The Impact of Transaction Attributes and Trust on Ex-post Opportunism

Author Name: Tugba Gurcaylilar-Yenidogan- Akdeniz University, Turkey
Yesilbahce Mah. Portakal Cicegi Bulvarı No. 19/3 Mert Apt. 07160, Antalya/Turkey

Abstract

The aim of this study is to examine the impact of transaction cost variables (environmental uncertainty and transaction-specific investments) as well as trust as a relational safeguard mechanism on ex-post opportunistic behaviors in the relationships between tour operators and hotels. The data were collected from a field survey in the Turkish tourism industry. The data provide strong support for the transaction cost hypotheses and the role of trust on ex-post opportunism. The findings show that higher investments of hoteliers in transaction-specific assets are associated with increased risk of opportunism by the tour operators. Similarly, this study indicates that opportunistic actions increase with the unpredictability of environmental conditions. Furthermore, the direct and indirect effects of trust are confirmed by the data. When trust moderates the influence of transaction cost variables it is observed that the positive effects of environmental uncertainty and transaction-specific investments are lower. Consequently, this study contributes to the literature by providing an opportunity to discuss both the direct effect and indirect effects of trust on ex-post opportunism.

1. Introduction

Governance problems arise from the risks associated with the transaction. The risk of opportunism creates safeguarding problems under investments in transaction-specific assets and increases the issues for adapting to the changing environment (Heide, 1994; Stump and Heide, 1996; Rindfleish and Heide, 1997; Jap and Anderson, 2003). Williamson (1985: 47) defines opportunism as “self-interest seeking with guile”. This definition includes two sides of opportunism in the form of distorting information (Brown et al., 2000; Jap and Anderson, 2003). On the one side, parties may engage in opportunism by deliberately misrepresenting information before the formation of an exchange agreement (i.e., ex-ante). On the other side, they may behave opportunistically by violating the contractual obligations that are explicitly codified in the contract or reneging on the commitments embedded in bilaterally established relational norms (i.e., ex-post) (Williamson, 1993; Wathe and Heide, 2000). According to Luo (2006) and Lumineau and Quelin (2012) strong form of opportunism relates to the formal breaches of the contract whereas its weak form involves relational norm violation.

Despite its theoretical and practical prominence there are relatively few empirical studies on opportunism which is one of the central assumptions underlying transaction cost economics. In these studies researchers have generally focused on the impact of safeguarding mechanisms in mitigating opportunism. For example, Brown et al. (2000) explored the efficacy of using the specific mechanisms (i.e., ownership, transaction-specific investments and relational norms) against opportunism. Jap and Anderson (2003) extended the literature by investigating the capacity of relationship safeguards such as bilateral idiosyncratic investments, goal congruence and interpersonal trust to preserve relational outputs in the presence of ex-post opportunism. The purpose of Lumineau and Quelin’s work (2012) was to explain the influence of contractual governance on strong form versus weak form of opportunism. Dahlstrom and Nygaard (1999) tested the relationship between opportunism and transaction costs by integrating the effects of the control structures (formalization and cooperation) in decreasing opportunism into the model. In addition to the use of control mechanisms against opportunism the study of John (1984) provided findings on assessment for the sources of inter-firm power that influence the threat of opportunism. In connection with this study, Handley and Benton (2012) examined the effects of power on ex-post opportunism by controlling the impact of transaction attributes (i.e., relationship-specific investments and technological uncertainty). Although the data presented in this study provided support for the positive effect of buyer’s relationship-specific investments on service provider’s opportunism, they could not find significant positive relationships between technological uncertainty and opportunism inconsistent with the proposed hypotheses.

Accordingly, the aim of this study is to examine the impact of transaction cost variables (transaction-specific investments and environmental uncertainty) and trust on ex-post opportunism in the context of the relationships between hotels and tour operators. In this study, the author argues that transaction-specific investments and environmental uncertainty have positive effects on ex-post opportunism whereas trust as a relational safeguard mechanism decreases the threat of opportunistic actions. The data obtained from the hoteliers in Turkish tourism industry support the theoretical predictions of the study. The findings show that higher investments of hoteliers in transaction-specific assets are associated with increased risk of opportunism by the tour operators. Similarly, this study indicates that opportunistic actions increase with the unpredictability of environmental conditions. On the other side,
the evidence is provided for the role of trust that alleviates opportunism. In addition to its direct this study also denotes that trust has a moderating role on ex-post opportunism when it shifts the opportunism-increasing effects of transaction attributes towards negative. Consequently, this study contributes to the literature by examining both the transactional determinants of opportunism and the role of relational governance in decreasing opportunism.

