



# 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



- 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)



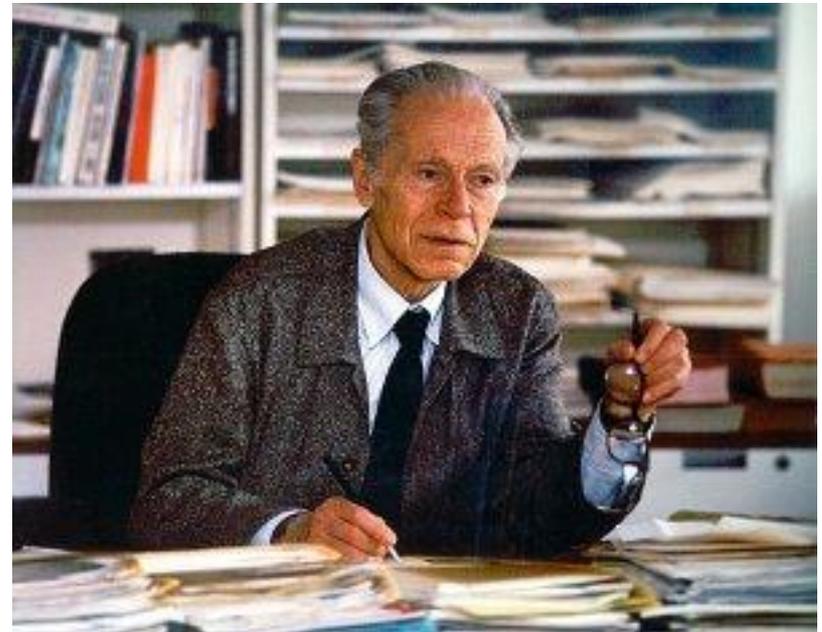
# Key objective of this discussion

- So how do firms respond to such disappointing incidents?
  - Response strategies?



# Hirschman's framework

- *Exit, Voice, and Loyalty: Responses to Decline in Firms, Organizations, and States* (Harvard University Press, 1970)

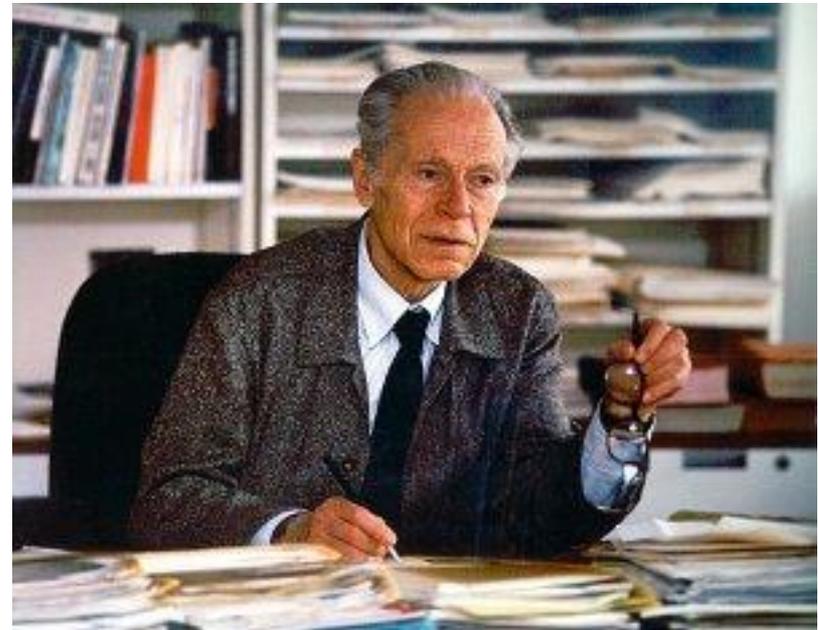


Albert Otto Hirschman (April 7, 1915-  
December 11, 2012)



