A discussion on firms’ responses to disappointing incidents, such as underperformance or opportunism, in supply chain relationships

Trial lecture
Richard Glavee-Geo
PhD Candidate
Agenda

• Introduction
• Opportunism & Underperformance
• Key objective of this discussion
• Hirschman’s framework
• Extensions of EVLN model
• Some empirical examples
• Some propositions
• Other response strategies & Conclusion
Introduction

• Firms’ reaction/responses to dissatisfaction

• Disappointing incidents
  => relationship problems
  => problematic business relationships
Introduction

• This calls for response strategies

Response strategies can be defined as:

As reactions to adverse situations or disappointing incidents in supply chain relationships with the objective of improving performance of the offended or offending exchange partner.

– Partner’s reaction to relationship dissatisfaction
  (Furrer, Tjemkes and Henseler, 2012)
Opportunism

- Firms use governance structures to preserve their outcomes and interests against opportunistic behaviour from other parties.

- Among these are: incentive structures, monitoring mechanisms, contractual provisions, reputations, norms, interpersonal trust and other internal processes.
Opportunism

Williamson’s (1975): self-interest seeking behavior with guile (e.g. withholding or distorting information, lies, stealing, cheating, failing to fulfill promises).

Williamson’s (1975) original definition involving “blatant” opportunism has now been extended to relational contracts.

“lawful opportunism” (Williamson, 1991) denotes violations that had to do with formal contract.
Opportunism

Macneil (1981:1023) suggests “taking advantage of opportunities with little regard to principles or consequences” as a description of the term “guile” namely, the exploitation of another party’s vulnerability (Sabel, 1993; Wathne and Heide, 2000).
Examples of Opportunistic behavior

• Manufacturer-salespeople relationships: Salespeople exaggerating expenditure reports (Philips, 1982).

• Manufacturer-reseller relationships: Resellers violating explicit resale agreements (Dutta, Bergen and John, 1994).

• Buyer-supplier relationship: Lear Corp. deliberately misrepresented its true skills and resources to Ford (Walton, 1997).

• Buyer-supplier relationship: Lopez exaggerated the bids from rival suppliers to obtain lower bids (Kelly and Kerwin, 1992).

• Physicians prescribed excessive quantities of expensive drugs to patients (The Economist, 1996).
Underperformance

• Supply chain relationships (e.g. Strategic alliances)
  – Where partners simultaneously compete and cooperate such that because of the internal rivalry, alliances often result in premature terminations.
  – A high failure rate of 60-70% (Hughes and Weiss, 2007)
  – Underperformance and unintended dissolution might be avoided if firms are able to respond to early warning signals (Arino and Doz, 2000)
Key objective of this discussion

• So how do firms respond to such disappointing incidents?
  • Response strategies?
Hirschman’s framework


Albert Otto Hirschman (April 7, 1915-December 11, 2012)
Hirschman’s framework

- Individuals dissatisfied with the performance of an organization may try to improve their lot either by 'exiting' from the organization.

- Or by remaining with the organization by attempting to improve its performance by 'voicing' their discontent.

Albert Otto Hirschman (April 7, 1915-December 11, 2012)
Hirschman’s framework

• Exit, Voice and Loyalty focused primarily on discontent with the performance of a firm

• role of exit and voice has diverse applications as such as the theory of the state (Hirschman, 1978)

Albert Otto Hirschman (April 7, 1915-December 11, 2012)
Hirschman’s framework

Psychology and employee relations

• The psychological literature also addressed responses to inter-person problems.

• Rodin (1982) argued that exiting obtains from a loss of relationship value.
Hirschman’s framework

• Relationship value consist of

  – pleasure/cost ratio

  – the substitutability of the partner

  – importance of the criteria that is satisfied by the relationship

Johnson (1982)

Albert Otto Hirschman (April 7, 1915-December 11, 2012)
Hirschman’s framework

• Employee relations literature also addresses employee responses to employer-employee problems.
• For example, the process model proposed employee exiting that involved:
  – dissatisfaction
  – evaluation of alternatives

Albert Otto Hirschman (April 7, 1915-December 11, 2012)
Hirschman’s framework

• Hirschman’s (1970) exit, voice and loyalty provides an important theoretical framework for this discussion on response strategies

• Hirschman’s framework was extended to include ‘neglect’ (Farrell, 1983; Rusbult and Zembrod, 1983)

Albert Otto Hirschman (April 7, 1915-December 11, 2012)
Hirschman’s framework

Exit

• Behaving in an actively destructive manner by leaving the partner, threatening to end the relationship, or engaging in abusive acts such as yelling or hitting (especially inter-person relationships)