2. Theory development and hypotheses

Figure 1 represents the research model of this study. The research model consists of two transaction cost determinants (environmental uncertainty and transaction-specific investments). First, their positive effects on ex-post opportunism are tested. Latter, trust as relational safeguard mechanism is integrated into the model. Therefore opportunism-mitigating effect of trust is tested when trust moderates the impact of environmental uncertainty and transaction-specific investments on ex-post opportunism.

![Figure 1. Research model.](image-url)

2.1. Environmental uncertainty and ex-post opportunism

According to the transaction cost theory (Williamson, 1985), bounded rationality of contractual parties (Cyert and March, 1963; Simon, 1957) renders them unable to compose complete contracts under environmental uncertainty. When environmental uncertainty increases the need for adjustments to the actions during the execution of the contract, exchange partners rely on contingent contracts that permit some revisions in the initial agreement (Arzt and Brush, 2000; Grossman and Hart, 1986). Despite their flexibility advantage over the terms of future interactions these agreements that leave some valuable information out of the contract have limited coordinating capacity to promote mutually beneficial behavior under each unforeseeable circumstance (Buvik and John, 2000; Walker and Weber, 1984). In this case, more powerful party of the relationship is likely to interpret contingency clauses of the contract in its own self-interest (Arzt and Brush, 2000; Hawkins et al., 2009). Therefore environmental uncertainty encourages opportunistic actions of the parties by inviting renegotiation of the contract (Joshi and Stump, 1999; Lee, 1998; Hawkins et al., 2009).

H₁: Higher uncertainty is associated with increased risk of opportunism.

2.2. Transaction-specific investments and ex-post opportunism

Transaction-specific investments refer to the extent to which assets are specialized to a particular relationship (Williamson, 1985). These assets include intangible investments (e.g., specialized know-how, customized service) as well as tangible or physical investments (e.g., specialized equipment and facilities) that cannot be redeployed in an alternative use without sacrifice of productive value (Williamson, 1983; Anderson and Weitz, 1986; Erramilli and Rao, 1993; Zaheer and Venkatraman, 1994). Whereas transaction-specific investments have lower value in alternative uses, this situation results in a stream of potentially appropriate quasi-rents (Joskow, 2008). In this case, investment in specific assets may expose investing party to the risk of opportunistic behavior by the other party, who seeks to generate above-normal returns from the specific investments and hence maximize its own unilateral gains. Although contractual governance provides safeguards against the potential threat of opportunistic exploitation (Williamson, 1983), residual opportunism risk continues to exist when the parties are able to write contracts which only differ in a degree of completeness (Artz and Brush, 2000; Wang, 2010). In this case, transaction-specific investments increase the problem of ex-post opportunism when the receiving party imposes renegotiation of the contractual conditions in such a way as to appropriate the quasi-rents (Wathne and Heide, 2000; Rooks et al., 2006; Vázquez et al., 2007; Handleby and Benton, 2012).

H₂: Higher investments in transaction-specific assets are associated with increased risk of opportunism.

2.3. Trust and ex-post opportunism

In addition to the influence of transaction attributes, the tendency of opportunism can be reduced by building trust between parties in a transaction relationship (Nooteboom et al., 1997). According to the transaction cost theory trust functions as a shift parameter to mitigate opportunism (Williamson, 1991). In an incomplete contract setting trust can provide an effective governance safeguard for transaction-specific investments when creating strong disincentives against opportunism (Dyer and Singh, 1998; Gulati, 1995; Zaheer and Venkatraman, 1995; Zaheer et al., 1998; Carson et al., 2006, Lui et al., 2009). Further, trust facilitates conflict resolution by encouraging cooperative orientation between parties to adapt to the changing environmental situations (Carson et al., 2006; Gulati, 1995; Zaheer et al., 1998) and hence reduces the residual risk for opportunism that arises from unfair renegotiations as circumstances change. In this case, trust is likely to decrease the positive effects of transaction attributes on ex-post opportunism.
H$_1$: Trust moderates the direct effects of transaction cost variables on ex-post opportunism.

H$_{16}$: The positive impact of environmental uncertainty on ex-post opportunism is lower under a higher level of trust.

H$_{16}$: The positive impact of transaction-specific investments on ex-post opportunism is lower under a higher level of trust.

Although the moderating role of trust is based on the cost-benefit calculus view of transaction cost theory, relational governance view considers that trust creates a situation of mutual goodwill (Yu et al., 2006). When the belief of one party (i.e., hotels) refers that the other party (i.e., tour operator) will consider its interests and welfare, trust as an informal control mechanism decreases the tendency of ex-post opportunistic behaviors.

H$_2$: Trust has a direct negative effect on ex-post opportunism.