# Hirschman's framework

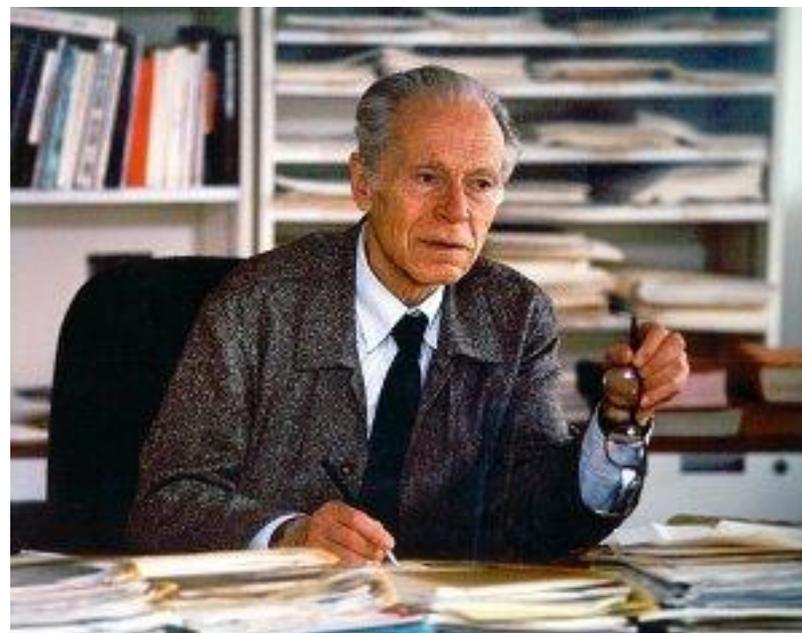
- Individuals dissatisfied with the performance of an organization may try to improve their lot either by 'exiting' from the organization
- Or by remaining with the organization by attempting to improve its performance by 'voicing' their discontent.



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)



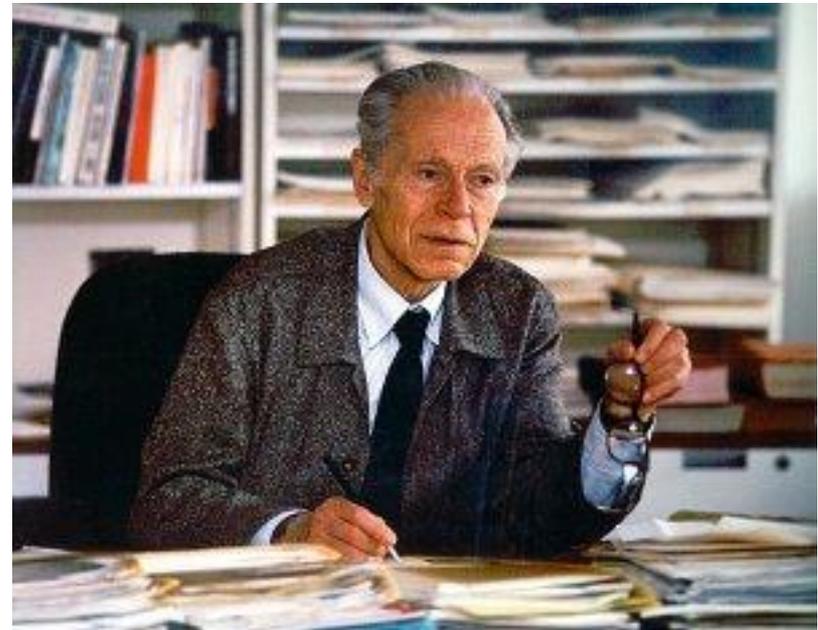
Albert Otto Hirschman (April 7, 1915-  
December 11, 2012)



# 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.

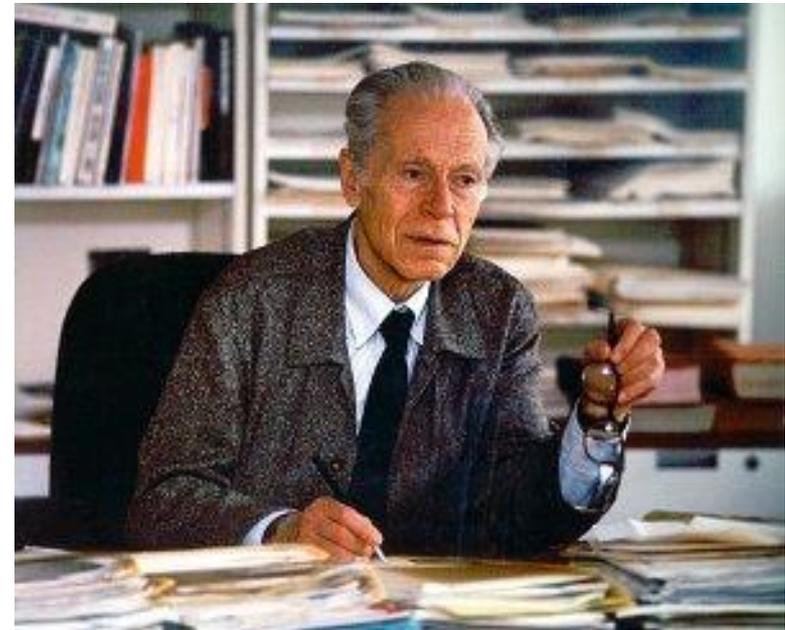


Albert Otto Hirschman (April 7, 1915-  
December 11, 2012)



