

Stream 16: Technology, innovation and supply chain management

Competitive session

Categorising supply chain opportunism: A framework

Sarah Eyaa

Newcastle Business School, University of Newcastle, Australia

Email: Sarah.Eyaa@uon.edu.au

Associate Professor Ramaswami Sridharan

Newcastle Business School, University of Newcastle, Australia

Email: Ramaswami.Sridharan@newcastle.edu.au

Associate Professor Suzanne Ryan

Newcastle Business School, University of Newcastle, Australia

Email: Suzanne.Ryan@newcastle.edu.au

ABSTRACT

With the aim of improving the comprehension of opportunistic behaviour in the supply chain context, this study develops a framework that is relevant for categorising manifestations of opportunism in supply chain transactions. Twenty-five peer reviewed articles in which forms of opportunism are mentioned or assessed were systematically analysed to identify and categorise the opportunism expressions into four broad categorisations that are based on the supply chain flows namely, products, information, finances and the governance mechanisms that govern these flows. The key limitation of this study is that the framework has not been tested empirically but it does provide a good starting point for categorising supply chain opportunism and has made contributions to theory, practice and future research.

Key words: opportunism, supply chain management, logistics

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INTRODUCTION

Opportunism, a potential behaviour by parties to exchange transactions, negatively impacts supply chain networks at both micro and macro levels (Luo, 2006; Wathne & Heide, 2000). Business partners engage in opportunism before or after the formation of a relationship to achieve goals or protect interests by employing strategies such as: lying, distorting information; violating exchange agreements; misrepresenting competences; and exaggerating product performance (Barnes, Leonidou, Siu, & Leonidou, 2010; Hawkins, Wittmann, & Beyerlein, 2008; Zhou & Xu, 2012). At the micro-level, opportunistic acts impede a firm's ability to satisfy customers and increase transaction costs resulting in poor firm performance (Tangpong, Hung, & Ro, 2010; Wathne & Heide, 2000). At the macro-level, firms whose performance is poor due to opportunism form mal-functioning supply chain networks that eventually create inefficient economies (Al-Khatib, Malshe, Sailors, & Clark, 2011; Das & Teng, 2000).

Given the potentially severe and long-term impact of opportunism on firms and economies, understanding its diverse forms and manifestations in various contexts is a worthy, if not necessary pursuit (Wathne & Heide, 2000). Although several frameworks categorising the manifestations of opportunism in diverse contexts have been proposed (Das, 2004), the categorisation of opportunism in supply chain contexts has not been adequately addressed. Hence, the aim of this paper is to address this deficit and propose a more comprehensive framework for categorising opportunism manifestations in the supply chain context.

The framework presented is specific to supply chains and categorises opportunism based on supply chain flows of products, information, finances and governance mechanisms. Although helpful, categorisation frameworks by Wathne & Heide (2000), Das (2004), Karunaratna & Johnson (2000), Popov & Simonova (2006) and Obadia & Vida (2006) are not applicable to supply chains because they fail to specify the key areas where opportunism manifests itself and, by assuming opportunism is a two dimensional variable, they ignore other relevant dimensions of opportunism in the supply chain environment. In order to understand a behaviour better, it is important to account for all its relevant dimensions in specific contexts and know its areas of manifestation (Leonidou, Palihawadana, & Theodosiou, 2006).

The paper proceeds in three sections. The background literature is presented in the next section followed by an explanation of the proposed framework and its development. The final section summarises the framework and its contribution, highlighting its limits and opportunities for further research.

BACKGROUND

Opportunism is “self-interest with guile” (Williamson, 1975, p. 6). Guile consists of “lying, stealing, cheating and calculated efforts to mislead, distort, disguise, obfuscate or otherwise confuse” (Williamson, 1985, p. 47). Overtime guile has been extended to encompass acts such as evasion of

responsibilities, breach of contractual terms and conditions, disguising information, exaggeration of product quality, cover-ups and cutting corners (Hawkins et al., 2008; Zhou & Xu, 2012).

