THE IMPACT OF INDUSTRY GROUP CULTURE ON THE DEVELOPMENT OF OPPORTUNISM IN CROSS-SECTOR ALLIANCES

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Abstract

Over the last two decades the world economy has dramatically transformed, with strategic alliances and partnerships across industrial and global boundaries becoming an important means to maintaining and regaining competitive positioning. In spite of an increase in partnership activity, alliances continue to face problems fuelled by factors such as partner opportunism, and cultural incompatibility. This paper highlights the emergence of opportunism in alliances arising from cross-sectoral partners’ differences in cultural values and norms. The literature indicates that cultural differences are important factors for understanding the behaviour of managers across sectors.

Keywords: Industry group culture, cross sector supply chain alliances, opportunism, Product service systems.

1.0 Introduction

More and more firms are realising the growth opportunities in developing alliances and partnerships both within and across industrial sectors. With this has come the recognition both amongst the academic community and supply chain practitioners, that a vital element to effective alliances is not only the ability to pick the right channel members and then establish and develop strong integrated relationships with them [1] but also to consider the cultural mindset of partners, which is shown to be critically important [2]. Indeed, much research now recognises the value of understanding the cultural context of organizations, and the importance of bridging cultural differences in buyer supplier relationships. In particular, it has become important to consider the influences that come from beyond the specific characteristics and relationship of the parties to an alliance, in the form of institutional arrangements that govern and constrain parties’ behaviours (such as informal rules, roles etc.)(3)-(5). Different ‘cultural spheres’ or distinct industry groupings, may share cultural values (such as trust and trust building) which may have a role in sustainability of alliances across such groupings [6] [7]. In a similar way, distinct industry groups may operate under a set of norms which lead to behaviours/attitudes that are not conducive to long term strategic partnering [5][8][9] within their own cultural spheres and with partners across sectors. Not only is a high degree of cultural consistency necessary for long term strategies to
be successful [4], but also the right cultural norms, values and expectations need to be generated and endorsed by the dominant players within an industry. In the light of the diversity of cultural norms, expectations, rules etc, in cultural groupings, building and managing alliances across sectors and country boundaries can prove difficult. Even though a written agreement may be signed by each partner, the real foundation underpinning these alliances is based on trust, commitment and co-operation between the parties. Given that such alliances are based on trust, commitment and co-operation, the partners’ perceptions of these attributes need to be congruent so that expectation on either side of the dyad will be reasonably similar. When alliances partners share a similar cultural background, such consistency in expectation should be a matter of course because each would most likely share the same culturally defined norms of what defines trust, commitment and co-operation. But what happens when the cultural background of each channel partner differs as in the case of alliance members across industrial sectors (PSS’s), and across countries such as exporters with foreign distributors [10].

2.0 Role of Industry Group Culture

Authors from a variety of backgrounds have developed definitions and frameworks of organizational culture. Culture represents a shared set of meanings and understandings about the organization and its issues, objectives and practices [11]-[14]. Whereas culture may be visible via rituals, dress codes, stories, physical layout rules of conduct [15], these represent the overt behaviours and other physical manifestations of their organization [11]. At an even deeper cultural level, are the underlying assumptions, such as beliefs, habits of perceptions, thoughts and feelings that are the ultimate source of values and action [2].

Conceptualisation of culture remain problematic, and continue to be greatly contested in different literatures. For the purposes of this paper, a definition of group culture is presented below. Group culture has been defined as a group level phenomenon consisting of a set of shared, taken for granted implicit assumptions that a group holds, and influences how the members of the group understand and respond to their environment. The content of ‘culture’- the specific assumptions, norms and values of the culture- shapes members’ patterns of behaviour [13] and creates an environment in which attitudes/behaviours are generated, endorsed and tolerated [5].

This paper is concerned specifically with industry group cultures that incorporate a strong tolerance to behaviours such as opportunism. Given that strategic alliances are sites in which tensions between co-operation and competition naturally occur [16], in those alliances where players operate under different norms from one another, the result may be conflicting behaviours and attitudes, leading to an intrinsic vulnerability and inherent instability of the alliance. Post contractual opportunism in alliances can have severe costs and consequences ranging from tentativeness in commitments, to alliance dissolution [17]. The costs of opportunism don’t end there as it can have a systems’ efficiency cost as total supply chain loses credibility in the eyes of the end user [18].

