

# **Opportunism and Monitoring in Intrafirm and Interfirm Partnerships - A Behavioural Perspective**

## **Introduction**

Productive intrafirm and interfirm partnerships are fundamental for firms (Gulati 1998). Yet, the risk of a partner's opportunism—a key behavioral assumption of transaction cost theory (TCT)—remains a major threat to the effective management of such relationships between two parties (Wathne & Heide 2000). In an intrafirm or interfirm partnership, the occurrence of opportunism by one party has detrimental consequences and spillover costs for the other, as well as for the relationship itself. Given the corrosive consequences of opportunism in partnerships, it is important that scholars and practitioners fully understand factors that promote or constrain such behavior.

Over the past three decades, a large number of scholarly contributions have devoted attention to identifying the antecedents and conditions that unleash opportunism in exchange partnerships (e.g. Heide et al., 2007; Handley et al., 2015; Lado et al., 2008; Barthélemy, 2008). The TCT literature considers monitoring to be a key governance mechanism which, despite imposing its own transaction costs, is commonly practiced by firms to curb opportunism and mitigate associated risks. Yet, a more psychological view of the transaction would take into account the interaction between an exchange partner's management team and the exchange environment it finds itself appraising. The transactional theory of stress (Lazarus *et al.*, 1984) maintains that stress resulting from job demands imposed by the exchange partner can incur unintended negative behavioral consequences, such as opportunism (Dong, Seo, & Bartol, 2014; Lazarus & Folkman, 1984; Miao & Wang, 2017). We therefore posit that transactional stress theory can also inform on how to distinguish opportunists from non-opportunists. To this end, we conducted studies in two different exchange contexts: MNC headquarters–subsidiary and cross-border buyer–supplier partnerships.

Our study makes two important contributions to knowledge. First, in contrast to the thrust of prior research on TCT-linked governance drivers of opportunism in partnerships, we

draw from the transactional theory of stress (Lazarus & Folkman, 1984) to introduce the antecedent role of challenge and hindrance stressors. We investigate how these types of stressors differentially impact subsidiaries'/ suppliers' opportunistic behavior in exchange partnerships. Straightforwardly, hindrance stressors drive opportunism. But while the existing literature has at times advocated a *the more, the better* philosophy, with regard to challenge stressors (e.g. Pearsall *et al.*, 2009; Rodell *et al.*, 2009), we propose and empirically demonstrate a U-shaped link between challenge stressors and opportunism in both intrafirm and interfirm partnerships. Although moderate levels of challenge are beneficial, there is a tipping point beyond which the level of challenge would be viewed as insurmountable.

Second, we extend previous TCT research on the contextual relevance of monitoring (e.g. Heide *et al.*, 2007) by showing that monitoring's influence on the partner's reactions (e.g. engaging in opportunistic behavior or otherwise) in coping with stressful conditions depends on the exchange context (i.e. intrafirm or interfirm) within which it is deployed. We observe that while the MNC headquarters' monitoring of its subsidiary is linked to a steeper U-shaped relationship between challenge stressors and opportunism, the buyer's monitoring is a more appropriate means of policing its supplier's opportunistic exploitation of hindrance stressors.

### **Theory and proposed model**

Because of the potential for opportunism in partnerships, transaction cost scholars (e.g. Heide, Wathne, & Rokkan, 2007; Poppo & Zenger, 2002) have asserted that monitoring procedures of some form are required to evaluate the extent to which a partner complies with obligations. In interfirm partnerships, it is standard practice to specify obligations contractually, whereas in intrafirm partnerships ownership precludes the need for governance via a legally enforceable agreement (Dunning, 1988). The issue of partner compliance is manifest in remote, cross-border transactions, irrespective of whether they are internal or external.

Therefore, in line with TCT, we propose that: (1) headquarters/ buyers use monitoring to collect information about subsidiaries/ suppliers in order to reduce information asymmetry and limit the likelihood of their opportunistic behaviors (O'Donnell, 2000; Short, Toffel, & Hugill, 2016); and (2) the nature of monitoring varies across these exchange contexts. Monitoring within the intrafirm context is defined as a governance process based on the review of information collected by headquarters regarding the subsidiary's actions and outcomes (O'Donnell, 2000). For interfirm partnerships in the external supply chain, monitoring refers to a governance process enacted by the buyer firm to evaluate the supplier's compliance with actions and outcomes stipulated in the contract (Daniel C. Bello, Constantine S. Katsikeas, & Robson, 2010).

While TCT seeks to explain opportunistic behavior and the relevance of monitoring as a viable solution to such behavioral deviances, the transactional theory of stress explicates how job demands can provoke opportunism. The transactional theory of stress holds that teams react to stresses, triggered by job demands, according to whether they perceive such demands as harmful, threatening, or an opportunity for personal development (Lazarus & Folkman, 1984). Further, the transactional theory of stress categorizes job demands into two types—challenge and hindrance stressors—that are associated with different behavioral outcomes (Cavanaugh *et al.*, 2000). Challenge stressors concern work role-related demands that, while stressful and pressure-laden, present associated opportunities for development and rewards (LePine, Zhang, Crawford, & Rich, 2016). By contrast, hindrance stressors are work role-related demands that do not present any opportunity for growth or reward, but rather, interfere with or constrain goal achievement (Cavanaugh, Boswell, Roehling, & Boudreau, 2000).

We reconcile positive and negative consequences of these stressors (Cavanaugh *et al.*, 2000). We propose a U-shaped relationship between role challenge and opportunism. When subsidiaries/ suppliers are exposed to this type of stressor, they respond positively by engaging

in problem-solving coping, which precludes opportunism. Still, such a mechanism presupposes that new goals are viewed as attainable (cf: LePine et al., 2016). High levels of role challenge are likely to be seen as detrimental by the partner, curbing its expectancy of a successful outcome and motivation to problem solve. We also suggest a positive link between role ambiguity and opportunism in both settings. As this hindrance stressor is a manifest barrier to achievement, it leads to frustration and misrepresentation of a partnership's productive potential (Qian, Cao, & Takeuchi, 2013; Rizzo, House, & Lirtzman, 1970), which drives avoidant coping in the form of opportunism.

Cross-fertilizing the transactional theory of stress with TCT, our study not only focuses on opportunism as the outcome of the problem-solving versus avoidant coping dilemma, but also suggests that impacts of both challenge and hindrance stressors on opportunism are contingent on the level of monitoring. We thus assert that the moderating role of monitoring is itself shaped by the intrafirm or interfirm context of the partnership, because the efficacy of monitoring within contract law varies across generic governance forms.

Based on two separate samples of 225 Chinese subsidiaries and 232 Chinese suppliers, the results suggest that challenge and hindrance stressors impact opportunism differently, with the former exhibiting a U-shaped and the latter demonstrating a positive relationship with opportunism. Monitoring steepens the U-shaped relationship between challenge stressors and opportunism only in intrafirm relationships and weakens hindrance stressor-opportunism relationship only in interfirm relationships.

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