Opportunism, a common behaviour in business transactions is expedited by a range of factors and may occur before (ex-ante opportunism) or after (ex-post opportunism) the formation of a relationship (Barnes et al., 2010; Williamson, 1985). Opportunism increases transactions costs given that resources that would have been used elsewhere have to be assigned to design comprehensive governance mechanisms meant to restrain opportunism and monitor relationships to ensure compliance with contractual terms (Luo, 2006; Williamson, 1985). High transactions expenses escalate the operating costs in firms leading to a decline in firm performance (Al-Khatib et al., 2011; Fafchamps, 2000). Aside from the high transaction costs, opportunism reduces trust and commitment levels in relationships resulting in poor working relationships between business partners (Das, 2004).

Theoretical perspectives on opportunism include the Transaction Cost Analysis (TCA) and Relational Exchange Theory (RET) (Crosno & Dahlstrom, 2008; Ting, Chen, & Bartholomew, 2007). The former (TCA) assumes that, provided an opportunity exists, human beings are naturally opportunistic and will act in self-interest by applying guileful strategies such as stealing, cheating or lying to realise gains at the expense of others (John, 1984; Williamson, 1975, 1985). According to TCA, opportunism and transaction costs can be minimised by putting in place governance structures such as legal contracts. Alternatively, RET recognises the existence of opportunism in exchange relationships but proposes relational dimensions such as trust that can be employed as forms of governance to curb opportunism and minimise transaction costs (Lado, Dant, & Tekleab, 2008; Macneill, 1980).

Research has sought to advance our comprehension of opportunism by developing various frameworks categorising its manifestations based on different dimensions (Das, 2004; Karunaratna & Johnson, 2000; Obadia & Vida, 2006; Popov & Simonova, 2006; Wathne & Heide, 2000). There are at least five frameworks categorising opportunism, however all are restricted to two dimensions. First, Wathne and Heide (2000) address the nature of behaviour (passive versus active) and relationship

circumstances (new versus existing) to develop four forms of opportunism namely: evasion; refusal to adapt; violation; and forced renegotiation. The costs and benefits for the opportunistic party and the exchange partners are identified for each form of opportunism. A second categorisation by Das (2004) employs the dimensions of time horizon and relational risk level. This framework develops four types of opportunism on a 2x2 matrix using the facets of time horizon (short versus long) and relational risk level (low versus high) and presents different manifestations of opportunism under each opportunism type. A third categorisation by Obadia and Vida (2006) applies the dimensions of opportunism form (active versus passive) and assets (tangible versus intangible) and provides examples of the numerous ways in which opportunism manifests under each opportunism category. The fourth categorisation by Popov and Simonova (2006) employs the parties to a contract (agents versus principals) and occurrence of opportunism (ex-ante versus ex-post opportunism) to develop four categorisations of opportunism with different manifestations of opportunism under each category. Finally, opportunism has been categorised by Karunaratna and Johnson (2000) by identifying the different areas in exchange relationships between exporters and independent channel intermediaries where opportunism occurs and listing the manifestations of opportunism in these key areas. According to Karunaratna and Johnson (2000), opportunism can be categorised as related to products, price, information, logistics and legal aspects.

Existing categorisations of opportunism are limited in their relevance to the supply chain context for three reasons. First, in categorising opportunism within dimensions such as nature of behaviour and relationship circumstance (Wathne & Heide, 2000); time horizon and relational risk (Das, 2004); opportunism occurrence and assets (Obadia & Vida, 2006) and opportunism occurrence and contract parties (Popov & Simonova, 2006), opportunism is limited to a two dimensional variable. However, this is not always the case in complex contexts such as the supply chain environment where the presence of a wide range of parties and activities means opportunism becomes a multi-dimensional concept. Given the numerous parties and activities involved in the various supply chains, it is better to categorise opportunism within the four dimensions of supply chain flows namely: products; information; finance; and the governance mechanisms that manage these flows. Second, although the

existing categorisations identify forms of opportunism, they fail to specify the areas in which such behaviours might occur within exchange relationships. A holistic comprehension of a behaviour requires that its manifestations and the areas where it is most likely to manifest are defined (Leonidou et al., 2006). This makes easier to know what behavioural forms to anticipate and where they are likely to manifest in order to aid the process of identifying appropriate behavioural management strategies.