3. Research methodology

3.1. Data collection and sample

In this study a questionnaire-based survey was conducted to test the hypotheses. The empirical data was collected from the sales or contract managers of the hotels operating in the Turkish tourism industry. The population of this research consists of 402 five and four-star hotels in Antalya/Turkey (Republic of Turkey Ministry of Culture and Tourism, 2010). After calculating the sample size with 95% confidence level and 5% margin of error, sample was drawn through a simple random sampling procedure. Then questionnaire was sent out to a total of 270 hotels in the sample by e-mail and 139 valid responses were obtained. The data from the Turkish hoteliers were analyzed with the SPSS (version 18) and the hypotheses were tested by applying linear regression analyses.

3.2. Measurement

All indicators were measured on 7-point Likert scale ranging from 1=strongly disagree to 7=strongly agree. The overall scale includes 20 items, of which 4 items are to measure ex-post opportunism, 8 items are for environmental uncertainty, 3 items are for transaction-specific investments and 5 items are for trust.

Ex-post opportunism. This study considers ex-post opportunism relating to the strong form view of opportunism that deals with violations of explicit contractual obligations or relational contract norms (Williamson, 1993; Wathne and Heide, 2000). The items of the scale for ex-post opportunism are: (1) this tour operator does not fulfill its commitments on the payments (2) this tour operator does not comply with the penalties stipulated in the agreement concerning reservation cancellations exceeding the release period and no shows, (3) this tour operator does not accept to the stop sale notification even if it cannot sell a large portion of its allotment, (4) this tour operator demands additional promotions after the execution of the contract. The value of Cronbach’s alpha for this scale is 0.61 which is compatible with the recommended threshold level of 0.60 (Hair et al., 1998).

Environmental uncertainty (R). Environmental uncertainty concerns with unpredictability of the environment and the lack of environmental information was measured by utilizing from the construct of Porter (1980) that indicates the degree of uncertainty of each type of environment. The items include the ability to predict the environmental conditions regarding general tourism demand, hotel occupancy rate, market activities of competitors, customer preferences, suppliers’ activities, competitive conditions in tourism markets, government regulations and the threat of new entrants. The respondents assessed how predictable each of the items has been during the past 3 years. The Cronbach’s alpha value of this scale is 0.89.

Transaction-specific investments. Transaction-specific investments refers to the physical investments in buildings, establishments and rooms tailored to the tour operator and idiosyncratic intangible assets to closely coordinate the tasks performed with the tour operator. Cronbach’s alpha for the construct of transaction-specific investments was 0.78. To measure the construct of transaction-specific investments a three-item scale was adapted from the studies of Heide and John (1990) and Brown et al. (2000). These items are: (1) we have made specific investments in building, establishments and rooms allocated to this tour operator, (2) we have made significant investments to adapt our services to this tour operator’s requirements, (3) we have spent a lot of time and efforts to coordinate the operations with this tour operator (i.e., investments in intangible assets like information systems and management procedures).

Trust. Trust is measured with five items consistent with the study of Carson et al. (2006). The items reflect the extent to which the parties in a relationship expected each other to cooperate; (1) the parties expected that conflicts would be resolved fairly, even if no guidelines were given by our formal agreements, (2) when an unexpected situation arose, the parties had a mutual understanding that a win-win solution would be found, even if it contradicted the formal agreements, (3) both parties understood that problems arising during the relationship would be solved jointly through communication and cooperation rather than just reference to the formal agreements, (4) both parties understood that each would adjust to changing circumstances, even if not bound to change by formal agreements, (5) the parties held mutual expectations that each would be flexible and responsive to requests by the other, even if not obliged by our formal agreements. The Cronbach’s alpha value for the scale of trust is 0.73.

Bargaining power. The variable of bargaining power was added as control variable into the model. It may influence the dependent variable because interest conflicts are likely resolved in favor of the powerful partner who has more residual decision right in the process of renegotiating the contractual conditions.
4. Analyses and results

4.1. Descriptive statistics

Table 1 presents the descriptive statistics and Pearson correlation coefficients for all variables. Although significant correlation exists among some variables, none of the correlation coefficients is high enough (> .80) to cause concern about severe multicollinearity (Hair et al., 1998).

Table 2. Descriptive statistics and correlation coefficients

<table>
<thead>
<tr>
<th>Variables</th>
<th>Mean</th>
<th>S.D.</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Ex-post opportunism</td>
<td>2.34</td>
<td>0.99</td>
<td>1.00</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Environmental uncertainty</td>
<td>2.57</td>
<td>0.96</td>
<td>0.177*</td>
<td>1.000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Transaction-specific</td>
<td>3.57</td>
<td>1.53</td>
<td>-0.378**</td>
<td>-0.140</td>
<td>1.000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>investments</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. Trust</td>
<td>5.89</td>
<td>0.85</td>
<td>-0.378**</td>
<td>-0.115</td>
<td>-0.179*</td>
<td>1.000</td>
<td></td>
</tr>
<tr>
<td>5. Bargaining power</td>
<td>5.14</td>
<td>1.47</td>
<td>-0.316**</td>
<td>-0.194*</td>
<td>-0.145</td>
<td>0.273**</td>
<td>1.000</td>
</tr>
</tbody>
</table>

