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Buyer opportunism in business-to-business exchange

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ABSTRACT

A phenomenon of significance in buyer–supplier relationships is opportunism. In lieu of the known negative effects of opportunistic behavior on buyer–supplier relationships, the circumstances in which a sourcing professional engages in acts of opportunism are unclear. Combining theories from multiple disciplines, a comprehensive model tested buyer–supplier relationship-specific factors, environmental factors, an individual-difference factor, and situational factors likely to affect a buyer's decision to use opportunistic tactics. Results reveal how these different theories combine to provide a more comprehensive explanation of buyer behavior than existed in prior literature. Using structural equation modeling of a sample of 328 procurement transactions, factors found to affect buyer opportunism included buyer power, corporate ethical values, honesty/integrity, leader opportunism, willful ignorance, and subjective expected utility. This study also provides empirical support for distinguishing between two types of opportunism — strong and weak. The research concludes with implications for theory and practice, limitations, and areas for future research.

1. Introduction

During the last decade, waves of financial malfeasance – the technology bubble of the “dot.com” era and later the housing bubble in the United States along with the nearly global banking crisis – called attention to the role of non-financial performance firm outcomes. Scholars currently question whether economic returns and legal obligations are the sole outcomes or whether a firm has ancillary duties to protect the environment, respect human rights, operate safely, behave ethically, and support diversity. Collective concern for these ancillary duties is often termed corporate social responsibility (CSR), and in the context of business-to-business (B2B) procurement is referred to as purchasing social responsibility (PSR) (Carter, 2004). CSR has recently garnered ubiquitous scholarly attention (Vlachos, Theotokis, & Panagopoulos, 2010) across academic disciplines, and for good reason. CSR was shown to improve corporate financial performance (Allouche & Laroche, 2006; Peloza, 2006; van Beurden & Gössling, 2008), brand value (Melo & Galan, 2011), firm value (Jo & Harjoto, 2011), corporate reputation (Lai, Chiu, Yang, & Pai, 2010), brand performance (Lai et al., 2010), and consumer loyalty (Marin, Ruiz, & Rubio, 2009).

Of the several dimensions of CSR, ethics receives the least attention. It remains the stepchild of CSR research. This is particularly germane to the procurement function due to its influence on a substantial amount of the firm's revenue — up to 70% (Hardt, Reinecke, & Spiller, 2007). Oddly, with high financial stakes and increased research attention on CSR, we still do not fully understand why individuals make unethical choices (Kish-Gephart, Harrison, & Trevino, 2010) in a business-to-business relationship.

A form of unethical behavior among firms is commonly referred to as opportunism in the marketing and supply chain literature (Hawkins, Wittmann, & Beyerlein, 2008). Opportunism is commonly defined as behavior that is self-interest seeking with guile (Williamson, 1975). Characteristic behaviors include stealing, cheating, breach of contract, distorting data, obfuscating issues, purposefully confusing transactions, making false threats and promises, cutting corners, cover ups, disguising attributes or preferences, withholding information (Wathne & Heide, 2000), deceiving, and misrepresenting (Anderson, 1988). Nonetheless, scholars questioned whether opportunism is necessarily pejorative (Hawkins et al., 2008; Jap, Robertson, Rindfleisch, & Hamilton, 2013). Some scholars include behaviors that, while self-interested, need not include guile (Gassenheimer, Baucus, & Baucus, 1996; Gundlach, Achrol, & Mentzer, 1995; Ploetner, 2008; Wang, 2002). For example, Sarkees (2011) examined how technological opportunism is positively related to firm performance. Nonetheless, the overwhelming majority of empirical scholarship examining opportunism defines the construct to include guile; therefore, our research adopts this meaning.

Opportunism negatively affects relational norms such as goal congruence (Lajeune & Yakova, 2005) trust, commitment, cooperation, and satisfaction (Joshi & Stump, 1999; Morgan & Hunt, 1994) that are known to improve firm performance (Carey, Lawson, & Krause, 2010; Carr & Pearson, 1999; Gassenheimer et al., 1996; Nyaga,

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Whipple, & Lynch, 2010; Villena, Revilla, & Choi, 2011). Furthermore, opportunism directly and negatively affects performance (Crosno & Dahlstrom, 2008; Rindfleisch & Heide, 1997; Yang & Wang, 2013), and increases transaction costs via measures taken to control opportunism (Harmandcioglu, 2009). Often, opportunism also precedes the deterioration and ending of an exchange relationship (Tidstrom & Ahman, 2006) — a current concern of marketing scholars (Palmatier, Houston, Dant, & Grewal, 2013). Indeed, even the perception of opportunism can decrease profits (Nunlee, 2005).

Despite the potential for a negative impact, game theory shows that actors will behave opportunistically when the short-term gains of opportunism exceed the long-term gains from abstinence. Given the persistent use of opportunistic tactics (Liu, Su, Li, & Liu, 2010; Mitrega & Zolkiewsky, 2012; Robertson & Rymon, 2001) and the negative effects of such opportunism on buyer–supplier relationships and firm performance, our research question emerged as follows.

- Under what conditions will buyers choose to engage in opportunistic tactics with their exchange partners?

While extensive literature addresses opportunism's many antecedents, very little research accounts for its complexity, specifically in terms of the unit of analysis and construct validity (Nair, Narasimhan, & Bendoly, 2011).