Opportunism or cheating in the context of alliances refers to intentional self interest seeking at the expense of another(s) assuming a prior in(formal) contract has been struck between parties. Typically in any trading arrangement, a minimum set of obligations will have been codified in a formal agreement. Under partnership,
a fuller set of obligations is generally made informally. Intentionally failing to honour those obligations represents cheating, or opportunism.

The assumptions surrounding the emergence of behaviours such as opportunism seem to be generally based on the immediate or local characteristics of the alliance dyad or partnership, such as ‘lock in investments’ [19], [20] loopholes in contracts [21], difficulties of terminating long term distribution contracts easily or cheaply [22], information asymmetry [23], and performance ambiguity between partners [24] [25], decision making uncertainty and cultural inconsistency, psychic distance [26] [27] monitoring, power [28].

The predominant proponents of this approach are typically rooted in economic theories of behaviour [29] of TCE [22]; [25]. [30] [24][31]-[33. Today, many supply chain theorists investigating relational risk arising from opportunism in exchange have been and still are being influenced by literature that implicitly treats opportunism as a partnership level phenomenon.

In contrast, very little consideration is given to the wider market group setting that players are part of, with little or no account of the power of ‘group culture’ that organizations knowingly or unknowingly are embedded in, which may be crucial in understanding why opportunism is more evident in some channel relations and some sectors. This is surprising given that economic behaviour, and in particular opportunism has been demonstrated to be largely constrained by social relationships or institutions, with shared beliefs, norms and mores (culture), [34][35]. Indeed, many studies demonstrate the impact of cultural norms operating within close-knit communities on the emergence of opportunism, and imply the existence of some sort of broad or local community effect on behaviour or attitude [36] [9] [37] [5]. This is significant to cross industry alliances and partnerships that operate under different cultural norms.

Despite this a limited amount of research has been conducting on understanding opportunism as a group based phenomenon, highlighting the need to examine the wider market context of economic transactions, the informal social relations and obligations that economic behaviour are embedded in, that provide the basis for behaviour, or the community pressure towards conformity and in-group norms [9].

As noted above, little theoretical or empirical attention has been paid to understanding how opportunism can emerge within and across different group cultures. Indeed, little research has examined opportunism as a result of cultural norms. One potential research aim is to explore how different industry cultures come to use opportunism as a strategy, and enact its development, both internally, (within the industry sector culture) and externally (across industrial sectors and cultures). How do different cultures’ ‘shared beliefs, ‘fabrics of meaning’ dictate (in)appropriate beliefs attitudes and behaviours about opportunism among its members? How can apparently conflicting cultural norms, beliefs or attitudes be reconciled so that trust may develop?
3.0 The Role of Industry Group/Organizational Culture in Influencing the Level of
Co-operation/Competition across Supply Chain Relationships

There is an increasing amount of literature which highlights the notion that cultural differences (of a group)
affect the dynamics of partnerships in different countries [39] [39]. Johnson, Cullen, Sakano and Takenouchi
[40] concluded that developing cultural sensitivity and cross-cultural preparation was necessary when entering
international alliances. Cultural sensitivity was the extent to which managers understood and adapted to
differences in their partner firm’s culture. Kim and Oh 2002 found that a supplier needed to understand the
importance of societal and cultural influences on distributor behaviour, especially with regard to commitment
and its impact on performance. Culture has been shown to cause differences in the perception of ethicalness of
negotation tactics [54], Boone & Witteloostuijn [53] found that culture has a substantial impact on the co-
operative or non-co-operative behaviour of American and Dutch participants in a Prisoner’s dilemma setting.

In the US construction sector, partnering is seen as a way to achieve an optimum relationship between client
and a contractor, it can be treated as a moral agreement that facilitates effective resolution of problems and
conflict without destroying the harmony between the clients and the contractors. For partnering to succeed,
Black et al [55] pinpointed that developing trust among partners is the most important factor. However they
also indicated that “few industries suffer more from conflict than construction’. As such Hawke suggests that
building mutual trust in construction is a myth, mistrust has been overwhelmingly deep seated and long
standing, and seems to have become the acceptable yardstick upon which to base transactions” [52].