Finally, although Karunaratna and Johnson (2000) attempted to categorise opportunism in international channel intermediaries using the dimensions of products, price, information, logistics and legal aspects, the application of this framework in the supply chain context is limited in its price and legal dimensions. In using the price dimension, Karunaratna and Johnson (2000), fail to take into account other financial elements where potential opportunism may arise such as delays in making payments, refusal to make payments, exploitation of payment terms and deliberate design of unfair credit terms. Hence, there is a need for a more comprehensive dimension categorising financial related opportunism. The application of the legal dimension by Karunaratna and Johnson (2000) disregard informal arrangements where the exchange relationship is not managed by a legal agreement. It is not uncommon that exchanges are managed through implied agreements or relational norms such as trust and commitment (Rindfleisch et al., 2010). Therefore, there is need for a governance based dimension that encompasses both the legal and non-legal or informal manifestations of opportunism

This paper seeks to address the above limitations in the categorisation of supply chain opportunism by proposing a categorisation framework that is specific to the supply chain context. In this framework, opportunism manifestations are categorised along the key dimensions of supply chain activities which are the product, information and financial flows as well as the governance mechanisms employed to manage the flows. Four significant features make this framework essential. First, given the limited efforts to categorise opportunistic behaviour in supply chain relationships, the paper through the proposed framework provides an original perspective on categorising and understanding supply chain opportunism. Second, by specifying where opportunism is likely to occur, the proposed framework offers a set of guidelines for supply chain managers that facilitate identification and implementation of

appropriate control mechanisms to evade opportunistic situations at minimal cost. Additionally, this framework will support practitioners in being proactive managing relationships with supply chain partners. Finally, the proposed framework supports TCA, the central theory of opportunism in two ways. It makes the theory more relevant to the supply chain context because it categorises manifestations of opportunism based on where they are most likely to occur in the supply chain and it demonstrates that manifestations of opportunism are not limited to the traditional definition of opportunism, “lying, stealing, cheating and calculated efforts to mislead, distort, disguise, obfuscate or otherwise confuse” (Williamson, 1985, p. 47). The proposed framework allows the definition to vary according to context. The process used to develop the proposed framework for categorising opportunism is explained in the following section.

DEVELOPMENT OF THE OPPORTUNISM CATEGORISATION FRAMEWORK

The first step in developing a categorisation framework relevant to supply chains was to agree on an approach, hence a three stage process adapted from Mugurusi & de Boer (2013) was followed. In the first stage, journal articles related to opportunism manifestations were identified and culled for relevance. In the second stage, the manifestations were identified and classified into the broad categories of product, information, financial and governance related opportunism. In the final stage, the forms of opportunism were summarised under broad themes to develop manifestations according to category. This process is illustrated in Figure 1 below.

Insert Figure 1 about here

This process was deemed appropriate for developing the categorisations because it entails a detailed examination of a range of literature, making it possible to identify a wide range of opportunism manifestations to support the proposition of a holistic categorisation framework. A detailed explanation of each stage in the process follows.

Stage One: Retrieval and Selection of Literature

The first stage involved searching for articles in which various forms of opportunism are cited or assessed empirically. Three search words were used, namely: 'opportunism'; 'opportunistic'; and 'opportunistic behaviour'. Articles were sought for from online academic databases including: Emerald; Science Direct; Palgrave; Taylor and Francis; EBSCO; JSTOR; ABI/INFORM; and Scopus. Additional searches were made on Google Scholar, Academia.edu and Research Gate. The purpose of the using three search words and venturing outside the usual databases was to identify as many publications as possible to guarantee diversity (Burgess, Singh, & Koroglu, 2006). Searches yielded a total of 62 journal articles, book reviews, working papers and conference proceedings published between 1975 and 2004. These were revised down to 25 publications using four criteria whereby the article should: be written in English; mention the forms of opportunism; be peer-reviewed; and focus on opportunism in the context of exchange relationships only and not other contexts such as organisations, politics, public sector or policy.