First, it is important to note that decisions are examined from many theoretical vantage points (Tetlock, 1992). Specific instances of opportunistic behaviors (e.g., deceit and cheating) are examined in the ethics literature, where the unit of analysis is the individual's decision (i.e., attempts to explain decisions). However, opportunism, as a comprehensive construct encompassing many behaviors, has received little attention in this realm. Opportunism was also examined on an inter-firm level where the unit of analysis is the firm (i.e., explaining firm behavior). Each level of analysis entails different antecedents and outcomes, some of which are invisible to researchers viewing the phenomenon from a different theoretical lens (Tetlock, 1992). In their meta-analysis of unethical decision making in the workplace, Kish-Gephart et al. (2010) called for an integration of the individual and organizational units of analysis. Recent research by Zhang, Viswanathan, and Henke (2010) confirms the value of doing so. Therein, Zhang et al. (2010) showed how suppliers develop trust in individual buyers that differs from trust in the buying organization. If choosing one level of analysis while ignoring another, key variables may be omitted (Zhang et al., 2010), and when key variables are omitted from research involving inferential statistics, path estimates can become unreliable (Kline, 2011). Since this was the case in nearly all prior research of B2B opportunism, previous findings surrounding opportunism may present a mix of results due to confounding of the findings with the level of analysis. Tangpong, Hung, and Ro (2010) also recognized the value of fusing the individual and firm-level units of analysis when researching B2B opportunism by examining interactions between agent cooperativeness and inter-firm relational norms in curtailing opportunism. Since B2B opportunism has rarely been examined at the individual unit of analysis, many key factors affecting sourcing professionals' decisions have not been explored.

The need for multiple units of analysis is highlighted in the sociology literature, and consequently, gave rise to the social contingent model of judgment and choice (Tetlock, 1992). While firm-level analysis has been exhaustively explored in the supply chain literature, individual-level analysis has received scant attention (Romar, 2004) — despite the research revelation of the importance of differences in individual buyers such as dissimilar abilities to build inter-firm trust (Zhang et al., 2010). Similarly, while instances of opportunism are examined in the ethics literature, buyer–supplier relationship-specific factors have been ignored with one notable exception (Ambrose, Marshall, & Lynch, 2010). Ambrose et al.'s (2010) research focused on the differences in perceptions among buyers and suppliers. Whereas researchers have called for an integration of ethics research with other areas (Loe, Ferrell, & Mansfield, 2000), in a buyer–supplier context, a fusion of the two levels of analysis has only occurred in one study (Tangpong et al., 2010). By bridging this gap, the opportunity exists to enhance our understanding of supply chain dynamics and to add significant understating to the decision making process that involves B2B opportunism. For example, dissatisfaction with an exchange relationship first manifests itself at an individual level then spreads to the organization level (Ping & Dwyer, 1992). What is needed, therefore, is an individual unit of analysis, but one that is embedded into its social surrounding.

Second, after migrating to an individual unit of analysis, the content validity of the opportunism construct deserves attention. Opportunism is a broad construct encompassing many behaviors (Tangpong, Michalisin, & Melcher, 2008; Tangpong et al., 2010). These various behaviors potentially have different norms and consequences. For example, making false threats during a negotiation (i.e., bluffing) may be the norm, whereas fraudulently overbilling (i.e., stealing) likely is not. However, both can fit the definition of opportunism. Likewise, similar acts of opportunism have a potentially different magnitude of consequences. Surely, stealing 10-dollar printer paper does not affect the firm's profitability to the same magnitude as stealing 100 thousand dollars via false billings to a customer. Yet these vastly different behaviors are typically combined in the measures of opportunism (Hawkins, Knipper, & Strutton, 2009). The need to investigate the differing types of opportunism was identified by Wathne and Heide (2000) and Luo (2006).

A comprehensive examination driven by the desire to enhance the approaches to researching opportunism seems to be a fruitful path to a better understanding of this important phenomenon (Hunter, Gassenheimer, & Siguaw, 2011). For example, an individual unit of analysis will permit the assessment of antecedents to opportunistic choices that have thus far been omitted in the study of B2B exchange. Understanding conducive situations for opportunism will reveal how to deter it, and this remains a gap in the literature (Luo, 2006). Since opportunism is embedded in marketing's and economics' most notable theoretical achievements including relationship marketing (Morgan & Hunt, 1994), relational exchange theory (MacNeil, 1980), and transaction cost economics (Williamson, 1975), increasing the precision of its understanding and measurement is critical to effective supply chain management.

The purpose of this study, therefore, is to: (1) account for individual and organizational units of analysis, (2) seek empirical confirmation of different types of opportunism, and (3) determine the factors influencing sourcing professionals to engage in opportunistic tactics with their suppliers. This research is important because some of the circumstances are not yet examined in the literature and because it can show which theoretical lens (i.e., unit of analysis) has a greater effect on sourcing professionals' decisions and the related behavior. Additionally, since opportunism is often the culprit of premature relational deterioration, understanding how to deter it is critical.

We first scan the B2B exchange theories (firm level unit of analysis) and ethical decision making theories (individual unit of analysis) to identify factors that should lead sourcing professionals to behave opportunistically toward suppliers. We then combine the relevant antecedents in two structural equation models to explain decisions to behave opportunistically. We use two models to examine differences in types of opportunism. The remainder of this work is organized as follows. First, the study discusses the conceptual framework and proposed hypotheses. Next, the study presents the research design and methodology. Then, the study provides an analysis of the proposed models and reports the findings. Lastly, the study offers a summary discussion, including conclusions and implications.

2. Conceptual framework and hypotheses

Theories of B2B ethics can best represent the relevant factors from an individual unit of analysis. We used these theories as a guide for