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# Antecedents of buyer opportunistic behavior in outsourcing relationships

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ABSTRACT

Parties acting opportunistically are a major concern in many buyer–supplier relationships, especially in strategic outsourcing arrangements. The extant literature has focused mainly on opportunistic behavior of suppliers and the safeguards that buyers need to put in place to protect their interests. Buyers can also act opportunistically; however, this side of the dyadic relationship has not received adequate attention and remains an under researched area. We address this imbalance by establishing the antecedents of buyer opportunism and strategies to manage this. Based on the transaction cost economics theory, we tested a model consisting of three factors that could give rise to buyer opportunism with dyadic data from 51 outsourcing arrangements between firms in Australia. Our results indicate that only one predictor, frequency of exchange, had a significant and positive effect on buyer opportunism. The other two factors, investments made by suppliers and uncertainty, were not significant. These findings show that, in contrast to what has been found previously for suppliers, only one factor gives rise to buyer opportunism. The results suggest that buyers' opportunism can be controlled by the frequency of transactions that takes place. Implications for theory and practice in outsourcing relationships are presented.



## 1. Introduction

Recent evidence shows that buyer–supplier collaborative relationships where buyers can select suitable suppliers and use their capabilities as resources results in partners generating stronger win–win outcomes (Koufteros et al., 2012; Yeung et al., 2013; Roden and Lawson, 2014). Mazzola and Perrone (2013) note that not only does suitable supplier selection help collaborative relationships to flourish between firms such as GM and Peugeot, NEC and Lenovo, and IBM/Samsung and Chartered Semiconductor, it helps both parties achieve stronger market position and bigger customer base by pooling each other's resources and knowledge. Among different types of buyer–supplier relationships, outsourcing is a special type that too needs careful supplier selection and integration to promote mutual commitment and resource sharing in the arrangements. Since, organizations increasingly outsource strategically important functions, collaboration between parties is vital for the success of these types of arrangements (Balakrishnan et al., 2008; Raassens et al., 2012). However, outsourcing is not without its problems, with many such arrangements failing or needing substantial changes to make them effective (Beaumont and Costa, 2002; Young, 2008; Sambasivan et al., 2013).

Opportunistic behavior by either party is an important reason why many outsourcing arrangements enter into difficulties or even fail (Lim and Tan, 2010, Raassens et al., 2012). Defined as "self-interest seeking with guile" (Williamson, 1975: 6) and characterized by behaviors that could generally be regarded as deceitful or unethical, opportunistic behavior is regarded as a substantial risk to the parties involved (Chikán, 2001). It is generally assumed that the risk of opportunistic behavior is greater for buyers since they outsource their in-house functions, and efforts should be made to minimize this risk to them (Nyaga et al., 2010). There is some truth to this, since suppliers sometimes shirk their responsibilities (Aron et al., 2005, Pavlou et al., 2007). However, some buyers also act opportunistically by unilaterally increasing the scope of work, forcing suppliers to reduce prices, playing some suppliers against others, having unclear expectations, and making frequent demand changes (Michell and Fitzgerald, 1997; Hussey and Jenster, 2003; Nagendra, 2013). It has been shown that the risks associated with buyers' opportunism are high, and through a "cycle of negativity", it

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hampers the productivity of both parties in the long run (McHugh et al., 2003:17).

While much is known about the factors that give rise to opportunistic behavior of suppliers, relatively little emphasis has been given to this form of behavior in buyers (Devos et al., 2008; Hawkins et al., 2013). The few studies where this perspective has been taken point to some important gaps that need to be addressed. The first issue is that while it would appear that buyers' opportunism is quite frequent and blatant, it is frequently not revealed due to lack of information and under reporting by suppliers (Niesten and Jolink, 2012). Secondly, the specific nature of the opportunism that buyers and suppliers face can be different (Devos et al., 2008, De Vita et al., 2010; Hawkins et al., 2013). Hence, it is necessary to take the supplier or buyer context into account when considering how opportunism arises in relationships. A third issue is the few academic studies that have focused on buyer opportunism are mostly in the form of case studies (Aubert et al., 2003; Rosetti and Choi, 2005; Devos et al., 2008). These studies generally reinforce the view that there are some idiosyncratic aspects to buyer opportunism, and that these could be better explored through larger empirical studies. A final issue is that much of the knowledge relating to opportunism and how to deal with it are mostly informed from the buyers' perspective (Wathne and Heide, 2000; Lado et al., 2008). For instance, careful selection criteria and allocation of incentives could deter suppliers from behaving opportunistically. But how these could be useful in reducing buyers' opportunism is not clear. Hence, to provide detailed knowledge about how buyers in outsourcing arrangements themselves induce opportunism in the relationship, and strategies can be put in place to prevent their emergence, we ask the question: How does buyer opportunism arise?

