Supressing partner opportunism in emerging markets: Contextualizing institutional forces in supply chain management

Defeng Yang\textsuperscript{a}, Shabin Sheng\textsuperscript{b}, Shulong Wu\textsuperscript{c},\textsuperscript{x}, Kevin Zheng Zhou\textsuperscript{d}

\textsuperscript{a} School of Management, Jinan University, Guangzhou 510652, China
\textsuperscript{b} Collat School of Business, University of Alabama at Birmingham, Birmingham, AL 35294, United States
\textsuperscript{c} School of Management and Economics, Beijing Institute of Technology, Beijing, China
\textsuperscript{d} Faculty of Business and Economics, The University of Hong Kong, Hong Kong

\textbf{ARTICLE INFO}

Keywords:
Transaction cost economics
Institutional theory
Exchange hazards
Legal enforceability
Guanxi importance
Opportunism

\textbf{ABSTRACT}

Drawing on the literature of supply chain opportunism and institutional theory, this study examines the confluence of institutional and efficiency views to assess how institutional forces restrain the impact of exchange hazards (i.e., transaction-specific assets and performance ambiguity) on supply chain opportunism. We predict that legal enforceability and guanxi importance mitigate supply chain opportunism, but their interaction does not necessarily help to curb opportunism. In addition, we propose that legal enforceability and guanxi importance have differential moderating effects on the relationships between exchange hazards and opportunism. The empirical analyses of a dyadic buyer-supplier dataset in China confirm the predicted direct and interactive effects of the institutional forces. In addition, the positive impact of transaction-specific assets on opportunism is attenuated by legal enforceability but not by guanxi importance, whereas the effect of performance ambiguity decreases due to guanxi importance but not legal enforceability.

\section{1. Introduction}

Opportunism is a central issue in supply chain management, especially in emerging markets, in which more research is needed to understand how firms manage and control opportunism (Zhou, Su, Yeung, & Viswanathan, 2016). The supply chain management literature has examined the antecedents (Handley & Benton, 2012; Morgan, Kaleka, & Gooner, 2007), performance consequences (Morgan et al., 2007), and governance mechanisms to curtail opportunism (Cao & Lumineau, 2015; Wang, Zhang, Wang, & Sheng, 2016). Because institutions regulate transaction rules and coordinate exchange behaviors (Cao & Lumineau, 2015; North, 2005; Peng, 2003; Zhou et al., 2016), accounting for institutions is critical when examining how to curtail partner opportunism in emerging markets. However, most prior studies of supply chain management, while recognizing the importance of institutions, have not explicitly examined their roles, leading to Zhou et al.'s (2016) call for more research to contextualize institutional factors within model development.

Using efficiency-based perspectives, such as transaction cost economics (TCE), prior studies have identified various mechanisms that constrain opportunism in supply chains (Liu, Luo, & Liu, 2009; Lumineau & Henderson, 2012). Because supply chain relationships are embedded in the larger social context, firms must establish social fitness and maintain institutional legitimacy (Rogers, Purdy, Safayeni, & Duimering, 2007); i.e., firm behavior should be “desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions” (Suchman, 1995, p. 574). Opportunistic behaviors represent responses to alluring short-term efficiency considerations in conditions of bounded rationality (Rogers et al., 2007; Williamson, 1985), but organizational survival depends on the firm’s alignment with institutional environments through legitimating processes (DiMaggio & Powell, 1983; Scott, 1995). Additionally, the transaction costs associated with economic exchanges and sociopolitical activities reflect institutional impacts, especially in emerging economies in which market-supporting institutions tend to be unstable and underdeveloped (North, 2005; Wang, Zhang, et al., 2016). Therefore, it is warranted to examine how institutional environments shape supply chain opportunism in emerging markets (Zhou et al., 2016).