# Hirschman's framework

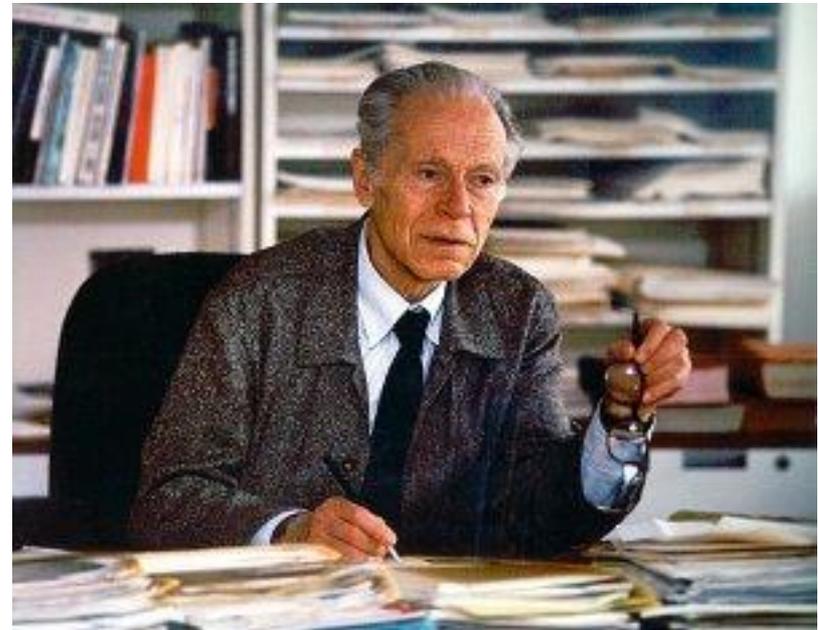
- Relationship value consist of
  - pleasure/cost ratio
  - the substitutability of the partner
  - importance of the criteria that is satisfied by the relationship Johnson (1982)



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
  - and finally exiting (Mobley, Griffeth, Hand and Meglino, 1979).

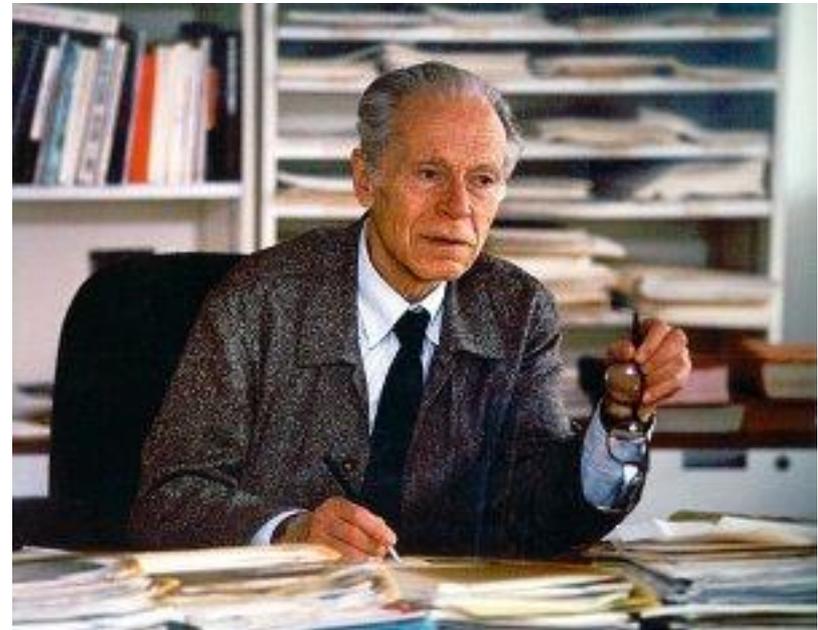


Albert Otto Hirschman (April 7, 1915-  
December 11, 2012)