* p < 0.05;  ** p < 0.01 (two-tailed)

4.2. Regression analysis

The hypotheses were tested by applying multiple regression analysis. Results are shown in Table 2. Each set of variables were included in the model block by block for testing the exploratory power of treatments. Model 1 includes only the control variable. Model 2 includes the transaction cost variables (environmental uncertainty, and transaction-specific investments). Model 3 includes the control variable and the direct effects of transaction cost determinants with trust as a relational variable. Finally, in addition to the effects of control variable, transaction cost variables and trust, the interaction effects of trust were integrated into the Model 4 that reflects the overall model of this research. In this model the largest variance inflation factor as an indicator of probable multicollinearity is 1.13, well below the 10.0 cutoff (Neter et al., 1985). Thus there is unlikely a multicollinearity problem.

Table 2. Regression results†

<table>
<thead>
<tr>
<th>Variables</th>
<th>Model 1</th>
<th>Model 2</th>
<th>Model 3</th>
<th>Model 4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Control Variables</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bargaining power</td>
<td>-0.316**</td>
<td>-0.217**</td>
<td>-0.160*</td>
<td>-0.186*</td>
</tr>
<tr>
<td>Direct Effects</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Environmental uncertainty</td>
<td>0.183*</td>
<td>0.170*</td>
<td>0.208**</td>
<td></td>
</tr>
<tr>
<td>Transaction-specific</td>
<td>0.416**</td>
<td>0.380*</td>
<td>0.415**</td>
<td></td>
</tr>
<tr>
<td>investments</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trust</td>
<td>-0.247***</td>
<td>-0.192*</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interaction Effects</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Environmental uncertainty x Trust</td>
<td>-0.194*</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Transaction-specific x Trust</td>
<td>-0.178*</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Model F</td>
<td>15.154**</td>
<td>17.513**</td>
<td>16.857**</td>
<td>13.078**</td>
</tr>
<tr>
<td>R²</td>
<td>0.100</td>
<td>0.280</td>
<td>0.335</td>
<td>0.373</td>
</tr>
<tr>
<td>Adjusted R²</td>
<td>0.093</td>
<td>0.264</td>
<td>0.315</td>
<td>0.344</td>
</tr>
</tbody>
</table>

†Standardized regression coefficients are reported. * p < 0.05;  ** p < 0.01

Model 1 shows that bargaining power of hoteliers as control variable has a negative and significant influence on ex-post opportunism (β = −0.316, p<0.01). According to the direct effects of transaction cost variables reported in Model 2, both environmental uncertainty (β = +0.193, p<0.05) and transaction-specific investments (β = +0.416, p<0.01) has a positive and strong significant impact on ex-post opportunism. These results confirm the transaction cost hypotheses (H₁ and H₂). The value of R² increased to 0.335 by adding the variable of trust in Model 3. This increase in the value shows an obvious improvement in the explanatory power of the model. Consistent with H₃, the findings show that there is a significant negative relationship between trust and ex-post opportunism (β= −0.247, p<0.01).

In Model 4, moderated regression analysis was used to examine the moderating effects of trust on ex-post opportunism. For the analysis, the scores of the main effects were mean centered prior to the creation of interaction effects to avoid problems of multicollinearity. The interaction coefficients are negative and significant. These findings provide support for the hypothesis H₃a (β= −0.194, p<0.05) and hypothesis H₃b (β= −0.178, p<0.05). As a result, this study shows that trust weakens the positive impact of environmental uncertainty and transaction-specific investments on ex-post opportunism.

5. Conclusion

This study investigates the influence of the transaction cost variables (environmental uncertainty and transaction-specific investments) as well as trust as a moderator on opportunist actions of the tour operators. The empirical results from the Turkish tourism industry confirm the transaction cost hypotheses. The findings indicate that increasing environmental uncertainty and investments in transaction-specific assets encourage ex-post opportunistic behaviors of the tour operators in the relationships with hotels. Furthermore, the results provide strong support for the moderating role of trust in the relationships between transaction cost variables and ex-post opportunistic behavior. Trust reduces the positive impact of transaction-specific investments on ex-post opportunistic behaviors of the tour operators by providing a relational safeguard against opportunistically exploitation of the investments made by the hotels. Trust also weakens the positive effect of environmental uncertainty on ex-post opportunism when it facilitates conflict resolution between the parties during the renegotiations of the contingencies by increasing cooperative orientation in adjusting future actions. In addition to the moderating role of trust based on the cost-benefit calculus view, this study shows that trust also has a main effect on ex-post opportunism by creating a situation of mutual goodwill between the parties. Consequently this study contributes to the literature by providing an opportunity to discuss both the direct effect and indirect effects of trust on ex-post opportunism.
6. References