• Moving from an existing supplier to one of its competitors (B2B)

• Ending the relationship/relationship termination
Voice

• Behaving in an actively constructive manner by discussing matters with the partner, changing behavior in such a manner as to solve the problem,
• Or obtaining advice from a friend or therapist; (actively and constructively expressing one's dissatisfaction, with the intent of improving conditions).
• Voice is constructive attempts by the offended firm to change objectionable relationship conditions.
Hirschman’s framework

Loyalty

• Behaving in a passively constructive manner by optimistically waiting for conditions to improve,

• defending the partner in the face of criticism, or continuing to display symbols of the involvement;

• remaining silent, confident that things will get better

• A customer may continue to purchase from a supplier...with the hope that there will be some improvement
Hirschman’s framework

Loyalty

• Hirschman (1970) argued that the decision to behave loyally was based on
  – i) an evaluation of the chances of the offending firm getting back on track, through the action of others or something will improve matters and
  – ii) a judgement that it is worthwhile to trade the uncertainty of an alternative relationship against those chances.

• Hirschman also characterized loyal behavior as refusing to exit.

• Has been conceptualized and operationalized as remaining silent, confident things will get better (Ping, 1993) whiles others have operationalized loyal behavior by including items that tap relationship commitment.
Hirschman’s framework

Neglect

• Behaving in a passively destructive manner by avoiding discussion of critical issues,

• reducing interdependence with the partner, or nagging the partner about unrelated matters,

• passively allowing the relationship to atrophy/deteriorate
Hirschman’s framework

• Ping (1983) described neglect by a firm as marked by impersonal, possibly reluctant and even grudging exchanges with the offended partner firm.

• Neglect by the offended firm involved reduced contact and reduced social exchanges with the offending firm (may also involve reduced economic exchanges)
  – E.g. Ordering in writing not over the phone and delegating contacts with the offending partner firm to low-level staff.
Hirschman’s framework

• Hirschman’s (1970) exit, voice and loyalty provides an important theoretical framework for classifying response strategies

• Organized along destructive-constructive domain

Figure 1: Typology of responses to relationship problems
Extensions of EVLN model

Figure 2: Typology of responses to relationship problems

- **Cell 1: Internal change**
  - Effort

- **Cell 2: Vociferous Exit**
- **Cell 3: Passive Acceptance/Endurance**

- **Cell 4: Quiet Exit**

Source: Zuindeau, 2009
Extensions of EVLN model

Figure 3: Circumplex model of responses to relationship problems

Source: Furrer, Tjemkes and Henseler, 2012
Response strategies
Some extensions

Accommodative response behaviors

• The tendency to inhibit negative or retaliatory responses and instead engage in constructive behaviors when one’s partner has behaved poorly

• The extent to which the firm reacts actively and constructively to the other partner
  – Disengagement, venting and aggressive reactions which reflect unilateral approach => destructive
  – Responses that address task issues (e.g. constructive discussion, problem solving, compromise)
Response strategies
Some extensions

International marketing alliances (IMAs)

• Uncertainty:- adaptation & evaluation problems
  External uncertainty=> adaptation problem
  Internal uncertainty=>evaluation problem

• Adaptation and evaluation problems are addressed through a combination of unilateral and relational governance processes
Figure 4: Uncertainty IMAs
Key problems and response processes

Source: Bello, Katsikeas and Robson, 2010
Some empirical examples

Table 1:

<table>
<thead>
<tr>
<th></th>
<th>Voice</th>
<th>Loyalty</th>
<th>Exit</th>
<th>Neglect</th>
</tr>
</thead>
<tbody>
<tr>
<td>Economic satisfaction</td>
<td>.045</td>
<td>.441*</td>
<td>−.230*</td>
<td>−.087**</td>
</tr>
<tr>
<td>Social satisfaction</td>
<td>.433*</td>
<td>−.412*</td>
<td>−.423*</td>
<td>−.592*</td>
</tr>
<tr>
<td>Economic satisfaction</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>*Social satisfaction</td>
<td>−.000</td>
<td>−.072</td>
<td>.364*</td>
<td>.390*</td>
</tr>
<tr>
<td>Economic satisfaction</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>*Social satisfaction</td>
<td>−.000</td>
<td>−.072</td>
<td>.364*</td>
<td>.390*</td>
</tr>
<tr>
<td>R²</td>
<td>.203*</td>
<td>.236*</td>
<td>.582*</td>
<td>.728*</td>
</tr>
</tbody>
</table>

*p < .001.

**p < .05.

Note: Reported are standardized regression coefficients.

