Governance Mechanisms and Opportunism in Inter-firm Relational Exchanges*

Sang-Hyun Kim**

Abstract

Purpose - The general objective of this study is to explain the governance mechanisms of relational exchanges by considering both economic and relational factors. As regards the relationship between opportunism and governance mechanisms, opportunism was hypothesized as being positively related to the use of the authority mechanism, and negatively related with use of the trust mechanism.

Research design, data, and methodology - Purchasing relationships between original equipment manufacturers (OEMs) and their component suppliers were chosen as the empirical setting. Purchasing specialists in each company, who interact regularly with suppliers and have the major responsibility for managing the exchange relationships with suppliers, were used as the respondents for this study. A mail survey methodology was employed to collect data in the final field survey.

Results - As predicted, opportunistic behavior is found to be negatively related to the use of the trust mechanism and positively related to the use of the authority mechanism. Therefore, the result supports the proposed hypotheses.

Conclusions - By integrating research streams, this study contributes to the marketing discipline by improving our understanding of when and why different mixtures of governance mechanisms are used.

Keywords: Governance mechanism, Opportunism.

JEL Classifications: M31.

1. Introduction

As more fimrs are favoring relationship approaches in their transactions with other

companies, there is increasing interest in the subject of long-term interfirm relational exchanges. Interfirm relational exchanges can be defined as any stable and cooperative long-term exchange arrangements between independent exchange partners which deviate from discrete market exchanges(Gruen and Shah, 2000). For large corporations as well as small entrepreneurial firms, interfirm relational exchanges are becoming more and more a necessity for enduring a competitive edge in the marketplace(Paulin and Ferguson, 2010). Increasing numbers of firms award long-term collaborative contracts to single or a limited number of preferred suppliers and are developing closer ties with them to compete more successfully in this turbulent and difficult era(Hooley et al., 2004; Rajamma et al., 2011).

Just as there is increasing interest in interfirm relational exchanges, the interest in interfirm governance mechanisms is on the increase among marketing scholars, since the choice of an appropriate governance mechanism is important in the efficient management of opportunistic behavior. Long-term relational contracts are normally more complex than short-term transactional contracts, and unavoidably incomplete due to bounded rationality(Ghosal and Moran, 1996). Thus, interfirm relational exchanges are more fraught with the hazards of opportunistic behavior such as breaking promises, not sharing resources or facilities as per agreement, shirking or evasion of obligations, inflexiblity or refusal to adapt, violation of explicit or implicit rules, and forced renegotiation aiming to gain concessions(Das and Rashman, 2001), and need to be safeguarded against such hazards(Caniels & Gelderman, 2010; Rindfleisch et al., 2010).

Since market based control against opportunism are diminished in long term interfirm relational exchnages, the frims relying on relational exchanges need more complex and diverse governance mechanisms to control the inefficiencies occasioned by opportuistic behavior on the part of exchange partners(Hendrikse and Windsperger, 2009). There are opposing views about the governance mechanisms of interfirm relational exchanges.

Some researchers suggest that a departure from the market governance mechanism leads to more monitoing and supervision based on market-hierarchy exchange continuum(Noordewier et al., 1990), and other researchers suggest that a departure from the market governance mechanism leads to less monitoing and supervision based on discrete-relational exchange continuum(Kaufmann and Dant, 1992). Despite the seeming im-

portance of relational exchanges in marketing channels, the channel literature is deficient in understanding the governance mechanisms of interfirm relational exchanges. This weakness is critical given the nontrivial level of risk and resources potentially involved in setting relational exchange agreements and the importance of governance mechanisms for the success of interfirm relational exchanges.