# 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 Zembrodt, 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



# Hirschman's framework

## 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) while 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

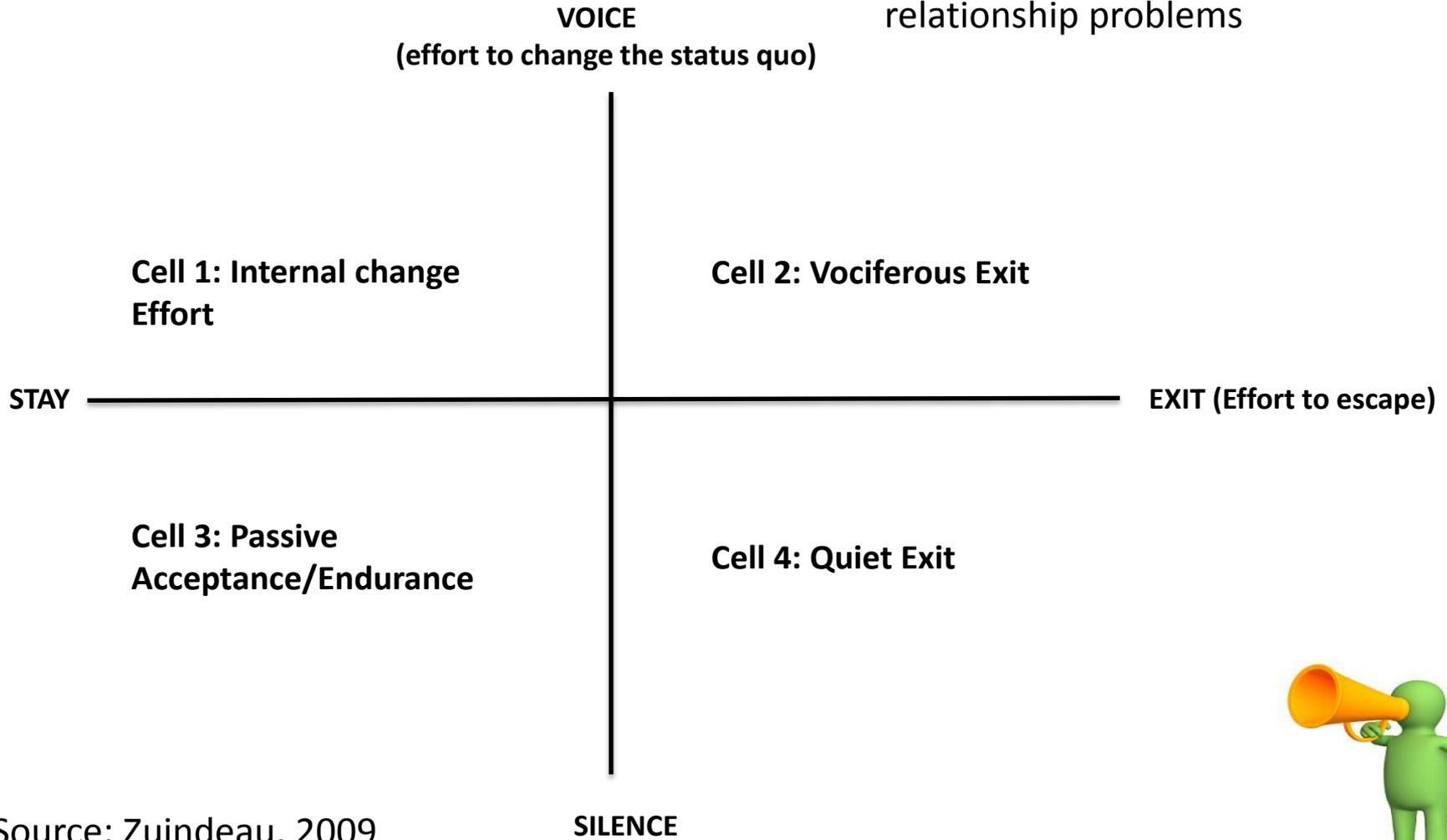
Figure 1: Typology of responses to relationship problems

Active	<b>EXIT</b>	<b>VOICE</b>	
Passive	<b>NEGLECT</b>	<b>LOYALTY</b>	
	<b>Destructive</b>	<b>Constructive</b>	



