportunism. Opportunism is defined as self-interest seeking with guile (Williamson, 1975) and includes such activities as stealing, cheating, breach of contract, dishonesty, distorting data, obfuscating issues, confusing transactions, false threats and promises, cutting corners, cover ups, disguising attributes or preferences, withholding information, deception, and misrepresentation (Anderson, 1988; John, 1984; Wathne & Heide, 2000; Williamson, 1981, 1987, 1993). In short, opportunism is aggressive selfishness and disregards the impact of the firm's actions on others (Lai, Liu, Yang, Lin, & Tsai, 2005; Macneil, 1981; Williamson, 1975).

Though opportunism has been widely researched, it is not completely understood. From reviewing the literature, one may conclude that opportunism is universally viewed as "bad" for all business relations. Is there merit in this consensus? Are there situations where opportunism is expected and accepted even

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when viewed as unacceptable? Are there situations where a firm or a supply chain may benefit from opportunistic behavior? Are there cost-benefit tradeoffs that should be considered? Additionally, we are left wondering why opportunistic behavior is so common (Maitland, Bryson, & Van De Ven, 1985). The Wall Street Journal is fraught with reports of opportunistic behavior such as Cosmopolitan Gem Corporation's deceiving its lender, Capital Factors, Inc., and defrauding their holding company of $20 million (Bray, 2004). Indeed, textbooks describe opportunistic negotiation techniques such as phantom offers, escalation, the switch, the best and final offer, silence (Monczka, Trent, & Handfield, 2002: p. 472), artificial legal leverage, the missing person, and stalling (Cavinato & Kauffman, 2000: p. 514). That opportunism is commonplace behavior raises a number of questions. In particular, are there aspects of opportunism that we do not yet understand?

Researchers have substantially advanced our understanding of opportunism. There have been a modest number of empirical studies supporting a multitude of antecedents and consequences. However, to date, antecedents and consequences of opportunism have not been comprehensively synthesized. Therefore, the purpose of this paper is to review and synthesize empirical research on antecedents and consequences of opportunistic behavior as defined in TCA and suggest new directions for research. This review consists of three sections. First, we provide a brief review of two critical theories of exchange that provide a theoretical foundation for opportunism. We next provide a discussion of the antecedents and consequences of opportunism with emphasis on the contribution of each finding. Finally, we offer several promising paths for further research.

2. Theoretical foundations

"Transaction cost analysis and relational exchange theory are the dominant theoretical perspectives in opportunism-related research (Lai et al., 2005: p. 2)." Our synthesis revealed publications on opportunism based on these two theories as early as 1975. Due to their primordial center, TCA and relational exchange, often more broadly referred to as social exchange, are briefly reviewed.

2.1. Transaction cost analysis

Transaction cost analysis is a highly-influential, interdisciplinary theory of economic organizations (Hill, 1990; Williamson, 1981). TCA combines aspects of institutional economics and organizational legal analysis (Heide & John, 1992). Following Coase (1937), the firm is viewed as a governance structure and "under certain conditions, the costs of conducting economic exchange in a market may exceed the cost of organizing the exchange within a firm" (Rindfleisch & Heide, 1997: p. 31). That is, TCA theory essentially explains the organization's boundaries by examining the transaction as the unit of analysis. Hence, when it is too costly for the firm will make the product or service organically, the firm will transact within the market (outsource).

Two key assumptions of TCA are the assumptions of bounded rationality and opportunism. In short, bounded rationality is the concept that humans cannot know all of the pertinent facts and that limits of a person's cognitive ability means that a person will not always behave rationally (Williamson, 1981). Thus, contracts are always incomplete and decision-makers do not always act in the best interests of the firm due to a lack of information or a deficiency in cognitive ability (Rindfleisch & Heide, 1997).

A second assumption of TCA is the assumption of opportunism. Opportunism is defined as "self-interest seeking with guile" (Williamson, 1985: p. 47). TCA theory holds that when individuals are presented with the opportunity, they will behave opportunistically when it is profitable (John, 1984). Thus, in inter-organizational exchange, there may be significant transaction costs due to bounded rationality and the threat of opportunism which results in contracts that are designed to reduce risk and clearly define the terms of exchange.

TCA's focus on and assumptions associated with transaction costs have been a source of criticism in the buyer–seller exchange literature. Traditionally, transaction costs are assumed to be a deciding factor in an organization's "make" or "buy" decision. For example, Jarillo (1988), when discussing strategic networks, suggests that when the external price of a product plus the transaction costs are less than the internal cost, the firm should form a network. If, however, external price and transaction costs exceed the internal price, firms should internalize the activity. This view focuses on efficiency of the system. Blois (1990) criticizes this view of transaction costs and suggests that a focus on efficiency limits the potential for organizations to form a value-creating network. He further states that in some forms of exchange, transaction costs are expected and there are industry norms that define which parties bears what costs. Thus Blois (1990) implies that firms should look beyond transaction costs and determine the level of value that may be created by forming networks of relationships. In short, a firm may be willing to accept significant transaction costs if a long-term relationship will yield profits above and beyond a more "efficient" exchange relationship. Consequently, firms may persist in exchange relationships that have high transaction costs (e.g., the cost of monitoring) that are created by the threat of opportunism.

2.2. Social exchange theory

Social exchange theory (SET) also serves a prominent role in explaining exchange. SET is commonly used as a foundation for relationship marketing and buyer–seller relationships (e.g., Dwyer, Schurr, & Oh, 1987; Kingshott, 2006; Luo, 2002; Morgan & Hunt, 1994, 1997; Wilson, 1995). The foundational premises of SET may be summarized as follows. Exchange may involve both social and economic outcomes. These outcomes are compared to other exchange alternatives. Positive outcomes increase trust and commitment and, over time, norms develop that govern the relationship (Lambe, Wittmann, & Spekman, 2001). Thus, SET rejects the assumption of universal opportunism and suggests that there is an alternate form of governance, the