Moreover, although opportunistic behaviors can occur in any circumstances, defining their origins is necessary because their origins determine the potential constraints on opportunistic behaviors (Williamson, 1985), and supply chain governance misalignment can lead to inferior performance (Gray & Handley, 2015). The sources underlying vulnerability to opportunistic behaviors vary across exchange
hazards (Williamson, 1985), and different institutional forces have distinct enforcement mechanisms (North, 1990). Therefore, it is important to understand the interplay between institutional forces and exchange hazards in suppressing opportunism. However, the paucity of institutional research in the supply chain management literature has left unclear how legitimacy-based institutional compliance interacts with efficiency-based exchange factors (Bai, Sheng, & Li, 2016; Rogers et al., 2007; Yang, Su, & Fam, 2012).

We build on the literature on supply chain opportunism and institutional theory to model the confluence of exchange hazards and institutional forces and their effects on partner opportunism in buyer-supplier exchanges in China. We consider two focal exchange hazards: transaction-specific assets (TSAs) and performance ambiguity (Williamson, 1985). Whereas TSAs create safeguarding issues and increase the level of tolerance for opportunism, performance ambiguity incurs measuring and monitoring costs and “increases the difficulty of detecting opportunism” (Wathne & Heide, 2000, p. 43). In addition, we examine the effects of formal and informal institutional forces, manifested as legal enforceability and guanxi importance, respectively. We suggest that supply chain opportunism is attenuated by legal enforceability and guanxi importance, whereas these two institutional factors function as substitutes in curbing opportunism. In addition, the positive association between TSAs and a recipient’s opportunism is attenuated by legal enforceability but not by guanxi importance, whereas the positive relationship between performance ambiguity and opportunism is diminished by guanxi importance but not by legal enforceability.

China serves as a suitable context for our research because it has heterogeneous institutional environments across sub-national regions due to uneven economic development and institutional transition (Cai, Jun, & Yang, 2010; Dong, Ju, & Fang, 2016; Sheng, Zhou, & Li, 2011). Although China has a centralized legal system, local government officials and courts differ in their interpretations and implementation of laws and regulations set by the higher hierarchical body, leading to varying levels of legal enforcement (Cai et al., 2010; Shou, Zheng, & Zhu, 2016). In reality, developed countries demonstrate regional variations in the quality of their legal systems as well. For example, the legal system in Italy demonstrates significant heterogeneity across its 20 regions (Lanzolla & Frankort, 2016).

Guanxi refers to the informal, personal relationships that managers use to coordinate business activities throughout China (Cai et al., 2010; Child, Chung, & Davies, 2003). We consider the role of guanxi importance, which is defined as the extent to which guanxi is critical in business operations and determines firm performance and survival in the business environment (Cai et al., 2010; Child et al., 2003; Wang, Li, & Chang, 2016). Guanxi importance reflects the macro-environment in which firms operate; it is conceptually different from guanxi itself, which is a firm’s micro-level governance mode. Whereas the use of guanxi networks is pervasive in China in general, the level of guanxi importance still demonstrates salient regional divergence due to historical traditions and cultural variations (Wang, Li, & Chang, 2016). Additionally, China has experienced substantially uneven regional economic development since the 1980s, causing regional differences in social values, including the importance of guanxi networks (Cai et al., 2010).

Our study makes several important contributions to the supply chain management literature. First, we extend previous efficiency-based perspectives on opportunism by adopting an institutional view and examining how institutional forces directly influence supply chain partner opportunism. Institutions are the primary determinants of the size and structure of transaction costs; accordingly, our study complements the efficiency-based TCE perspective with a legitimacy-based institutional view (Bai et al., 2016; Cai et al., 2016; Dong et al., 2016; Wang, Zhang, et al., 2016). Second, we examine the differential roles of institutional forces in suppressing opportunism due to different exchange hazards, enriching our understanding of the most effective alignments between institutional factors and sources of vulnerability (Gray & Handley, 2015; Handley & Benton, 2012). Third, our study extends the prior supply chain literature to emerging markets, responding to the recent call for explicit modeling of institutional factors in supply chain management (Zhou et al., 2016).