Stage Two: Categorisation of Opportunism Manifestations

In the second phase, opportunism manifestations were identified and placed within the dimensions of product, information, finance and governance. This was done in four steps. In the first step, the various forms of opportunism were identified. The second step was to determine under which of the four categories each form of opportunism manifested itself. In the third step, similar opportunism forms were merged into broad manifestations under each category. The forms of opportunism that were identified in each category are shown in Table 1.

Insert Table 1 about here

Stage Three: Summary of Results and Discussion

In the third stage, manifestations of opportunism under the four categories of product, information, financial and governance opportunism were summarised. An explanation of the different categorisations of opportunism follows.

Product based opportunism:

Product based opportunism refers to opportunistic behaviour related to products such as raw materials, semi – finished products and finished products that flow through supply chain networks. Examples of opportunism manifestations in this category include abusing warranty and guarantee terms, presenting products of a quality that are inferior to what was agreed upon, misrepresenting or product performance, giving unfair warranty and guarantee conditions and misrepresenting delivery abilities and schedules.

Information based opportunism

Information based opportunism refers to self-interested acts related to information that is shared between exchange parties in supply chains. Parties in transaction relationships share a wide range of information on aspects such as inventory levels, order processing, product quality, relationship quality, market information and financial matters. Examples of information based opportunistic acts are misrepresenting information to make a firm or situation appear better than it is, misrepresenting abilities, overstating difficulties to achieve what is desired, altering facts to obtain what is desired, using information to confuse, and distorting information to protect interests.

Financial based opportunism

Financial based opportunism refers to self-interested behaviours involving money and credit facilities. Since this category involves money, it directly affects cash flow and the financial performance of firms against which the opportunistic acts are undertaken. Examples of financial based opportunism are deliberate delays in making payments, refusing to make payments, failure to honour credit terms when credit has been extended, giving unfair credit terms, exploiting loop holes in credit terms in order to benefit, and price distortion.

Governance based opportunism

Governance based opportunism refers to opportunistic acts in the formal and informal arrangements that are applied to manage transaction relationships. Formal arrangements include written contracts

while informal arrangements would include oral agreements. Opportunistic manifestations in this category include neglecting obligations, promising to do something and not doing it, exploiting loopholes in a contract or agreement to ones benefit, using coercion and manipulation to achieve desired ends, and breaching contracts or agreements. The four categories of opportunism are summarised in Table 2 below.

Insert Table 2 about here

CONCLUSION

This study addresses a deficit in the area of supply chain opportunism by proposing a framework that categorises manifestations of opportunism in the supply chain context. The work follows a three-stage process involving search for relevant articles, identification of opportunism manifestations, and then categorising of the manifestations. The four categorisations are based on supply chain flows and governance mechanisms employed to manage the flows, namely: product, information, financial and governance based opportunism. The proposed framework of categorising supply chain opportunism constitutes an important contribution to both the supply chain literature and to practice and policy. Although not all forms of opportunism may have been considered, the framework is an important starting point for understanding the nature of opportunistic behaviour in supply chains.

Our framework provides an innovative approach to categorising manifestations of opportunism in the supply chain context and shows that opportunism is not necessarily a one or two dimensional variable as assumed in previous work. In developing the categorisations, the manifestations in each category are specified. This is important because behaviour is better understood if it is known how and where it occurs (Leonidou et al., 2006). Our proposed broad categorisations of opportunism manifestations provide an opportunity to categorise any other forms of opportunism that may emerge in the supply chain context. For practitioners such as firm managers, supply chain managers and relationship

managers, this framework assists in anticipating the forms of opportunism that are likely to occur in supply chain relationships and thus, to control it.

