



## Opportunism, governance structure and relational norms: An interactive perspective



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### ABSTRACT

Opportunism in inter-firm partnership has intrigued scholars and managers, and existing research has identified several governance structural dimensions as antecedents of opportunism. However, most have looked at these one by one. This study examines the effects of interactions between the dimensions of bureaucratic structure (formalization and participation) and relational norms (solidarity, role integrity, and mutuality) on opportunism among channel members. The results indicate that the interaction between formalization and solidarity enhances opportunism, while interaction between formalization and role integrity reduces opportunism. On the other hand, while the interaction between participation and solidarity reduces opportunism, participation's interaction with role integrity and mutuality seems to enhance opportunism. The implications of these findings are discussed in detail in the study.

### 1. Introduction

Most researchers in the inter-firm relationship literature agree that partners benefit by getting along with one another and equitable sharing of benefits (Dyer & Singh, 1998; Muthusamy & White, 2006). However, others (e.g., Clemens & Douglas, 2006; Kalafatis, 2000) argue that inter-firm relationships are fundamentally motivated by the need to gain competitive advantage, where each firm tries to enhance its advantage by using influence strategies and engaging in behaviors that may be detrimental to the relationship. One such behavior is opportunistic behavior, the focus of this study.

Opportunism has been studied in marketing literature for almost two and half decades (e.g., Gaski, 1984; John, 1984; and Williamson, 1985). Grounded in transactional cost economics (Williamson, 1975) and agency theory (Fama & Jensen, 1983a, 1983b), opportunism is defined as “self-interest seeking with guile” (p. 6) and involves a deceitful behavior (Macneil, 1981). The opportunism literature has underscored its importance in channel functioning and performance (Crosno & Dahlstrom, 2008, 2010; Lado, Dant, & Tekleab, 2008; Wang & Yang, 2013). Hawkins, Wittmann, and Beyerlein (2008, p. 907) surmise that “by understanding opportunism, firms can assess their position relative to that of their trading partners and identify areas where they are likely to fall victim to opportunistic action.”

Literature has identified several antecedents of opportunism

(Crosno & Dahlstrom, 2008, 2010; Wang & Yang, 2013), including governance mechanisms. While existing literature revolving around opportunism is rich (Crosno & Dahlstrom, 2008, 2010; Wang & Yang, 2013), our understanding of the nomological network, especially the antecedents of opportunism is still very simplistic. Specifically, the extant studies have focused primarily on the individual dimensions of these governance structures and their effect on opportunism. For example, a large majority of the literature looks at whether formal governance structure or informal governance norms influence opportunism (Leiblein, 2003; Lui, Wong, & Liu, 2009). Few studies have investigated the joint effects of different forms of governance on opportunistic behavior (some recent exceptions include Handley & Angst, 2015; Kang & Jindal, 2015; Liu, Liu, & Li, 2014; Rindfleisch et al., 2010; Srinivasan, 2006). These interactions are important as governance structures in any organization evolve over a period of time, and gradually become a combination of various governance structures (Rindfleisch et al., 2010).

From a practical standpoint, opportunism can occur in any condition, and firms often adopt different forms of governance simultaneously to manage partners' opportunistic behaviors (Wathne & Heide, 2000). In addition, relationships, including business relationships, are complex and a combination of both the economy and polity (Arndt, 1983; Stern & Reve, 1980), and may require mixed governance mechanisms to address probable opportunism. However, using multiple

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governance structure may lead to redundant controls and even confusion among channel members (Rindfleisch et al., 2010; Srinivasan, 2006). A better understanding of the drivers of opportunism under mixed governance modes would allow organizations to develop an optimal structure to enhance the channel relationships and performance.

Against this backdrop, this study focuses on the interactional effects of the two focal governance mechanisms - bureaucratization (formalization and participation) (Dwyer & Oh, 1987; Dwyer & Welsh, 1985) and relational norms (solidarity, role integrity, and mutuality) (e.g., Kaufmann & Dant, 1992) - on opportunism in a distribution channel. Our findings from the data collected from managers in distribution functions show that while some dimensions of bureaucratic structure and relational norms individually reduce channel members' opportunistic behavior, the direction of their joint effects varies. In fact, the interactions of certain governance dimensions lower opportunism significantly, but a choice of two governance forms that do not complement each other enhances channel members' opportunistic behavior. The results of the joint effects of bureaucratic structure and relational norms are critical for both researchers in business to business relationship area; and managers in general, especially channel managers.