Transaction cost theory assumes invariant opportunistic tendencies between exchange partners, which means that parties have the tendency to behave opportunistically if such action is possible and profitable(Williamson, 1985). Thus, transaction cost theory asserts that a firm is more vulnerable to opportunism as the interfirm relationship departs from discrete transactions to relational exchange and needs hierachically oriented governance mechanisms, such as formal contractual protection and close monitoring of contractual terms to protect against malfeasance and opportunism(Kumar et al., 2011; Wathne and Heide, 2000). Contrary to this view, relational exchange theory argues that opportunism is the exception rather than the rule in interfirm relational exchanges based on strong social and personal relationships between the actors in the interacting firms(Lado et al., 2008). The development of relational exchange norms engender a win-win exchange atmosphere, thereby mitigating opportunistic behavior within the channel(Heide and John, 1992; Macneil, 1980). The purpose of this study is to integrate the two views in the explanation of of the governance mechanisms of ongoing relational exchanges.

2. Theoretical Background and Hypotheses

One imortant decision that executives make when forming interfirm relational exchange is allocating duties, risks, procedures through contractual provisions(Mellewigt et al., 2007). These contractual terms try to help firms devise remedies for foreseeable contingencies or design processes for unforeseeable outcomes, for protecting each firm against self-interested behaviors by the other party.

According to Williamson(1985), the development of long-term relational exchanges is a double-edged sword for a firm. The increased levels of transaction specific assets and commitment accompanying relational exchanges make the firm more vulnerable to the risk of opportunistic behavior by its exchange partner. This increased risk, combined with the bounded rationality and the complex nature of relational exchanges, requires the firm to develop more elaborate governance mechanisms to control the long-term relatioanl exchange processes.

Opportunism is an extreme case of the self-interest seeking assumed in the neoclassical paradigm. Williamson(1985) argues that economic man is a more subtle and devious creature than the usual self-interest seeking assumption implies. Real economic actors engage not merely in the pursuit of self-interest but also in opportunism, which can be defined as any unfair deceit-oriented violation of implicit or explicit promises about one's

appropriate or required role behavior(Macneil, 1980; Hadfield, 1991).

Williamson(1985) states that "opportunism refers to the incomplete or distorted disclosure of information, especially to calculated efforts to mislead, distort, disguise, obfuscate, or otherwise confuse." Opportunism includes such activities as stealing, cheating, breach of contract, dishonesty, distorting data, obfuscating issues, confusing transactions, false threats and promises, cutting corners, cover ups, disguising attributes or preferences, withholding information, deception, and misrepresentation(Anderson and Narus, 1990; Wathne & Heide, 2000). In short, opportunism is aggressive selfishness and disregards the impact of the firm's actions on others(Barnes et al., 2010; Carson et al., 2006; Lai et al., 2005).

In interfirm relational exchanges, which have complex nature, complex and complete contracts are impossible to define because of exante contingencies and expost renegotiations(Poppo and Zenger, 2002). Furthermore, when a contract becomes excessively detailed, it will be inflexible, Thus, researchers often describe interfirm contracts as incomplete, pointing out that it may be impossible to anticipate all future contingencies, or may be costly or impossible to account for them in the contract, so contracts never fully reflect working relationships(Baiman and Rajan, 2002).

Because opportunism makes partners likely to take advantage of any loopholes, channel researchers maintain that contracts should be complemented by other control mechanisms to mitigate the inefficiency of incomplete contracts(Geyskens et al., 2006). Firms can choose a set of governance mechanisms to control the risks of opportunistic behavior.

In distribution channel research, transaction cost theory has been one of the most frequently used theoretical frameworks for analyzing channel organizations. Transaction cost theory is rooted in the works of institutional economists and was extended and elaborated by Williamson(1985). It combines behavioral variables such as opportunism and limited cognitive capabilities with economic analysis based on transaction cost, and is concerned with designing efficient interfirm exchange relationships, specifically the governance of contractual relations. Transaction costs are defined as the costs of the operation of exchanges, such as the cost of monitoring and enforcement of the behavior of the firm's exchange partner. It is the cost of running the interfirm exchange relationship.