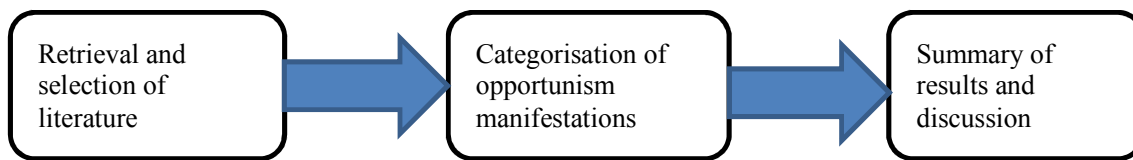
There are four limitations to our framework, all of which present opportunities for future research. First, because the framework has not been tested empirically, it requires further research to ratify and refine the categorisations. Second, the conditions under which the manifestations of opportunism in the different categories occur have not been taken into consideration leaving it open to future studies to focus on the conditions under which specific forms of opportunism occur in supply chains. Third, the manifestations provided are not exhaustive and so are open to the inclusion of additional forms of opportunism. Finally, the framework has not specified which parties in the supply chain are responsible for engaging in the various forms of opportunism. This is important because a specific behaviour is understood well when its manifestations, areas of manifestations and person responsible for undertaking it are clarified. Therefore a potential study area is the inclusion of parties responsible for respective opportunistic manifestations.

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Figure 1: Opportunism Categorisation Framework Development Process



Source: adapted from Mugurusi & de Boer (2013)

Table 1: Categorising the Manifestations of Opportunism

Opportunism Category	Identify opportunism forms and placing them in the various categories
Product based opportunism	<ol style="list-style-type: none"> 1. Providing products that are of inferior quality than originally agreed upon 2. Misrepresenting or exaggerating product performance and warranties in order to obtain customer's order (Karunaratna & Johnson, 2000) 3. Making false claims that lower quality was supplied to gain concessions from the exporter (Karunaratna & Johnson, 2000) 4. Inflating orders with full knowledge that exchange partners are unable to fulfil them (Karunaratna & Johnson, 2000) 5. Deliberately or inadvertently delaying the submission of an order to the exporter (Karunaratna & Johnson, 2000) 6. Exaggeration of delivery schedules by FCI to obtain customer orders (Karunaratna & Johnson, 2000) 7. Blaming exporters for lack of performance such as delays leading to losses (Karunaratna & Johnson, 2000)
Information based opportunism	<ol style="list-style-type: none"> 1. Withholding information (John, 1984) 2. Distorting information (John, 1984) 3. Strategic manipulation of information (Williamson, 1975) 4. Divulging information to a potential competitors or persons who should not have the information (Karunaratna & Johnson, 2000) 5. Misrepresenting one's abilities (Deeds & Hill, 1998) 6. Sales people exaggerating expenditure reports (Philips, 1982) 7. Dishonesty comes into play when one party to an exchange possesses information about a transaction that could significantly alter the other party's assessment of the outcome, and such information is concealed, misrepresented or not contributed (Griesinger, 1990) 8. Masking information (Dwyer & Oh, 1987) 9. Overstatement of difficulties (Dahlstrom & Boyle, 1994; Dwyer & Oh, 1987) 10. Data falsification (Dwyer & Oh, 1987) 11. Exaggerated claims (Dwyer & Oh, 1987) 12. Exaggerated needs to get what is needed (Gundlach, Achrol, & Mentzer, 1995) 13. Not being sincere (Gundlach et al., 1995) 14. Altering facts to get what is needed (Anderson, 1988; Dahlstrom & Boyle, 1994; Gundlach et al., 1995; Provan & Skinner, 1989) 15. Presenting facts in such a way that things look good (Anderson, 1988) 16. Exaggeration of needs to get what is desired (Anderson, 1988; Provan & Skinner, 1989) 17. Distortion of information to protect interests (Anderson, 1988) 18. Lying to protect interests (Provan & Skinner, 1989) 19. Altering facts slightly (Morgan & Hunt, 1994) 20. Altering information (Dahlstrom & Boyle, 1994)
Financial based	<ol style="list-style-type: none"> 1. Charging a higher or lower price than agreed upon as per the agreement (Karunaratna & Johnson, 2000)