## 2. Literature review and theory

### 2.1. Antecedents of opportunism

Opportunism is often associated with strong negative sentiments and includes activities such as stealing, cheating, breach of contract, dishonesty, distorting data, obfuscating issues, confusing transactions, false threats and promises, cutting corners, cover-ups, disguising attributes and preferences, withholding information, deception, and misrepresentation, to name a few (Crosno & Dahlstrom, 2008; Hawkins et al., 2008; John, 1984; Macneil, 1981; Wathne & Heide, 2000; Williamson, 1975). Given the ubiquitous nature of opportunism (Hawkins et al., 2008) and its negative associations, extensive research attention (Crosno & Dahlstrom, 2008; Hawkins et al., 2008; Joshi & Arnold, 1997) has been devoted to understanding the antecedents of opportunism. The following stand out as key ones: dependence (Achrol & Gundlach, 1999; Joshi & Arnold, 1997); bureaucratization – formalization, centralization, control, and participation (Achrol & Gundlach, 1999; John, 1984); relational norms (Achrol & Gundlach, 1999; Heide & John, 1992; Joshi & Stump, 1999; Lado et al., 2008); and uncertainty (Dahlstrom, Haugland, Nygaard, & Rokkan, 2009; Joshi & Stump, 1999). A summary of this literature is provided by Cao and Lumineau (2015), and Crosno and Dahlstrom (2008, 2010). However, this extensive literature investigating the relationship between various dimensions of governance and opportunism has overlooked two key issues. First, these studies have not examined the *interactions* between these dimensions and their effects on opportunism. Second, almost none has looked at different dimensions of relational norms (i.e., solidarity, role integrity, and mutuality) and their effects on opportunism either individually or jointly with the dimensions of bureaucratic structure.

In this study, we focus on *opportunism* as an endogenous construct, and the dimensions of bureaucratic structure (*formalization and participation*), emergent relational norms (*solidarity, role integrity, and mutuality*), and their interactions as predictors. The literature on bureaucratization suggests that it is multidimensional (cf. Achrol & Gundlach, 1999; Dwyer & Oh, 1987; John, 1984). Some authors consider bureaucratic structure to be represented by three dimensions: centralization, participation and formalization (Dwyer & Welsh, 1985; Dwyer & Oh, 1987). Others (see Deshpande, 1982; John, 1984) consider centralization and participation to be two side of the same construct. They argue that higher centralization leads to lower participation in decision-making, as centralization is viewed as the extent to which the decision-making authority rests with the upper

management. We follow the second perspective and focus on formalization and participation as two distinct dimensions of the bureaucratic structure. Formalization captures the extent to which firms rely on existing rules and regulations to manage behaviors and expectations, whereas, participation reflects the degree to which partners participate in the decision making.

Relational norms as the governance mechanism are anchored in the interpersonal communication and social context of the relationship (Paswan, Dant, & Lumpkin, 1998). This study uses solidarity, role integrity, and mutuality as dimensions of relational norm based on extant studies in similar contexts (Blois & Ivens, 2007; Dant & Schul, 1992; Kaufmann & Dant, 1992; Macneil, 1980). Solidarity examines the process through which an exchange relationship is sustained by capturing trust and future cooperation intent. Role integrity refers to the complex roles and expectations that are associated with exchange members in a relationship, while mutuality reflects the importance of long-term payoffs in comparison with the value of individual transactions. We discuss the theoretical framework in the following section.

### 2.2. Control theory

The dominant theoretical frameworks used to explain opportunism include the transactional cost economics (John, 1984; Williamson, 1975), agency theory (Fama & Jensen, 1983a, b), relational or social exchange theory (Macneil, 1981; Thibaut & Kelley, 1959; Williamson, 1981), and control theory (Jaworski, 1988). We rely on control theory because it includes both formal and informal controls as mechanisms to influence the firm outcomes (Jaworski, 1988; Jaworski & MacInnis, 1989). Formal control mechanisms are officially instituted by management and may include the bureaucratic structure such as centralization, formalization, and participation (Ouchi, 1979; Jaworski, 1988). Informal control mechanisms are unwritten norms that exist between channel partners, and may include the relational norms. These formal and informal controls can be combined in numerous ways to enhance organizational performance (Frazier, 1999; Jaworski, 1988; Oliver & Anderson, 1994; Ouchi, 1979). However, the literature on control theory suggests that when the controls are *complementary* to each other, the influence of control on behaviors will be positive, and when the controls are *substitutive* with one another, it might lead to suboptimal behavior by channel members (Jaworski, 1988; Jaworski & MacInnis, 1989; Guenzi, Baldauf, & Panagopoulos, 2014). Thus, we argue that the type and nature of interaction between the extent of bureaucracy (formal/explicit rules of engagement) and relational norms (informal/implicit rules) may affect opportunistic behavior differently.

## 3. Hypotheses

Extant literature suggests that all aspects of bureaucratic governance structure (formalization and participation) and relational norms (solidarity, role integrity and mutuality) reduce opportunism (Cao & Lumineau, 2015; Hawkins et al., 2008; Wang & Yang, 2013). While the main effects of these dimensions are tested in this study to ensure consistency with the literature, our main focus is on the effects of their interaction on opportunism. Wathne and Heide (2000) note that firms could use different types of governance structure to manage opportunism – including bureaucratic and relational norms. Lado et al. (2008) found that both low and high levels of trust and opportunism is associated with moderate to high levels of relationalism, whereas moderate levels of both trust and opportunism is associated with lowest levels of relationalism. Motivated by these studies which focus on the joint effect of multiple predictors, we argue that perhaps the presence of both bureaucratic and relational norms may result in somewhat paradoxical outcomes in terms of opportunistic behavior.

The interplay between bureaucratic structure and relational norms has been debated in the literature (Handley & Angst, 2015;

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