One of the central premises of transaction cost theory is the assumption of opportunism, which is defined as self-interest seeking with guile(Williamson, 1985). Transaction cost theory assumes invariant opportunistic tendencies between the exchange partners, which means that the parties will behave opportunistically if such action is possible and profitable(Williamson, 1985). Human beings have a tendency to behave opportunistically when such behavior is feasible and profitable, such as under conditions of high switching costs(Das and Rahman, 2010).

Transaction cost theory identifies three dimensions of transactions which foster opportunistic behavior by making it more

possible and profitable. The three transactional properties, which are asset specificity, environmental uncertainty, and frequency, affect the cost associated with writing, executing, and enforcing contracts(transaction cost) and lead to hierarchically oriented exchange relationships with a firm's exchange partners. Relational exchanges are more vulnerable to opportunistic behavior, since a firm with a credible commitment such as a transaction specific asset is limited in using market-based discipline. Under competitive markets, opportunistic behavior is easily discovered and the existing exchange partner can be easily replaced; thus, the firm can control opportunistic behavior efficiently. In interfirm relational exchanges, agents tend to behave opportunistically, prompting the principal to adopt mechanism for curbing such opportunism. Governance mechanisms can assert control, provide monitoring, and align incentives(Gulati and Singh, 1998).

While transaction cost theory assumes an invariant opportunistic characteristic in human nature, relational exchange theory refutes the assumption of an invariant opportunistic tendency in human nature. It suggests that opportunism is the exception in family-like close-knit interfirm exchange relationships. Interfirm exchange relationships are often intertwined with personal and social relationships, because repeated interfirm exchanges lead to the development of personal relationships which affectively link the boundary spanners of interacting organizations. Repeated personal contacts across organizational boundaries support some minimum level of courtesy and consideration between parties(Caniels and Gelderman, 2010; Granovetter, 1985).

Macneil(1980) describes the development of a clan-like system in interfirm exchange relationships as follows: "As contractual relations expand, those relations take on more and more the characteristics of minisocieties. And the internal resolution of the conflict takes place against a backdrop of broader social norms and the desire of the parties to continue the exchange relationship." Personal and social connections between boundary members of the interacting organizations mitigate opportunism in the exchange relationship. In these socially embedded exchange relationships, opportunistic behavior is self-controlled since relational norms suppress the opportunistic tendencies of the exchange partners. Transaction cost theory ignores the relational aspects of interfirm exchange relationships and the possibility of controlling opportunism through the trust generated by social obligations and personal relationships. John(1984) finds that channel participants do not employ opportunistic behavior under conditions of high trust and high cooperation.

Governance mechanisms are generally understood as formal procedures and statements used by managers to monitor and influene the behavior and activities in interfirm relatioanl exchanges. Three different governance mechanisms for achieving proper channel control have been identified by channel researchers: price, trust, and authority governance modes, which match market, pure social, and hierarchical exchange relationships respectively(Larson, 1992). The price governance mechanism controls the interfirm exchange process through the price

mechanism of free markets. The exchange partner is selected through competitive bidding based on price. The opportunistic behavior of the exchange partner is controlled, since it can be easily replaced without any cost when the firm is not satisfied with the exchange relationship. However, when the parties have long-term commitments to each other through relational exchanges, control through the pure price mechanism is not available, and the firm needs other types of governance mechanisms to control the compex long-term exchange process.

The two identified governance mechansns which can complement the price mechanism in relationa exchanges are the trust and authority mechanisms.(Sanchez et al., 2012). The authority governance mechanism controls the exchange process through contractual protection, which specifies rights of evaluation and reward through the use of formalized rules, policies, and procedures. The trust governance mechanism controls the exchange process through social norms of obligation and cooperation, based on personal/social relationships. The exchange partners self-regulate opportunistic tendencies and thus there is less need for contractual protection through specification of the rules.

