



Are information asymmetry and sharing good, bad, or context dependent? A meta-analytic review



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ABSTRACT

Information is often distributed asymmetrically in exchange relationships, opening the door for opportunistic behaviors. Yet extant research has found that information asymmetry may decrease opportunism and increase performance in some contexts. Also contrary to expectations, information sharing has been found to decrease performance in some contexts. This study uses meta-analytic techniques to reconcile these contradictory findings. The results indicate that organizational setting, product type, market type, relationship duration, and construct operationalization can account for the inconsistent findings reported in extant research. Of particular interest: 1) information asymmetry is related negatively to performance in goods settings and positively to performance in services settings; 2) information asymmetry produces stronger deleterious effects in interorganizational (versus intraorganizational) settings; 3) information sharing generates stronger favorable effects in consumer (versus industrial) markets; and 4) the negative relationship between information sharing and opportunism is weaker in relationships that are 6+ years old.

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1. Introduction

Information is the life-blood of business-to-business (B2B) exchange relationships. Industrial distributors rely on their suppliers for critical intelligence about overall demand and the competitive and regulatory environments, as well as information about products and services being supplied. Similarly, industrial suppliers need information from their distributors about local market conditions and end consumers. Without sharing these types of information, supplier–distributor relationships are not likely to achieve the efficiencies and effectiveness possible from a more coordinated effort (Frazier, Maltz, Antia, & Rindfleisch, 2009; Jia, Cai, & Xu, 2014; Kumar & Pugazhendhi, 2012; Mohr, Fisher, & Nevin, 1996).

Two key aspects of information in B2B relationships are: (1) the extent of information sharing (Chang & Huang, 2012; Heide & John, 1992; Sarmento, Simões, & Farhangmehr, 2015), and (2) the extent of information asymmetry (Heide, 2003; Steinle, Schiele, & Ernst, 2014; Yan & Pei, 2011). We define information sharing as the proactive exchange of timely, useful information between exchange partners (Anderson & Narus, 1984; Heide & John, 1992). The stronger the norm of information sharing, the more likely that B2B buyers and suppliers will freely share needed information with each other (Joshi, 2009). The second aspect of information in B2B relationships is information asymmetry. Information

asymmetry occurs when one party is more informed about some aspects of the exchange (Heide, 2003).

Information asymmetry may be exploited by the supplier and/or the buyer. On the one hand, the supplier may make false claims about its skills or the quality of its offering (Mishra, Heide, & Cort, 1998). On the other hand, the buyer may misrepresent market conditions (e.g., increased competition, decreased demand) to cover up its shirking of agreed upon duties (Crosno & Brown, 2015). In other words, information asymmetry between parties opens the door for opportunism, or “self-interest seeking with guile” (Williamson, 1985, p. 47). The potential for opportunism increases transaction costs and, ultimately, diminishes performance (Kabadayi, 2011). B2B relationships characterized by strong norms of information sharing, however, should experience less information asymmetry and, therefore, less potential for opportunistic behavior.

Yet, contrary to expectations, empirical research has reported a positive relationship between information asymmetry and performance, trust, and satisfaction (Gaine & Klaas, 2003; Nayyar, 1993). Williamson (1993) argues that trust is implied when one party agrees to an exchange with another party under conditions of information asymmetry; otherwise, they would not cooperate with one another. Hence, trust, performance, and satisfaction may flourish under conditions of information asymmetry in some contexts. Also contrary to expectations, research has also found a negative relationship between information sharing and performance (e.g., Deeds & Hill, 1999). This finding is indicative of the potential dark side of close relationships (Anderson & Jap, 2005), wherein exchange

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partners may systematically exploit one another based on the information shared. In sum, extant empirical research suggests that the effects of information asymmetry and sharing are not as straightforward as suggested by theory.

We contribute to the literature on information in B2B exchange relationships in three key ways. First, we inventory the research on information asymmetry and information sharing in B2B exchange relationships to understand what is and is not known about these areas. Second, we derive empirical generalizations about information asymmetry and information sharing through a meta-analysis of the relevant literature. Third, we conduct moderator analysis in an attempt to reconcile the contradictory findings reported in extant research and to identify the theoretical boundaries of these constructs. We aim to answer the following research questions with this analysis: Under which contexts is information asymmetry more/less deleterious to exchange relationships? Under what contexts is information sharing more/less beneficial to exchange relationships?

Our results demonstrate that information asymmetry generally yields undesirable outcomes and information sharing generates favorable outcomes. Yet organizational setting, product type, market type, relationship duration, and construct operationalization moderate some of the information asymmetry–outcome relationships and information sharing–outcome relationships significantly. Information asymmetry, for example, is related negatively to performance in the exchange of goods and related positively to performance in the exchange of services. As another example, information sharing generates stronger favorable effects in consumer markets than industrial markets. Hence, the effects of information asymmetry and information sharing are context dependent, and our results identify some of the contexts in which these effects vary.