# Extensions of EVLN model

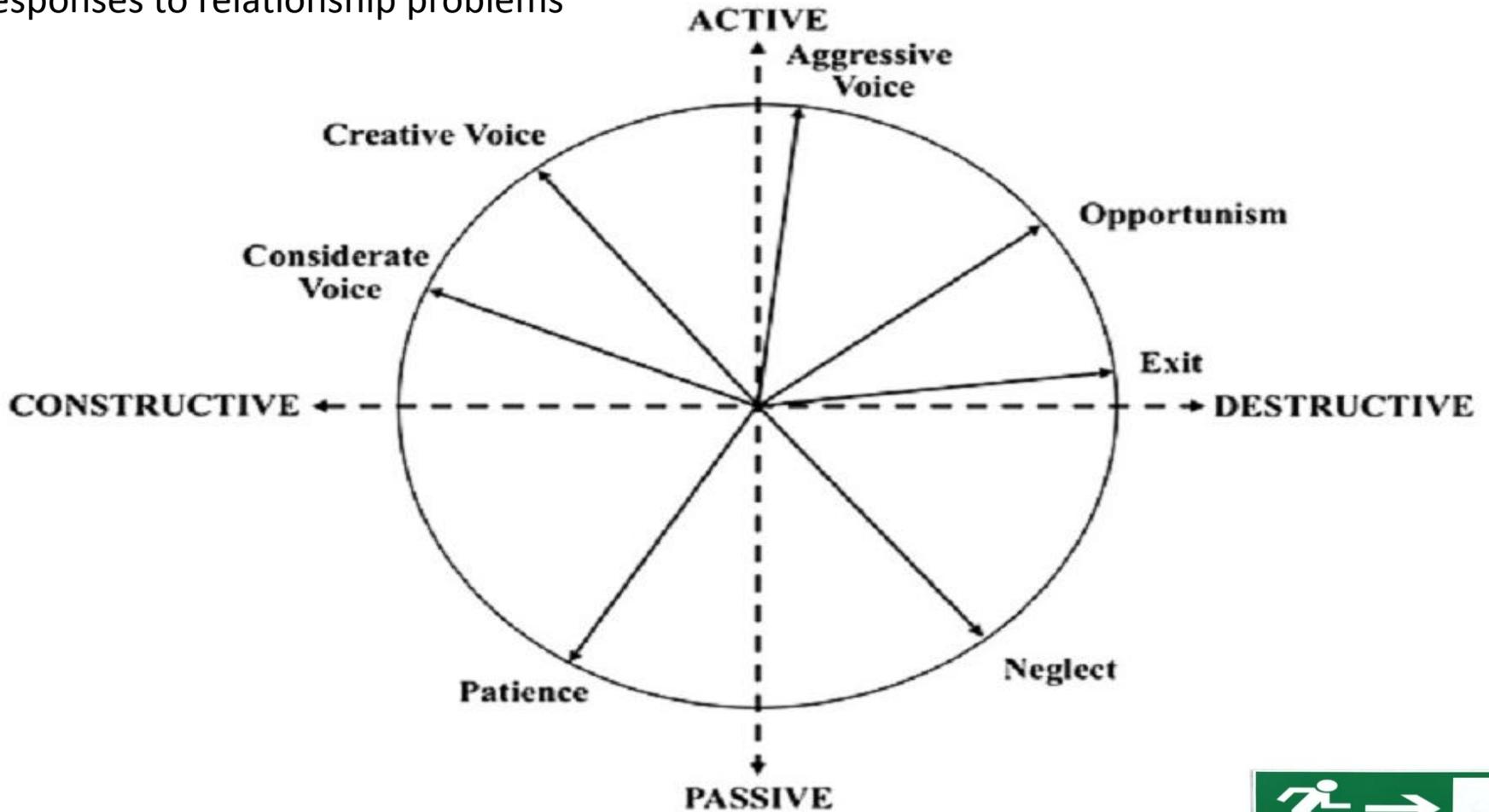
Figure 2: Typology of responses to relationship problems



Source: Zuindeau, 2009

# Extensions of EVLN model

Figure 3: Circumplex model of responses to relationship problems



Source: Furrer, Tjemkes and Henseler, 2012



### 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)



### 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

Evaluation Problem	Unilateral Response	<p>1.</p> <p><i>Low accommodation</i> lacks compromise, as a firm effects an adaptation by making demands and extracting concessions from partner.</p> <p><i>High monitoring</i> reflects explicit surveillance, as a firm evaluates whether partner implements role responsibilities.</p>	<p>2.</p> <p><i>High accommodation</i> seeks compromise, as a firm effects an adaptation through open discussion and negotiation.</p> <p><i>High monitoring</i> reflects explicit surveillance, as a firm evaluates whether partner implements role responsibilities.</p>
	Relational Response	<p>3.</p> <p><i>Low accommodation</i> lacks compromise, as a firm effects an adaptation by making demands and extracting concessions from partner.</p> <p><i>Low monitoring</i> lacks surveillance, as a firm believes partner's self-control ensures adherence to role obligations.</p>	<p>4.</p> <p><i>High accommodation</i> seeks compromise, as a firm effects an adaptation through open discussion and negotiation.</p> <p><i>Low monitoring</i> lacks surveillance, as a firm believes partner's self-control ensures adherence to role obligations.</p>
		Unilateral Response	Relational Response
		Adaptation Problem	

Source: Bello, Katsikeas and Robson, 2010



# Some empirical examples

Table 1:

**Effects of Economic and Social Satisfaction on Responses to Relationship Problems**

	<i>Voice</i>	<i>Loyalty</i>	<i>Exit</i>	<i>Neglect</i>
Economic satisfaction	.045	.441*	-.230*	-.087**
Social satisfaction	.433*	-.412*	-.423*	-.592*
Economic satisfaction *Social satisfaction	-.000	-.072	.364*	.390*
R <sup>2</sup>	.203*	.236*	.582*	.728*

\* $p < .001$ .

\*\* $p < .05$ .

Note: Reported are standardized regression coefficients.