The authority and trust governance mechanisms can be differentiated based on three factors: the level of contract specification, the level of monitoring and supervision, and the enforcement mechanism. The authority governance mechanism is associated with hard contracting which explicates all possible contingencies, close monitoring through the use of formalized rules and procedures, and external enforcements such as the legal system. The trust governance mechanism is associated with soft contracting, i.e., informal contracts based on trust, self-regulation through trust based on personalized relationships, and internal enforcement based on mutuality of interest.

Rai et al.(2012) argued that firms do not usually rely on just one governance mechanism, but use the combinations of governance mechanisms to control the individual exchange relationships with other firms. The complete trust or authority mechanism exists only as the ideal types of the governance mechanisms of interfirm exchange relationships, as the pure social exchange and hierachical exchange are ideal forms of exchange relationships(Wuyts et al., 2005). In real situations, firms govern the exchange relationships by mixing formal or informal controls. Real interfirm governance mechanisms fall between these ideal types and are hybrid forms in the sense that they have the traits of all three governance mechanisms. Trust-type informal mechanisms complement authority-type formal mechanisms to protect against opportunism(Rai et al., 2012).

Transaction cost theory argues that the authority type of governance mechanism replaces the price mechanism as the interfirm exchange moves away from the market exchange since it predicts higher probability of opportunistic behavior between the exchange partners based on the assumption of invariant opportunistic tendencies. Relational exchange theory argues that opportunistic tendencies can be controlled by relational norms, and there is less risk of opportunitic behavior as the interfirm exchange relationship moves from the market exchange toward

the relational exchange.

Therefore;

H1: A party's perceived fear of its exchange partner's oppor-
tunistic behavior is related to the higher use of the au-
thority governance mechanism

H2: A party's perceived fear of its exchange partner's oppor-
tunistic behavior is related to the lower use of the au-
thority governance mechanism

3. Research Methodology

3.1. Sampling and Data Collection

To test the hypotheses, this study used a sample of purchas-
ing relationships between OEM manufacturers and their compo-
nent suppliers, in which components are purchased repetitively.
Since the research focuses on the buyer's perspective on the
relationship and its management, OEMs in three two-digit SIC
major groups, which are heavy purchasers of subassemblies
and/or components from suppliers, were chosen. The three
chosen industries represent metal products, machinery and elec-
tronics respectively. Manufacturing firms were randomly selected
in each chosen industry.

The restriction of the sample to three groups can reduce the
extraneous sources of variation and enhance the statistical pow-
er of the tests. Nonetheless, the firms represent a wide variety
of products and industries, since each two-digit major group
contains dozens of four-digit industries, and thus provides a suf-
ficient variety of purchasing relationships and variation in the fo-
cal variables to test the hypotheses.

The sampling frame was a mailing list of purchasing
agents/directors of manufacturers in the two-digit SIC major
groups. The list reflects a broad cross-section of types of busi-
ness firms, and offers access to business firms and respondents
who work with suppliers. The restriction of industries was in-
tended to lessen random error that cannot be easily controlled,
and to increase the statistical power of the tests. A sample of
2000 names was randomly chosen from the sampling frame of
14,900 companies. A mail survey methodology was employed to
collect the data in the final field survey. Each informant was re-
quested to complete it with respect to a particular supplier of
his/her choice. The respondents were mailed personally ad-
dressed letters requesting their participation, pre-addressed and
postage-paid return envelopes specifying the academic in-
stitution, and booklet style questionnaires which included cover
letters explaining the purpose of the research and promising
confidentiality. Respondents were offered a summary of the re-
sults to encourage their participation.

The survey involved three mailings: (1)the initial mailing of
the questionnaire, with cover letter enclosed; (2)a reminder let-
ter; and (3)a second mailing of the questionnaire to initial
nonrespondents. One month after the first mailing, reminder let-

ters were sent to the non-respondents and three weeks after re-
minder letters, second questionnaires were sent to the
non-respondents. 565 respondents replied, of which 550 ques-
tionnaires were complete and acceptable, for a response rate of
27.5%. Excessive missing data was a major problem with six-
teen of the completed surveys, and these were eliminated from
the sample.