Similarly in the UK grocery sector also, [5],[8],[18] found opportunism and mistrust to be endemic to the
sector. Hardy and Magrath (1989) identify cheating as commonplace and indeed endemic to a whole industry.
In particular sectors of retailing, such as consumer grocery packaged goods, a great many sales promotions
negotiated with suppliers by retailers in order to encourage pass along savings to end customers, in fact never
occur [18]. Cheating on payment terms is also common in channels. This is widespread in markets where huge
retailers hold great power over suppliers.

Grant’s(1989) exploratory research highlighted the appearance or relative absence of opportunism within and
across sectors appears to be strongly linked to variations in sector/market and sub market ‘culture’
characteristics, and the level of tolerance towards opportunism defined by market/group members and
expectation of it. The findings reveal market members define and enforce boundaries of ‘unacceptable’
behaviour using unofficial rules and sanctions, unwritten penalties, standards of conduct, and concerns for
reputation, which become embedded and transmitted via informal social and market networks. These
differences create variations in-group member tolerance and vulnerability towards opportunism occurring not
just between industrial sectors or markets, but also within sub-markets.

The Social Construction view also suggests that ‘rational maximizing’ (which manifests itself as opportunism)
is not a fundamentally human drive or instinct, but rather a socially and culturally defined strategy. As such
this perspective explicitly rejects the dominant economic notion that levels of opportunism are nothing more
than the sum of individual actor's independent preferences [9], or notions of psychological or moral
inclinations of individuals. The idea here is that the differences in levels of opportunism that are observed
among cultural groups such as markets or sectors are explained by social conditions in each group/sector. Opportunism in some groups like all other economic behaviours, is embedded in a specific social and cultural milieu. This theory further proposes that groups (i.e. within one market), can swing between periods of opportunism and restraint. In financial markets, for instance, market makers are pulled between the short-term attractions of extraordinary profits and the long term benefits of prudence. It is a dynamic process affected by pressures shaping behaviour. On the one hand, self interest as well as competitive pressures compel traders to seek to maximize profits in the short term through the locally available strategies of aggressive trading. This aggression may sometimes slip over the line into opportunism. On the other hand, self- interest, as well as social pressures, compel traders to preserve their income stream in the longer term by maintaining interpersonal relationships and attractive markets. This elicits strategies of restraint.

Similar explanations for group opportunistic behaviour can be found in the Business Ethics literature. While ethics are basically personal, and thus have to do with the behaviour of individuals, many authors believe behaviour is influenced by the norms of the environment and the peer group to which a person belongs [41]. In business environments, Plank et al [42] suggest that purchasing professionals approach ethical decision making with a set of values related to the socialization process both inside and outside of their profession. Often in business an individuals ethics may be misaligned with the ethics of the firm market or industry. Indeed, what may be disapproved of at a personal level, is often disregarded at a business level, and even accepted without comment. This is often regarded as ‘clever or sharp business’. All that matters is that the company makes the maximum profit [43]. Studies have often shown that individuals with strong personal moral and ethical values do not maintain the same values in the business community [44]. Bowman & Carroll's [45] research similarly found that people feel under pressure to compromise their personal standards in order to achieve the goals of the organization. A survey by Pitney-Bowes Inc (1989), a manufacturer of business equipment, revealed that 95% of its managers feel pressure to compromise personal ethics to achieve corporate goals. A similar study on Uniroyal managers, found 70% feel pressure to compromise ethics (which included types of opportunistic behaviour [46]. Most managers at the above companies believe most of their peers would not refuse orders to market off-standard, and possible dangerous products [46]. These and other studies suggest unethical behaviour (including opportunism) can stem from pressure imposed by superiors, absence of a corporate ethical code, the industry ethical climate and behaviour of peers [47].

Others however, within this discipline have focused on behavioural attributes as the root to unethical behaviour. For instance, Newstrom & Ruch [48] suggest managers are motivated by self interest and will therefore have a propensity to act unethically if it is to their advantage, and if the barriers to unethical practices are reduced or removed.

In addition to the influence of the climate (environment) of the organization, the role of top management, superiors and colleagues, the ethical level of behaviour is determined by the existence of limited (or a shortage of) productive resources [44]. These ‘economic’ considerations are echoed in the findings by Ulrich and Thilemann’s [49], who suggest the majority of managers take into account both ethics as well as economics in specific decision making problems. The implication is that ethical demands must not jeopardize a company’s continued economic success, as a company incapable of satisfying the requirements of the market will disappear from the scene before long. Managers reconcile the requirements of achieving economic success with the ethical demands of which they are responsible, by legitimising their activities. As such there is no
average ethical profile for a manager but a whole range of thinking patterns that managers apply in the field of tension between ethical and managerial aspects [49]. In this study the authors use the concept of ‘economizing’ and opportunism synonymously, implying self-interest seeking is not necessarily unethical, it can be just good business practice.