Source: Geyskens and Steenkamp (2000)



# Some empirical examples

Table 2:

**Results of Multiple Regression Analyses, Study Two**

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

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

\*p < .05

\*\*p < .01



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

$$\text{VOICE} = b_0 + b_1\text{SATIS} + b_2\text{OPPOR} + b_3\text{INVEST} + b_4\text{ALT} + b_5\text{SATIS}*\text{OPPOR} + \varepsilon \quad (1)$$

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

$$\delta\text{VOICE} / \delta\text{OPPOR} = -b_2 - b_5\text{SATIS} \quad (2)$$



# Some propositions

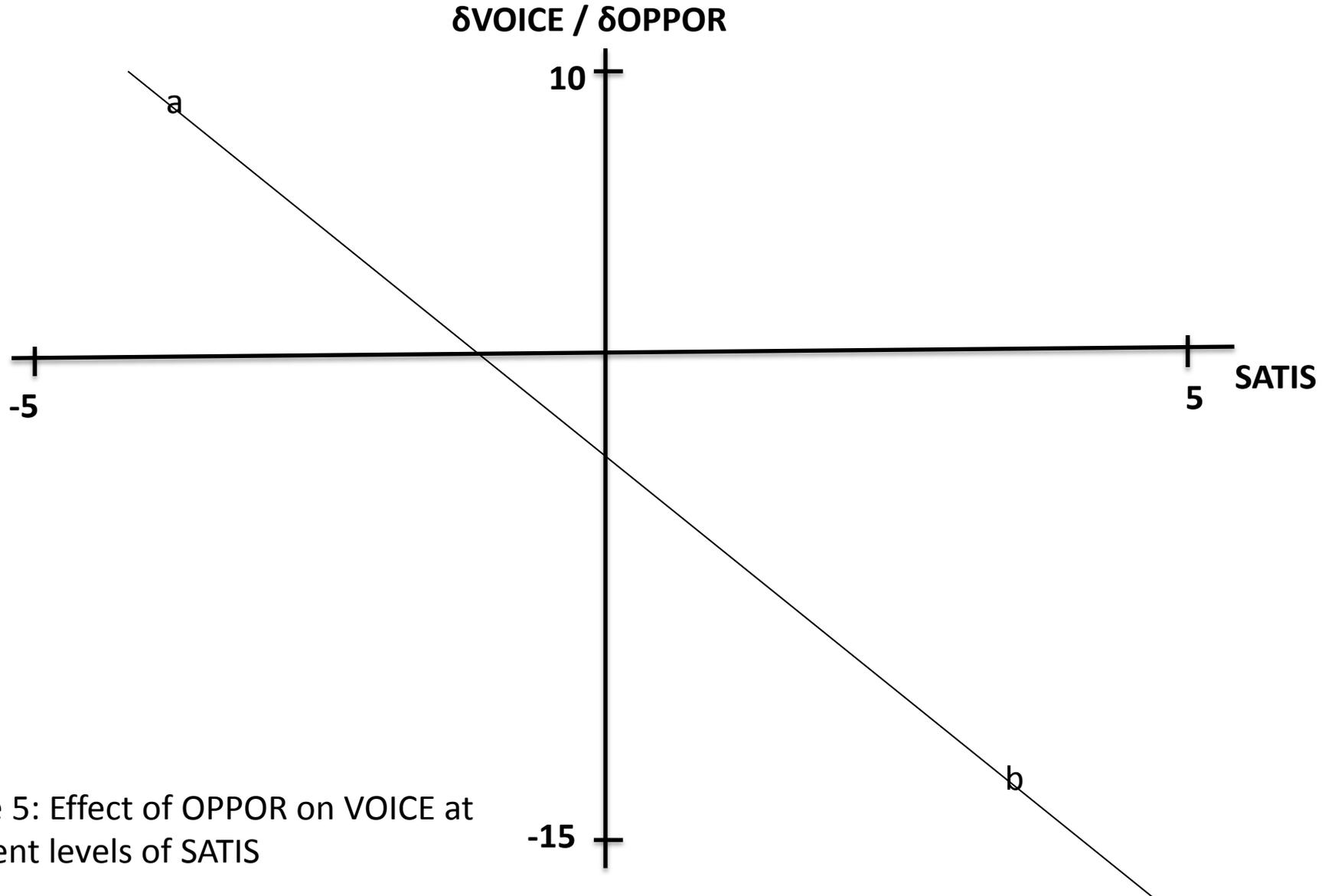


Figure 5: Effect of OPPOR on VOICE at different levels of SATIS



# Some propositions

$$\text{EXIT} = b_0 - b_1\text{SATIS} + b_2\text{OPPOR} - b_3\text{INVEST} + b_4\text{ALT} + b_5\text{SATIS}*\text{OPPOR} + \varepsilon \quad (3)$$