Purchasing specialists in each company, who interact regu-
larly with the suppliers and have the major responsibility for
managing the exchange relationships with the suppliers, were
used as the respondents for this study. They are the most
knowledgeable about exchange relationships with suppliers, and
can provide more accurate information about the interorganiza-
tional properties underlying the relationships than other buying
center members. Although other buying center members(who
represent different departments and have different interests) are
involved in the buying process, the purchasing professional is
often the person in the focal role and thus is central in the
communication network. In addition, the responsibility for manag-
ing a routine exchange relationship, such as contract negotiation
or supervision of the contractual terms, belongs to the key
boundary persons who represent the firm(Heide, 2003). Thus,
purchasing personnel tend to have access to a broad base of
knowledge on most relationships. Other researches(Geykens et
al., 1998; Heide & Wathne, 2006) suggest that purchasing pro-
fessionals have the knowledge to inform on the various aspects
of supplier relationships.

The knowledgeability criterion was evaluated by two ques-
tionnaire items which assessed the respondent's level of involve-
ment with the supplier and his/her knowledge of the supplier
relationship. The respondents had a high level of knowledge of
the supplier relationships that they had chosen. The average
level of knowledge is 6.69 and average level of involvement is
6.34 out of the scale of 1 to 7. These results indicate that the
selected informants were highly qualified to report on the focal
relationship.

Following Armstrong and Overton's(1977) recommendation, po-
tential nonresponse bias was assessed by comparing early and
late respondents on the characteristics such as length of the re-
lationship, number of employees, sales volume, involvement in
the focal relationship, number of personal contacts per year,
and multiple sourcing. T-tests were used to compare the two
groups on each variable of interest. The results indicate no stat-
istically significant differences, supporting the representativeness
of the sample.

3.2. Measures

Measure development uses standard survey and psychometric
scale development procedures(Anderson & Gerbing, 1988;
Churchill, 1979). An initial draft of the questionnaire was devel-
oped based on the theoretical domain of the constructs. The
items were generated from the available scales in previous
studies and from discussions with academic experts. From the

resulting list, items which appeared to have solid face validity were chosen for a pretest (i.e., items consistent with the operational definitions of the constructs in this study). Preferences were given to items which had been successfully used elsewhere. When necessary, minor wording changes were made to the original items to make them appropriate for the study setting: the OEM-supplier relationship. Where possible, items were framed in a Likert format, in an effort to make the questionnaire as uniform as possible, and therefore easier and quicker for respondents to complete. The initial draft was revised through pretest. MBA students in graduate marketing courses, marketing doctoral students, and purchasing personnel in the university were asked to complete the questionnaires at their convenience. Some of them were asked to respond to the questionnaire items and instructions in a protocol (i.e., thinking aloud) format. Items and instructions determined to be ambiguous or not understood by respondents were modified so that they could be clearly understood.

The authority mechanism refers to a formal control mechanism based on written contracts. It is measured by hard contracting, close monitoring and supervision, and the formalization of rules and procedures. The trust mechanism refers to the social mode of exchange. The trust mechanism relies on informal controls, based on personal relationships and trust, to control the exchange process. It is measured by soft contracting, self-monitoring based on trust, and information sharing and communication.

Opportunism is defined as the unfair deceit-oriented violation of implicit or explicit promises about one's appropriate or required role behavior. Based on John(1984) and Hawkins et al.(2008), this study uses six items to measure the buyer's perceptions that the supplier engages in self-seeking behaviors with guile such as withholding or distoring the information, taking advantage of holes in the contracts, breaching informal agreements, breaking promises, using unexpected events to extract concessions, and lying to maximize its own benefits.