Source: Geyskens and Steenkamp (2000)
Some empirical examples

Table 2:

<table>
<thead>
<tr>
<th></th>
<th>Exit</th>
<th>Voice</th>
<th>Loyalty</th>
<th>Neglect</th>
</tr>
</thead>
<tbody>
<tr>
<td>Job satisfaction&lt;sup&gt;a&lt;/sup&gt;</td>
<td>-.432**</td>
<td>-.071</td>
<td>.331**</td>
<td>-.112*</td>
</tr>
<tr>
<td>Investment size</td>
<td>-.117**</td>
<td>.164**</td>
<td>.054</td>
<td>-.121*</td>
</tr>
<tr>
<td>Quality of alternatives</td>
<td>.228**</td>
<td>.276**</td>
<td>-.041</td>
<td>-.052</td>
</tr>
<tr>
<td>Multiple R</td>
<td>.582</td>
<td>.297</td>
<td>.358</td>
<td>.176</td>
</tr>
<tr>
<td>Adjusted R&lt;sup&gt;2&lt;/sup&gt;</td>
<td>.335</td>
<td>.082</td>
<td>.123</td>
<td>.025</td>
</tr>
<tr>
<td>Multivariate F&lt;sub&gt;3,462&lt;/sub&gt;</td>
<td>79.02**</td>
<td>14.90**</td>
<td>22.71**</td>
<td>4.93**</td>
</tr>
</tbody>
</table>

<sup>a</sup> Values for job satisfaction, investment size, and quality of alternatives are regression coefficients.

*<sup>p < .05</sup>  
**<sup>p < .01</sup>

Source: Rusbult, Farrell, Rogers and Mainous, 1988
Some empirical examples

Investment model development of satisfaction and commitment in exchange relationships such as romantic associations (Rusbult, 1980), Jobs (Farnell and Rusbult, 1981), inter-firm (Ping, 1993).

3 variables that predict the degree of commitment to relationships also determine the conditions under which exit, voice, loyalty and neglect:

- The degree to which the individual was satisfied with the relationship prior to its decline
- The magnitude of the individual's investment of resources in the relationship and
- The quality of the individual's best alternative to the current relationship

Increases in satisfaction should promote constructive rather than destructive responses to dissatisfaction.

Greater satisfaction should induce voice and loyalty while discouraging exit and neglect.

Greater satisfaction promotes voice and loyalty and inhibits exit and neglect.
Some propositions

\[ \text{VOICE} = b_0 + b_1 \text{SATIS} + b_2 \text{OPPOR} + b_3 \text{INVEST} + b_4 \text{ALT} + b_5 \text{SATIS} \times \text{OPPOR} + \varepsilon \]  
(1)

Where

- VOICE: Voice
- SATIS: Satisfaction
- OPPOR: Opportunism
- INVEST: Investment
- ALT: Alternative
- \( \varepsilon \): Error term
- \( b_0 \): Intercept

Taking partial derivative of VOICE with respect to OPPOR

\[ \frac{\delta \text{VOICE}}{\delta \text{OPPOR}} = -b_2 - b_5 \text{SATIS} \]  
(2)

Richard Glavee-Geo
Some propositions

Figure 5: Effect of OPPOR on VOICE at different levels of SATIS
Some propositions

EXIT = \( b_0 - b_1 \text{SATIS} + b_2 \text{OPPOR} - b_3 \text{INVEST} + b_4 \text{ALT} + b_5 \text{SATIS} \times \text{OPPOR} + \varepsilon \)

Where

- EXIT: Exit
- SATIS: Satisfaction
- OPPOR: Opportunism
- INVEST: Investment
- ALT: Alternative
- \( \varepsilon \): Error term
- \( b_0 \): Intercept

Taking partial derivative of EXIT with respect to OPPOR

\[
\frac{\delta \text{EXIT}}{\delta \text{OPPOR}} = -b_2 - b_5 \text{SATIS}
\]
Some propositions

Figure 6: Effect of OPPOR on EXIT at different levels of SATIS
Conclusion

Other response strategies

• Negative word of mouth (MOW) : Telling others about the unsatisfactory product or supplier (Blois, 2008; Ferguson and Johnston, 2011)
  – Voice is an active option for seeking change
  – Negative WOM is active and destructive
  – It is venting or an attempt to express frustration

• Opportunism (Ping, 1993; Tjemkes and Furrer, 2010)

• Patience (Ping, 1993)

• Avoidance (Ping, 1993; Rose and Hulin, 1985)

• Aggressive retaliatory responses (Ping, 1993; Rose and Hulin, 1985)

• Cognitive adjustments (Ping, 1993; Rose and Hulin, 1985)
End

Thank you
References

References

- Hagedoorn et al., 1999
References

• Research, 12 (2), 135-141.