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

$$\delta\text{EXIT} / \delta\text{OPPOR} = -b_2 - b_5\text{SATIS} \quad (4)$$



# Some propositions

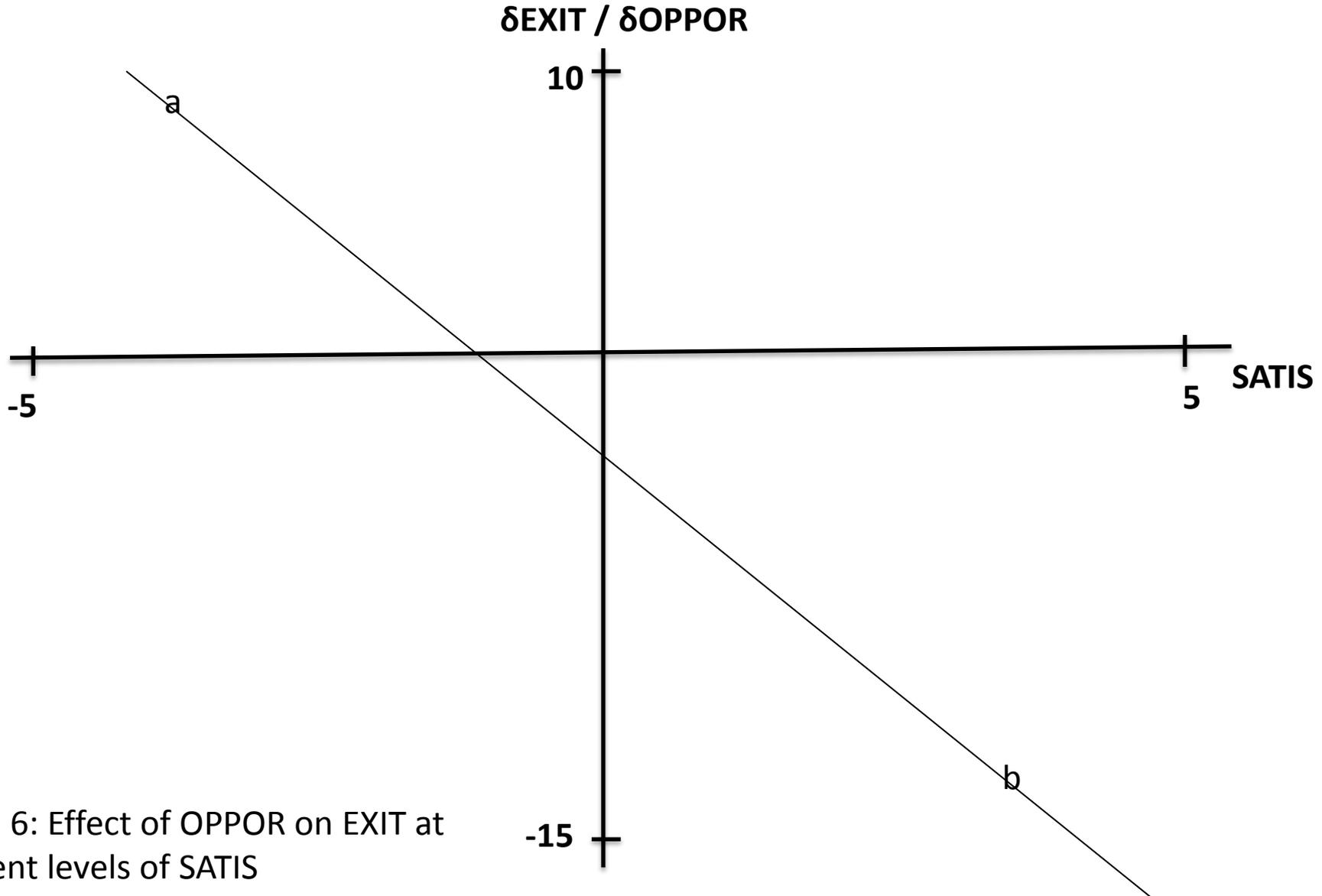


Figure 6: Effect of OPPOR on EXIT at different levels of SATIS



# 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

- Arino, A. and Doz, Y. (2000), Rescuing troubled alliances, before its too late, *European Management Journal*, 18, 173-182.
- Arriaga and Rusbult (1998), Standing in my partner's shoes: partner perspective taking and reactions to accommodative dilemmas, *Personality and Social Psychology Bulletin*, 24, 927-948.
- Bello, D. C., Katsikeas, C. S. and Robson, M. J. (2010), *Journal of Marketing*, 74, 77-93.
- Blois, K. (2008), Exit, voice and loyalty in business to business markets, *The IMP Journal*, 2
- De Rond, M. and Bouchikhi, H. (2004), On the dialectics of strategic alliances, *Organization Science*, 15 (1), 56-69.
- Dwyer, R. F., Schurr, P.H. and Oh, S. (1987), Developing buyer-seller relationships, *Journal of Marketing*, 51 (2), 11-27.
- Farrell, D. (1983), Exit, voice, loyalty and neglect as responses to job dissatisfaction: a multidimensional scaling study, *Academy of Management Journal*, 26 (4), 596-607.
- Farrell, D. and Rusbult, C. E. (1981), Exchange variables as predictors of job satisfaction, job commitment, and turn over: the impact of rewards, costs, alternatives, and investments, *Organizational Behavior and Human Performance*, 27, 78-95.
- Ferguson, J. L. and Johnston, W. (2011), Customer response to dissatisfaction: a synthesis of literature and conceptual framework.
- Fornell, C. and Wernerfelt, R. A. (1987), Defensive marketing strategy by customer complaint management: a theoretical analysis, *Journal of Marketing Research*, 24, 337-346.
- Furrer, O., Tjemkes, B. and Henseler, J. (2012), A model of response strategies in strategic alliances: A PLS analysis of a circumplex structure, *Long Range Planning*, 45, 424-450.



- Gehlbach, S. (2006), A formal model of exit and voice, *Rationality and Society*, 18 (4), 395-418.
- Hagedoorn et al., 1999
- Hibbard, J. D., Kumar, N. and Stern, L. W. (2001), Examining the impact of destructive acts in marketing channel relationships, *Journal of Marketing Research*, 38 (1), 45-61.
- Hirschman, A. O. (1970), *Exit, Voice and the Loyalty: Responses to Decline in Firms, Organizations, and States*, Cambridge, MA: Harvard University Press.
- Hirschman, A. O. (1978), Exit, Voice and the State, *World Politics*, 31, 90-107.
- Hughes, J. and Weiss, J. (2007), Simple rules for making alliances, *Harvard Business Review*, 85 (11), 122-131.