Empirical findings on ethical business research reveals unethical practices arise from a variety of sources, including accepted practices within an industry. This may be the result of falling ethical standards so that practices once considered unethical are no longer viewed as such. Examples include the substitution of materials without customer knowledge after the job has been awarded; mis-representing the contents of products; scheduled delivery dates that are known to be inaccurate to get a contract [50]. Competitive pressures from outside the organization can also push ethical considerations into the background. Societal forces have also been blamed for causing lower ethical standards. These include an increase in social decay, materialism and hedonism, loss of church and home influence, competition, current economic condition, political corruption: greed, desire for gain, ‘worship of the dollar’ as a measure of success, selfishness of the individual, lack of personal integrity and moral fibre; greater awareness of unethical acts, and TV/communications creating an atmosphere for crime [51].

This literature highlights the implications for the sustainability of ‘co-operative partnership’ across players operating under diverse societal and group cultural norms and values. Indeed can ‘partnerships’ across sectors ever be stable and mostly free from opportunistic abuse in those markets where high levels of tolerance as defined by its members are considered acceptable? In the light of these studies, and given the continuing rise in ‘partnership structures’, and ‘outsourcing’, within and across industry sectors, and the lack of research comparing ‘market culture’ systematically across industrial sectors or geographical areas of a country, an extension to this work is timely and important.

In the light of the literature presented, the research proposes the following propositions:

1. Firms will tend to engage in activities and behaviours that reflect or at least are consistent with their values, culture, and predominant market group culture [5].

2. Predominant industry group culture (values, norms expectations, social obligations etc) influence a firm’s relational behaviours towards its partners in strategic alliances. Market values play a role in influencing the types of relationships that will be established, and determine the level of co-operation that can exist between partners.[5].

3 Cross-sectoral 'relational exchange' partners who do not share the same or similar market cultural values are less likely to be sustainable in the long term and vice versa. This may have implications for the sustainability of cross sector/country partnership alliances.

Given the continuing rise in inter-firm co-operation within and across industry divides, and the accelerated rise of global sourcing, this new corporate paradigm of increasing firm dependency on external organizations for
critical business processes, services, components and raw materials means that effective relationship management is crucial [29] [28]. Indeed, it is through understanding what causes behaviours such as opportunism to emerge, or what inhibits opportunism that practitioners are better able to predict and manage partners behaviours better. Failing to recognise the impact of industry group cultures on behaviour by managers, means the knowledge of strategies for managing potential opportunism remains incomplete. The implication for managers who disregard the wider cultural impact on behaviour (arising from group norms, obligations etc) on individual players, may result in unnecessary costs of controlling behaviour [34], loss of reputation [28] and increasing costs. Additionally, the assumptions made about a partners’ behaviour will have an impact on relationship management strategies that managers select. i.e. maybe they are less open than they would normally be, wary less willing to divulge confidential information etc. The study suggests that greater understanding of the cultural and market group implications of collaborative working arrangements are needed if practitioners are to manage collaborative buyer-supplier relationships whether across the UK or globally.

4.0 Conclusions

As co-operative activity amongst organizations, both within and across national and international borders accelerates, more needs to be known about whether predominant/strong social, or market based values, obligations and expectations within which transactions are conducted and embedded can influence the risk of behaviours such as opportunism arising. Building trust, commitment and co-operation whilst refraining from opportunism among supply chain members operating in domestic channels, where the partners come from similar group cultures can be challenging. In those contexts where cultural backgrounds may be dissimilar as in PSS’s for example, the challenge will be even greater. In short where cultures are substantially different, trust, commitment and co-operation are more difficult to attain [10], and sustainability in alliances more difficult to achieve. Without a sound understanding of the foundation of culture that influence behaviour, it will be difficult to successfully implement supply chain initiatives. Without the understanding of the importance and significance of cultural diversity amongst partners involved in cross-sectoral partnerships, the sustainability of these alliances cannot be guaranteed.

References

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