The paper is organized as follows: first, we review the relevant literature and develop hypotheses. Next, the meta-analytic procedures are discussed, including the literature search and methodology. Then the results of our study are presented. We conclude with a discussion of the theoretical and practical implications and directions for future research.

2. Background and hypotheses

2.1. Information asymmetry and sharing defined

Information asymmetry arises when one party is better informed about some aspects of the exchange (Heide, 2003). Suppliers, as mentioned, usually possess more information about the product or service being supplied. Buyers, therefore, may be unable to evaluate product quality accurately prior to purchase (Mishra et al., 1998). The supplier may share proprietary product information with the buyer to reduce information asymmetry in the relationship. It is important to note, however, that information asymmetry and sharing are distinct constructs; information sharing could be high yet information asymmetry can still exist (Mishra et al., 1998).

Information sharing is the proactive exchange of timely, useful information between exchange partners (Anderson & Narus, 1984; Heide & John, 1992). This includes information about “end-user needs and preferences, market structures and acquisitions, technologies of products, strategies and finances of partners, and unexpected problems” (cf. Cheung, Myers, & Mentzer, 2011, p. 1065). Continuing with the example above, the supplier may be better informed about the product offering. Although the supplier proactively shares extensive information with the buyer in other areas (e.g., technologies, strategies, finances, unexpected problems), it may choose not to share proprietary product information with the buyer. Due to its selective sharing of information, the supplier is better informed about some aspects of the exchange.

Moreover, the supplier could even share misleading information¹ about the product offering. In doing so, the supplier is increasing information sharing with the buyer while still maintaining information asymmetry (as the supplier is more informed about the true nature of the product offering). Conversely, low information asymmetry need not be associated with high information sharing. Low information asymmetry may simply be a result of high task programmability and/or low environmental uncertainty (Eisenhardt, 1989; Pavlou, Liang, & Xue, 2007). Given this, it is important to examine both constructs separately to garner a better understanding of the effects of information in exchange relationships.

2.2. Information asymmetry

Both transaction cost economics (TCE) and agency theory view information asymmetry between exchange partners as problematic (see Table 1 for a summary of key empirical articles on information asymmetry and sharing). In TCE, information asymmetry arises when a firm has difficulty assessing the performance of its exchange partner or predicting the market environment (i.e., behavioral uncertainty and environmental uncertainty, respectively) (Frenzen, Hansen, Krafft, Mantrala, & Schmidt, 2010; Rindfleisch & Heide, 1997). When a firm is less informed about some relevant aspect(s) of the exchange than its exchange partner, the firm is less capable of detecting the opportunistic behaviors of its partner (Jap, Robertson, Rindfleisch, & Hamilton, 2013). Information asymmetry, therefore, opens the door for opportunism (Williamson, 1981). To minimize this guileful, self-interest seeking behavior, the supplier must invest in monitoring and control mechanisms (Crosno & Brown, 2015), which increase transaction costs and consequently decrease performance (Rindfleisch & Heide, 1997; Williamson, 1981).

Similarly to TCE, agency theory suggests that information asymmetry can lead to adverse selection and moral hazard problems where agents may misrepresent their abilities or withhold agreed-upon efforts, respectively (Bergen, Dutta, & Walker, 1992; Frenzen et al., 2010). Firms may also have difficulty designing an effective performance evaluation system when they are less informed about some aspects of the exchange than their exchange partners (e.g., when the task programmability of the activities and/or the observability of the output are low) (Eisenhardt, 1989; Kworntnik, Lynn, & Ross, 2009). As a consequence, the firm is less capable of aligning the exchange partner's interests to the firm's interests. When the interests of the exchange partner and the firm are not well aligned, the firm's performance will suffer (Anderson & Dekker, 2005; Bercovitz, Jap, & Nickerson, 2006).

While TCE and agency theory focus primarily on economic outcomes, the relationship between information asymmetry and relational outcomes, such as trust, commitment, and satisfaction, are not as well established. Research suggests that information asymmetry may trigger a spiral of suspicion, making it difficult to develop trust, commitment, and satisfaction in a relationship (Anderson & Jap, 2005). Trust is defined as one's “willingness to rely on an exchange partner in whom one has confidence” (Moorman, Deshpande, & Zaltman, 1993, p. 83) and commitment is the belief that one will put forth maximum effort to maintain the exchange relationship (Morgan & Hunt, 1994). Satisfaction is a positive affective state based on the assessment of all aspects in the exchange relationship (Anderson & Narus, 1984). When a firm cannot easily observe the exchange partner's performance, the firm may

¹ As noted by Bergen et al. (1992): “Unfortunately, an agent who realizes he or she does not have the characteristics a principal is looking for may nevertheless find it in his or her self-interest to send the principal false signals indicating that he or she is the type of agent the principal desires.” In other words, the agent may share false or misleading information to secure a contract. The principal is at an information disadvantage as the agent is more informed about the true nature of its skills and capabilities. Agents may continue to share distorted information throughout the duration of the relationship (Williamson, 1985). Under these circumstances, information sharing is facilitating information asymmetry rather than quelling it.

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