Various checks were performed to purify the reliability and validity of all constructs used in this study. First, an item-to-total correlation analysis eliminates items whose correlation is less than o.4(Anderson & Gerbing, 1988). Two items from trust mechanism were deleted from the initial scale. Second, reliability was assessed using internal consistency method via Cronbach's alpha. All constucts had a Cronbach's alpha greater than 0.7: authority mechanism(0.893), trust mechanism(0.7211), and opportunism(0.8714). This result establishes the reliability of all the theoretical constructs. Third, the remaining items were subjected to confirmatory factor analysis.

A number of items were dropped before creating the composite scales used to test the suggested hypotheses. four items from the authority mechanism, two items from the trust mechanism, and one item from the opportunism were dropped. The t-values, squared multiple correlations, and modification indices were examined to improve the overall measures of fit. Table 1 provides a summary of measures of model fit for the measure-

ment models for each construct and the reliability coefficients. The results show a good fit of the constructs structure.

The convergent validity of the measures is indicated by the significant estimates, and by their large standardized values. Each of the measurement parameters is statistically significant at the 0.001 level and provides strong evidence of convergent validity for these measures. The discriminant validity was examined for each pair of traits by constraining the relevant intertrait correlation to unity and estimating this new model. If the difference in the chi-square between the models is statistically significant, then discriminant validity can be inferred(Anderson & Gerbing, 1988).

<Table 1> Properties of Multi-Item Scales

Scale	No. of Items	Fit Indices	Cronbach Alpha
OPP	5	χ^2 (5df)=15.68 GFI=0.987 AGFI=0.962 RMR=0.022	0.8516
AC	9	χ^2(88df)=262.9 GFI=0.903 AGFI=0.825 RMR=0.283	0.8408
CC	9	χ^2(26df)=105.1 GFI=0.966 AGFI=0.946 RMR=0.078	0.6806

The convergent validity of the measures is indicated by the significant estimates, and by their large standardized values. Each of the measurement parameters is statistically significant at the 0.001 level and provides strong evidence of convergent validity for these measures. The discriminant validity was examined for each pair of traits by constraining the relevant intertrait correlation to unity and estimating this new model. If the difference in the chi-square between the models is statistically significant, then discriminant validity can be inferred(Anderson & Gerbing, 1988). A significant chi-square difference indicates that the pair of traits are not collinear, which is evidence of their discriminability. Table 2 presents the results of these tests. The third column reports the difference between the chi-squares from the overall model and the constrained model. The probability values are reported in the final column of the table. The results in Table 2 provide evidence that the measurement scales in this study demonstrate discriminant validity.

<Table 2> Chi-Square Difference Tests

Constructs Evaluated	χ^2c	χ^2diff	P<
AM & OPP	1431.7	518.7	0.001
TM & OPP	1487.9	574.79	0.001
TM & AM	1132.39	219.39	0.001

All comparisons are one degree of freedom tests

4. Analysis and Results

The hypothesis was cast in the following equation. The equations was estimated by ordinary least squares regression. The form of the test is shown in the following equation.

$$OPP = \beta_0 + \beta_1 AM + \beta_2 TM + \varepsilon$$

The t-value and magnitude of the beta coefficients provides a test of the statistical significance of the hypotheses.

Since collinearity between predictor variables may lead to inaccurate estimates of regression coefficients and associated t-statistics, the potential effect of collinearity is evaluated. To detect the presence of serious collinearity for the regression model, two tests were conducted: the condition number and the variance inflation factor(VIF). These are reported in Table 3.

<Table 3> Collinearity Diagnostics for Regression Model

	Condition number	Variance inflation factor
Authority mechanism	5.8189	1.0526
Trust mechanism	17.0495	1.0526

The condition number is one measure of the degree of collinearity in multiple regression. A condition number above 30 indicates moderate to serious collinearity. The condition numbers in table 3 provides no evidence of a problem with collinearity. The variance inflation factor(VIF) is an alternative test of collinearity. These factors measure how much the variances of the estimated regression coefficients are inflated as compared to when the independent variables are not linearly related. A maximum VIF in excess of 10 is often taken as an indication that collinearity may be unduly influencing the least squares estimates. The VIF values in Table 3 provides no indication of collinearity problem.