opportunism	<ol style="list-style-type: none"> 2. Withholding payment beyond the agreed upon period (Karunaratna & Johnson, 2000) 3. Stealing and cheating (Williamson, 1985)
Governance based opportunism	<ol style="list-style-type: none"> 1. Reluctance of members to fulfil commitments to partners in cooperative arrangements (Gassenheimer, Baucus, & Baucus, 1996) 2. Non – adherence to explicit and implicit controls governing the relationship (Dutta & Weiss, 1997; Weaver & Dickson, 1998) 3. Abandoning to the advantage of the instigator but without provision or remedy for the other party (Griesinger, 1990) 4. Shirking or failing to fulfil promises or obligations (John, 1984) 5. Retailers receiving a priori allowance for displaying promotional materials without following through on the original agreement (Murry & Heide, 1998) 6. Incurring liability on behalf of exchange partners without their consent (Karunaratna & Johnson, 2000) 7. Business partners insisting on using laws that benefit then and not other exchange partners (Karunaratna & Johnson, 2000) 8. Representing business partners to customers before any agreement has been finalised between the parties or continuing doing so after a contract has been formally terminated or beyond the expiry date of the agreement (Karunaratna & Johnson, 2000) 9. Franchisees failing to follow the system’s established quality procedures (Hadfield, 1990) 10. Reducing selling effort in favour of more rewarding products (Karunaratna & Johnson, 2000) 11. Using a trade name or trade mark other than that of business partners which benefits one firm but not the entire supply chain (Karunaratna & Johnson, 2000) 12. “expropriation of tacit technological knowledge” (Dutta & Weiss, 1997) 13. Compliance only in the face of audit (Dahlstrom & Boyle, 1994; Dwyer & Oh, 1987) 14. Empty promises (Dwyer & Oh, 1987) 15. Neglected obligations (Dwyer & Oh, 1987) 16. Perfunctory role performance (Dwyer & Oh, 1987) 17. Promising things and not doing (Anderson, 1988; Cavusgil, Deligonul, & Zhang, 2004; Dahlstrom & Boyle, 1994; Morgan & Hunt, 1994; Provan & Skinner, 1989) 8. Ignoring some parts of the contract (Cavusgil et al., 2004) 9. Interpreting contractual terms to ones favour (Cavusgil et al., 2004) 10. Coercion to get what is desired (Cavusgil et al., 2004) 11. Violation of contractual terms (Cavusgil et al., 2004) 12. Avoiding obligations (Dahlstrom & Boyle, 1994) 13. Shirking responsibilities (Dahlstrom & Boyle, 1994) 14. Avoiding contractual obligations when it profits to do so (Dahlstrom & Boyle, 1994) 15. Breaching agreements to ones benefit (Gundlach et al., 1995; Johnson, Cullen, & Sakano, 1996; Li & Ng, 2002) 16. Manipulation (Paswan, 2009)

Table 2: Framework of Supply Chain Opportunism Categories and Manifestations

Opportunism category	Manifestations of opportunism
Product based opportunism	<ol style="list-style-type: none"> 1. Misrepresenting or exaggerating <ol style="list-style-type: none"> a. Product performance b. Warranties and guarantees c. Delivery abilities and schedules d. Product quality 2. Presenting products of a quality that is inferior compared to what was agreed upon 3. Distortion of orders if there are benefits to be realised 4. Giving unfair warranties or guarantee terms and conditions 5. Deliberate delays in processing orders to making deliveries if there are benefits to be realised 6. Making mistakes during product specification or ordering and blaming the seller or other parties 7. Abusing warranties and guarantees
Information based opportunism	<ol style="list-style-type: none"> 1. Misrepresentation or altering of information to <ol style="list-style-type: none"> a. make a situation good (deception) b. make a firm or individual look good or capable (deception) c. protect interests d. get what is desired e. confuse business partners f. persuade exchange partners 2. Concealing relevant information 3. Sharing information with unauthorised parties
Financial based opportunism	<ol style="list-style-type: none"> 1. Delaying payment beyond the stipulated time 2. Refusing to make payments for deliveries that have been made 3. Failing to payment conditions 4. Exploiting loopholes in payment conditions if there is a benefit 5. Giving unfair credit terms knowingly 6. Price distortion in order to realise benefits
Governance based opportunism	<ol style="list-style-type: none"> 1. Breaching transaction agreements 2. Coercion and manipulation 3. Interpreting agreements to one's favour 4. Compliance only when supervised 5. Promising to do things and not doing them 6. Promising to do things well knowing that they will not be done 7. Exploiting loopholes in agreements to one's favour 8. Ignoring parts of an agreement if there are benefits to doing so