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The interaction effect of relational norms and agent cooperativeness on opportunism in buyer–supplier relationships

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ABSTRACT

In this study, we examined the effect of relational norms and agent cooperativeness on opportunism in buyer–supplier relationships. Drawing from the theoretical grounding of transaction cost economics, personality trait theory, and contingency theory, we proposed three distinct perspectives on opportunism mitigation in buyer–supplier relationships: (1) organizationalist, (2) individualist, and (3) interactionist, where relational norms, agent cooperativeness, and the interaction between them, respectively, serve as the key predictors in these three perspectives. The results of replicated experiments indicated that relational norms and agent cooperativeness interact with each other in mitigating opportunism and that the interactionist perspective yielded the highest explained variance in opportunism. This suggests that the interactionist perspective, a multi-level theoretical lens encompassing the dynamic interplay between organization-level and individual-level factors, was a more complete model in explaining opportunism than either the organizationalist or individualist perspectives. The consensus which emerged from post-experimental interviews of purchasing professionals is that agent personalities play an important role in buyer–supplier relationships. Some purchasing professionals had observed that uncooperative agents or personnel turnover in the boundary-spanning functions can substantially undermine even established relational exchanges. These qualitative findings are in line with our theoretical arguments and experimental outcomes.

1. Introduction

The topic of opportunism is one that has been studied in various buyer–supplier contexts (e.g., Carson et al., 2006; Jap and Anderson, 2003). Opportunism can occur when either firm in a buyer–supplier dyad unilaterally behaves for its own gain (Conner and Prahalad, 1996) and strains negotiations between firms. In the supply chain context, opportunism can encompass a wide range of behaviors (Carson et al., 2006; Wathne and Heide, 2000). Some of these may be passive, as in the case of quality shirking and misrepresentation or exaggeration of capability, or active, as in the case of contract breaching and violation of promotion agreements (Arino, 2001). Opportunism can even result in production disruptions, causing supply chain inefficiencies and significant negative economic impacts (Morgan et al., 2007). In addition, the formation of supply chain alliances between firms may fail due to the fear of opportunistic behaviors by potential partners (McCarter and Northcraft, 2007). These adverse consequences of opportunism on firm and supply chain performance stress the importance of controlling opportunism occurrences in exchange relationships (Hendricks and Singhal, 2005; Morgan et al., 2007). Managers thus dedicate considerable resources and efforts to monitoring and controlling exchange partners in highly opportunistic risk situations (Wathne and Heide, 2000).

To effectively structure the various types of firm governance modes that function to prevent opportunism within an exchange relationship poses an important and difficult challenge. The extant research has attempted to identify self-enforcing safeguards such as the use of market, hierarchy, and relational governance approaches and has studied their strengths in mitigating opportunism (e.g., Carson et al., 2006; Wuyts and Geyskens, 2005). Nevertheless, recent research on the mitigation of buyer–supplier opportunism has focused on organization-level governance mechanisms, particularly relational governance through the use of relational norms. These relational mechanisms are typically referred to as the values shared among exchange partners concerning appropriate behavior that maintains or improves their relationship (e.g., Heide and John, 1992; Macneil, 1980; Noordewier et al., 1990). However, this stream of research has largely

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ignored the role of human agents in mitigating opportunism in buyer–supplier relationships. Without considering the role of human agents in the opportunism-mitigating mechanism, we run the risk of attributing potential effects that are indeed exerted from individuals' characteristics and behaviors to that of firms, thus leading to a cross-level fallacy that threatens the validity of the research findings (Rousseau, 1985; Zaheer et al., 1998; Burton-Jones and Gallivan, 2007).

The importance of human agents in various aspects of exchange relationships has been highlighted by a broad range of management and business literature such as supply chain management (e.g., Batt, 2003; Faes et al., 2001; Marshall et al., 2007), organizational studies (e.g., Williamson, 1979; Zaheer et al., 1998), and marketing (e.g., Jap, 2001), as well as practitioner-oriented literature (e.g., Anderson and Jap, 2005). These literature streams reinforce the need to study factors at the individual (i.e., agent) level when examining interorganizational dynamics and motivate us to recenter the analytical lens on individual agents when investigating opportunism in buyer–supplier relationships. By extending the current research in buyer–supplier opportunism beyond emphasizing relational norms as a key opportunism-mitigating factor, this study addresses two research questions: (1) '*What are the main effects of agent characteristics on mitigating opportunism*?' and (2) '*What are the interaction effects of agent characteristics and relational norms on mitigating opportunism*?' Through an investigation of the personal characteristics of human agents in tandem with relational norms, this study potentially provides a more generalizable multi-level theory of opportunism mitigation in buyer–supplier relationships and sheds insights into the effectiveness of opportunism-mitigation practices in supply chains.

