

# The Role of Ownership in Managing Interfirm Opportunism: A Dyadic Study

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We extend research on transaction cost theory that shows that vertical integration enables firms to protect their investments in exchange relationships better than market mechanisms. However, extant research finds ownership to exacerbate, rather than limit, exchange partner opportunism. Hence, the purpose of this study is to investigate conditions under which ownership can be effective for constraining an exchange partner's opportunism. Using matched dyadic data for 296 hotel brands, we conduct multi-level hierarchical linear modeling and identify conditions under which common ownership limits hotel opportunism. Findings indicate that ownership can limit hotel opportunism when brand headquarters can easily monitor the hotel's activities.

*Keywords:* Canada, hierarchical linear modeling, interfirm relations, opportunism, ownership, transaction cost theory, United States

At times in their interfirm relationships, distribution channel organizations may take advantage of their exchange partners by behaving guilefully. This opportunistic behavior adversely impacts channel member satisfaction (Gassenheimer et al., 1996) as well as the relational exchange norms among channel partners (Gundlach et al., 1995; Sindhav & Lusch, 2008). It also increases transaction costs (Luo, 2007), including the costs of monitoring the channel (Dahlstrom & Nygaard, 1999). Such costs, along with others, can lead to decreases in the channel's performance (Claycomb & Frankwick, 2010). Thus, managing opportunism in interfirm relationships, such as distribution channels, improves relationship quality and is an important task (Li, 2007).

Previous research has identified a number of mechanisms that can be useful in limiting interfirm

opportunism. Among them are common ownership (Williamson, 1985), congruent goals among channel members (Anderson, 1988; Jap & Anderson, 2003), investments in idiosyncratic assets (Rokkan et al., 2003; Williamson, 1985), monitoring partner activities and outcomes (Heide et al., 2007), and relational exchange norms (Brown et al., 2000; Vázquez et al., 2007).

The article is organized as follows. First, we use transaction cost theory, agency theory, and relational exchange theory to discuss channel member opportunism and explain how specific facets of common ownership can manage it. We also use these theories to develop hypotheses that explicate how a firm's characteristics as well as its partner's characteristics can moderate the impact of common ownership in limiting partner opportunism. Next, we describe an empirical study designed to test the conceptual framework suggested by our hypotheses. After we discuss our empirical findings, we explore their implications for both managers and researchers. We then summarize our research and succinctly draw some conclusions from it.

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## THEORY AND HYPOTHESES

The prescriptive aim of transaction cost economics is to devise organizational structures that minimize the sum of production costs and transaction costs (Williamson, 1985). The former represent the costs of undertaking various business functions (e.g., the costs of producing and marketing goods and services and the cost of financing those activities). The latter represent the costs of searching for exchange partners, initiating an exchange relationship, and maintaining that exchange. During the past two decades or so, researchers have focused upon the latter set of costs in determining how best to organize and manage their selling and distribution channels (e.g., Kabadayi, 2011; Kim et al., 2009; Klein et al., 1990; Pappu & Strutton, 2001).

While a number of factors influence the level of transaction costs in an economic exchange, one important driver is opportunistic behavior by exchange partners. Opportunism is “self-interest seeking with guile” (Williamson, 1985, p. 47). Guileful self-interest seeking entails the withholding or distorting of critical information or willful evasion or shirking of contractual obligations (Wathne & Heide, 2000). Whereas *ex ante* opportunism occurs before an exchange relationship is actually developed (Williamson, 1985), we focus our research upon *ex post* opportunism (i.e., opportunistic behavior that occurs after an exchange relationship has been developed).

*Monitoring* is the assessment of the inputs, outputs, and general conditions of the firm’s trading partners (Rubin, 1990). One goal of monitoring is to overcome any information imbalances in the exchange relationship and, thereby, increase the transparency of channel member performance (cf. Bergen et al., 1992). We investigate incentives and socialization as mechanisms for managing channel opportunism. *Incentives* can either be positive rewards or negative sanctions whose purpose is to motivate exchange partners toward the desired behavior (e.g., refrain from opportunism). Incentives can include legal contracts (Achrol & Gundlach, 1999), formalized policies and procedures (Dahlstrom & Nygaard, 1999), and formal controls (Gilliland & Manning, 2002). While the influence strategy content of channel communications represents the processes by which socialization is implemented and channel member incentives are employed (cf. Boyle et al., 1992; Mohr et al., 1996), our focus is not on these processes themselves but rather on the resultant states of these processes.

### The Role of Ownership in Managing Interfirm Opportunism

Transaction cost economics (TCE) theory argues that ownership is an additional means of limiting

opportunism (e.g., Williamson, 1985). Consistent with TCE, we define *common ownership* as hierarchical governance within an exchange relationship. Hierarchical governance in our study means that the complete equity stake of both the supplier and the reseller is held by a common owner. Ownership encompasses the three mechanisms of monitoring, incentives, and socialization.