Table 4 summarizes the result of multiple regression analysis. The table shows the estimated parameters, the t-statistics, and the significance levels. An unstarred beta indicates that component of the model did not make a significant contribution to explained variance. The F-statistic for the significance of the entire model and the variance explained(R^2)are also reported in the model.

<Table 4> Result of Multiple Regression Analysis

	AM	TM	R^2	F
OPP	0.086*(2.23)	-0.67**(-11.25)	0.23	73.91**

* $p<0.05$
** $p<0.01$

As the table shows, the model explained significant amounts of variance. The multiple regression model is statistically significant below the 0.01 level. and explains 23% of the variance in opportunism. This R2 value is relatively high for behavioral channel research. The strong, consistent explanatory power of

the equation supported further examination of the individual coefficients, testing the effects of individual variables. The empirical result presented above is impressive in its support of the proposed hypotheses. The beta for the two predictors are also statistically significant. Thus, the result supports the proposed hypotheses.

5. Conclusion and Implications

An increasing number of firms are adopting relational exchanges, attracting the attention of marketing channel researchers. More firms now prefer the relationship approach to the transactional approach, based on competitive bidding.

Member firms in relational exchanges face more hazards of opportunistic behavior as long-term relational exchanges are more complex than short-term transactions and unavoidably incomplete due to bounded rationality. Opportunistic behavior in channel relationships such as breaking promises, not sharing resources or facilities as per agreement, shirking or evasion of obligations, inflexibility or refusal to adapt, violation of explicit or implicit rules, and forced renegotiation aiming to gain concessions is not very universal. Various trade journals show reports of opportunistic behavior. Thus, opportunism is of paramount concern to the firms engaged in interfirm relational exchanges.

With this increasing interest, there is a greater need to study the governance mechanisms of relational exchanges, since the choice of an appropriate governance mechanism is important in the efficient management of the interfirm exchange relationship. Long-term relational exchanges are more complex than short-term transactional exchanges; thus the traditional description of governance mechanisms based on short-term transactions cannot explain completely the governance mechanisms of interfirm relational exchanges.

The governance mechanisms of interfirm relational exchanges cannot be fully described on the single continuum of price and authority mechanisms, with the trust mechanism at the midpoint on this continuum. Rai et al.(2012) suggest that price, authority, and trust are three major independent governance mechanisms, which can be used in different combinations. To explain the governance mechanisms of relational exchanges, which are various mixtures of independent mechanisms, we need to consider both economic and relational factors. The general objective of this study is to explain the governance mechanisms of relational exchanges by considering both economic and relational factors. Concerning the association between opportunism and governance mechanisms, opportunism was hypothesized to be positively related to the use of the authority mechanism, and negatively associated with use of the trust mechanism.

The unit of this study was the OEM-supplier relationship from the buyer's perspective. A mail survey was employed to collect data on the relationships. Purchasing specialists in each company were used as the key informants. The analysis was car-

ried out using correlation, exploratory factor analysis, confirmatory factor analysis, and regression analysis. The proposed hypotheses were supported by the data analysis.

The findings of this research have some important implications. From the academic standpoint, this study addresses the scholar's need to theoretically the governance mechanisms of interfirm relational exchanges. There is a lack of systematic understanding of the governance mechanisms of interfirm relational exchanges because current channel studies describe the various governance mechanisms based on single continuum, either the price-authority mechanism or the price-trust mechanism. Instead of single continuum, this study suggests that departure from the price mechanism can lead in both directions, either toward the trust mechanism or the authority mechanism. By integrating the research streams, this study contributes to the marketing discipline by improving our understnading of when and why the different mixtures of governance mechanisms are used. This study also suggest the need to defuse the partner firm's suspicion of opportunistic behavior.

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