We address this question through the lens of Transaction Cost Economics (TCE) theory. Initially proposed by Coase (1937) and refined over time by Williamson (1975), (2008); Williamson and Ghani, (2012), TCE suggests that the reason a party to an exchange relationship would act opportunistically is because of the three main features of the relationship itself: asset specificity, uncertainty, and frequency of exchanges (Macher and Richman, 2008; González-Benito et al., 2010; Alaghehband et al., 2011). In this study, we specifically use the above three factors to explore the extent to which they give rise to buyer opportunism because these are the core antecedents under TCE. In applying this theory, we are cognizant of the emerging evidence that opportunistic behavior is asymmetrically present in both parties.

In this paper, the influence of the three TCE based antecedents was tested using dyadic data from 51 randomly selected outsourcing arrangements that organizations in Australia have entered into. The dyadic data involved obtaining information from both suppliers and buyers to each outsourcing arrangement studied. This enabled us to take a neutral perspective, instead of taking the buyer's or supplier's viewpoint.

This study makes a number of important contributions to our understanding of opportunism in outsourcing arrangements in particular and buyer–supplier relationships by extension. First, we address the imbalance in the emerging knowledge of how opportunistic behavior arises within parties by focusing on buyers, given that the extant literature is focused more on this behavior of suppliers. Second, we aim to extend the scope of TCE logic by explaining how self-induced opportunism is developed in inter-organizational relationships. Third, by using matched buyer–supplier dyadic pairs, a study design that is not all that common in the literature (Dibbern et al., 2008; Yadav and Gupta, 2008) for data collection, we hope that our findings will have greater credibility. Finally, we contribute to practices related to outsourcing by providing prescriptive recommendations as to how outsourcing arrangements should be designed and managed in order to keep opportunistic behavior of buyers in check.

This paper is organized as follows: the next section identifies the key antecedents and proposes a model in which the antecedents are linked to opportunism of buyers. This is followed by a description of the research method that was employed to collect empirical data in order to test the model. The results of the study are then presented. The paper concludes with a discussion of the key findings of the study and elaboration of the implications of our findings to theory and practice.

## 2. Literature review

### 2.1. Opportunistic behavior in outsourcing arrangements

Research interest has mirrored the growth in outsourcing-related practices and problems associated with it. Table 1 provides summaries of a sample of studies that have focused on the issue of opportunism in outsourcing arrangements. This table supports the view that opportunism is a ‘multifaceted and multiplex concept' (Lado et al., 2008: 406). A variety of research designs in different contextual settings confirm that opportunism is a problem in outsourcing arrangements that manifests in different ways. Furthermore, a variety of antecedents have been identified.

Empirical research shows that the actual form and types of opportunism exercised by the parties are different. Examples of buyers' opportunistic behavior are withholding information about bidding prices to receive lower bids, forcing suppliers to provide additional services without due compensation, misrepresentation of information ex-ante to take advantage ex-post, exploiting their powerful position through ‘carrot and stick' policies, and spreading negative information about suppliers (Lihui et al., 2005; Dawson et al., 2010; Beatty et al., 2012). On the other hand, suppliers can act opportunistically by shirking their responsibilities, under-delivering on their promises, and taking advantage of the dependence that develops (Aron et al., 2005; Pavlou et al., 2007). Therefore, there is a qualitative difference in the nature of opportunism that is exercised by the two parties to an outsourcing arrangement.

Compounding this issue is the actions and reactions of the parties. In many cases, suppliers cannot terminate the contract, disclose buyers' behavior publicly or impose tougher penalties on relatively powerful buyers, for fear of losing reputation or a substantial contract (Rosetti and Choi, 2005). Hence, buyer opportunism remains largely hidden from the public. This is also suggested by Williamson (1993:100): “opportunism is more often suppressed unknowingly or selectively and that, once done, the ramifications are rarely assessed”. On the other hand, if suppliers misrepresent their capabilities, buyers can easily disclose these behaviors publicly because they generally do not have the fears that suppliers have of losing the business. The cost to buyers are associated with finding another supplier, or re-shifting the boundaries of their organizations by bringing the function within the organization (Handley and Benton Jr, 2012).

These important differences in the nature of buyer and supplier opportunism and the actions that these parties take have not generally been taken into account in much of the theoretical research to date, despite attempts to provide some conceptual clarity and recognizing it as a future research area (Rosetti and Choi, 2005; Devos et al., 2008; Handley and Benton Jr, 2012). Meta-analytic studies show that there is a strong focus on opportunistic behavior of suppliers and the actions that buyers take to protect their interests (Dibbern et al., 2004; Devos et al., 2008; Lacity et al., 2011). In the few studies, as explained above, that have focused on buyers' opportunism, it has been assumed that the causes, consequences and management of opportunism applicable to one party would be similarly applicable to the other. The extant literature does not show the subtlety, specifi;city and fine-grained nuance that are required to

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