Since managers and sales/purchasing professionals in buyer and supplier firms often act as decision-making agents in exchange-related decisions, they may tend to engage in dynamic processes embedded in their exchange relationship, such as information sharing, joint problem solving, and conflict resolution that can be categorized as varying degrees of cooperative behaviors. These cooperative behaviors facilitate communication, enhance mutual gains between exchange partners, mediate inter-firm conflicts, and promote a long-term orientation in the exchange relationship, thus potentially mitigating opportunism (e.g., Dabholkar et al., 1994; Weitz and Bradford, 1999). As such, our investigative efforts are specifically focused on the effect of decision-making agents' cooperativeness (which refers to the personality trait that reflects an individual's predisposition to act in tolerant, empathetic, supportive, and compassionate manners towards others; refer to e.g., Cloninger et al., 1994) and on the interaction effect of agent cooperativeness and relational norms on opportunism in buyer–supplier relationships. As a pioneering step to unveil the agent-level effect on opportunism in buyer–supplier relationships, we focus our investigation on a single-agent exchange scenario, leaving a more complex multi-agent scenario for future research endeavors.

In the next section, we provide the background of this study, which briefly summarizes key approaches to mitigating opportunism in the buyer–supplier relationship literature. Following this, we discuss the development of the hypotheses in Section 3 and the experiments and their results in Sections 4 and 5. We then end the paper with discussion and conclusion in Section 6.

2. Background of the study

The broad literature on transaction cost economics and buyer–supplier relationships suggests three common approaches to controlling opportunism (e.g., Heide, 1994; McCarter and Northcraft, 2007; Morgan et al., 2007; Williamson, 1981). One approach is to incorporate the use of formal business contracts. This contractual or market approach is commonly used in marketing channels as a means to coordinate actions between exchange partners (e.g., Dixit, 2003). To effectively mitigate opportunism, contracts may be designed to consider different environmental scenarios and spell out specific terms in great precision (Luo, 2006). However, bounded rationality prevents individuals from creating omniscient contracts; as a result, they provide limited protection in that they can only protect against those actions and contingencies that were anticipated at the outset (Williamson, 1985). Unexpected contingencies are always a possibility, and contracts tend to be insufficiently flexible to adequately cope with frequent environmental changes.

A second approach to mitigating opportunism risks is to utilize the hierarchy approach (Williamson, 1981, 1985). A hierarchical form of governance relies more heavily on internal enforcement mechanisms based on legitimate authority derived from employment relations (Heide, 1994). Williamson (1981) suggests that transactions characterized by high asset specificity and high degrees of uncertainty are more effectively governed by hierarchy than by market. Vertically integrating suppliers and their capabilities eliminates the risk of opportunistic behavior by a supplier and yields coordination benefits for the integrating firm (Lu and Hébert, 2005). However, in many cases, this approach may be impractical and insufficient due to the extent of capital investment required or a lack of needed capabilities in the supply base.

Yet another governance approach suggested by the theory is the use of relational mechanisms such as relational contracting to mitigate opportunism risks (Carr and Pearson, 1999). This relational governance approach rests on the premise that transactions are typically embedded in social relationships, and thus there exist non-legal sanctions in the form of relational norms that motivate buyers and suppliers to commit in their exchange relationships (Heide and John, 1992; Macneil, 1980). The relational governance approach has gained much popularity in the buyer–supplier relationship literature over the last two decades (e.g., Chen et al., 2004; Dyer and Singh, 1998; McCarter and Northcraft, 2007), and it arguably does not fall prey to the same shortcomings found in the market or hierarchy approaches. Thus, many firms have begun to rely on this approach by developing long-term relationships and establishing relational norms in their exchange relationships that help govern the behaviors of the exchange partners. Toyota is a case-in-point illustrating the use of this relational approach. Various Toyota practices, such as emphasizing corporate values rather than skill development in dealership seminars, are attempts towards developing relational norms and social controls (Mehri, 2006; Wathne and Heide, 2000).

Recent studies on the relational governance approach have investigated the effectiveness of inter-firm relational structures in mitigating opportunism and further examined the nature of opportunism in inter-firm relationships. Relational governance developed through processes such as socialization is regarded as an effective mechanism to mitigate both passive and active opportunistic behaviors in the exchanges (Wathne and Heide, 2000). Relational governance reflects shared values and social norms among individual members, which in turn harmonize their interests and govern their behaviors (Chalos and O'Connor, 2004; Ouchi, 1980), and it effectively mitigates opportunism in volatile situations, though not in situations with high ambiguity (Carson et al., 2006). Some researchers have highlighted the complementary role of formal contracts in relational governance, as well-specified contracts help to clarify exchange partners' roles and expectations and provide clarity in exchange terms, remedies, and conflict resolution procedures (Poppo and Zenger, 2002). The process-oriented features of contracts such as the process of articulating complex contracts can also build commitment between exchange partners and facilitate the functions of