- Jap, S. D. and Anderson, E. (2003), Safeguarding interorganizational performance and continuity under ex post opportunism, *Management Science*, 49, 12, 1684-1701.
- Krain, M. (1975), Communication among premarital couples at three stages of dating, *Journal of Marriage and the Family*, 37, 609-618.
- Mobley, W. H., Griffeth, R. W., Hand, H. H. and Meglino, B. M. (1979), Review and conceptual analysis of the employee turnover process, *Psychological Bulletin*, 86, 493-522.
- Ping, R. A. (1993), The effect of satisfaction and structural constraints on retailer exiting, voice, loyalty, opportunism, and neglect, *Journal of Retailing*, 69 (3), 320-352.
- Ping, R. A. (1999), Unexplored antecedents of exiting in a marketing channel, *Journal of Retailing*, 75 (2), 218-241.



- Reinartz, W., Kraft, M. and Hoyer, W. D. (2004), The customer relationship management process: its measurement and impact on performance, *Journal of Marketing Research*, 41 (3), 293-305.
- Research, 12 (2), 135-141.
- Rodin, M. P. (1982), 'Non-engagement, failure to engage and disengagement' in personal relationships, 4: *Dissolving personal relationships*, S Duck ed., New York, N Y: Academic Press.
- Rusbult, C. E. (1980), Commitment and satisfaction in romantic associations: a test of the investment model, *Journal of experimental Social Psychology*, 16, 172-186.
- Rusbult, C. E. and Zembrodt, I. M. (1983), Responses to dissatisfaction in romantic involvements: a multidimensional-scaling analysis, *Journal of Experimental Social Psychology*, 19, 3, 274-293.
- Rusbult, C. E., Farrell, D., Rogers, G. and Mainous, A. G. (1988), Impact of exchange variables on exit, voice, loyalty and neglect: an integrative model of responses to declining job satisfaction, *The Academy of Management Journal*, 31, 3, 599-627.
- Rusbult, C. E., Johnson, D. J. and Morrow, G. D. (1986), Impact of couple patterns of problem solving on distress and nondistress in dating relationships, *Journal of Personality and Social Psychology*, 50, 744-753.
- Rusbult, C. E., Zembrodt, I. M. and Gunn, L. K. (1982), Exit, voice, loyalty and neglect: responses to dissatisfaction in romantic involvement, *Journal of Personal and Social Psychology*, 43 (6), 1230-1242.
- Sigh, J. (1990), A typology of consumer dissatisfaction response styles, *Journal of Retailing*, 66 (1), 57-99.
- Tjemkes, B. and Furrer, O. (2010), The antecedents of response strategies in strategic alliances, *Management Decision*, 48, 7, 1103-1133.
- Zhou, J. and George, J. M. (2001), When job dissatisfaction leads to creativity: encouraging the expression of voice, *Academy of Management Journal*, 44, 4, 682-696.
- Zuindeau, B. (2009), Responding to environmental risks: what can Albert Hirschman contribute? *Ecological Economics*, 69, 155-165.