Through the legitimate authority endowed by common ownership, firms gain insider access to information; they also become privy to informal information that floats through organizations (Williamson, 1985). Such information access enables firms to more easily and accurately monitor the behavior and outcomes of its employees (Anderson & Weitz, 1986; Williamson, 1985). This higher-quality monitoring, thereby, enables the firm “to reduce [the] opportunistic tendencies” of its exchange partners (Stump & Heide, 1996, p. 433). Further, higher-quality monitoring increases social pressure on monitored parties to perform according to agreed-upon policies and procedures (Wathne & Heide, 2000). Thus, reduced information asymmetries and enhanced social pressures that result from higher monitoring quality limit the partner’s ability to behave opportunistically, especially in the presence of common ownership.

This discussion suggests the following hypothesis.

**Hypothesis 1:** The negative effect of common ownership on reseller opportunism is expected to be enhanced (diminished) the higher (lower) the quality of the supplier’s reseller monitoring.

Transaction-specific assets are those investments devoted to a particular exchange relationship that cannot be easily transferred outside of that relationship (Joshi & Stump, 1999; Williamson, 1985). A supplier’s investment in specific assets signals to the reseller that its promises “can be believed, it cares for the relationship, and it is willing to make sacrifices through such investments” (Ganesan, 1994, p. 5). In addition, such investments create value for the reseller, thereby linking the reseller to the supplier and discouraging the reseller from behaving opportunistically (Rokkan et al., 2003; Vázquez et al., 2007).

This incentive should strengthen the efficacy of common ownership for two reasons. First, the supplier’s investment in specific assets in this situation sends a strong signal to reseller management that it is valued and trusted (Dyer, 1997). We expect reseller management to affirm the supplier’s judgment by acting in the best interests of the firm by avoiding opportunistic behavior, for example. The second reason is that company employees risk their long-term employment if they are caught behaving opportunistically (Anderson, 1988). Individual

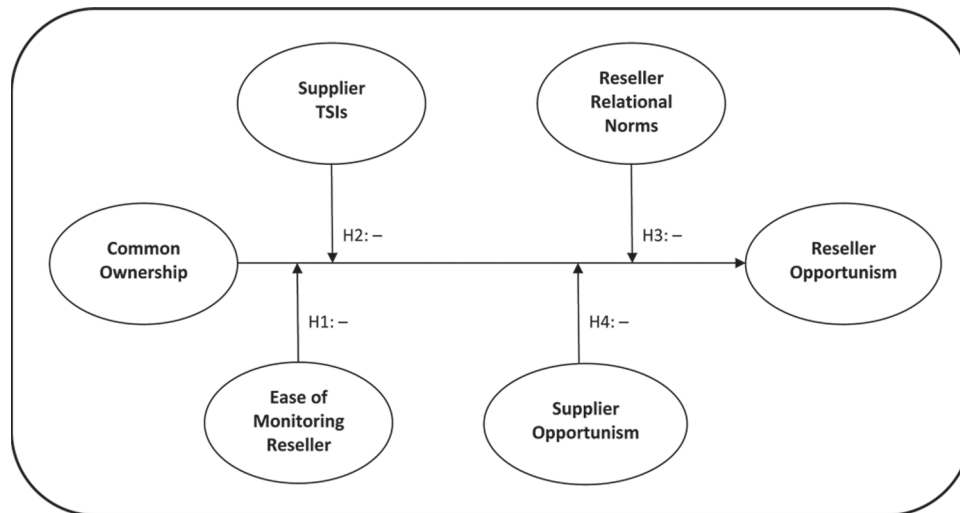


FIGURE 1 The role of ownership in managing interfirm opportunism.

employees may not be as resilient in these situations as independent firms. Thus we hypothesize:

**Hypothesis 2:** The negative effect of common ownership on reseller opportunism is expected to be enhanced (diminished) the more (less) that the supplier has made transaction specific investments to support its relationship with the reseller

Common ownership facilitates the development of shared goals (Teng & Das, 2008). The process by which these shared goals develop is socialization (Wathne & Heide, 2000). In our study, we view this socialization process as manifesting itself in terms of shared relational norms, which then promote interfirm goal congruence (Anderson, 1988; Jap & Anderson, 2003). Through the process of “mutual and self-regulation” (Joshi & Stump, 1999), such norms limit opportunism (e.g., Brown et al., 2000; Vázquez et al., 2007). Where opportunistic behavior occurs, relational norms have a difficult time taking root (cf. Gundlach et al., 1995; Hawkins et al., 2008). Thus, we believe that

**Hypothesis 3:** The negative effect of common ownership on reseller opportunism is expected to be enhanced (diminished) the stronger (weaker) the exchange norms in the supplier-reseller relationship.

Research has shown that channel members tend to reciprocate one another’s behavior, especially influence strategies (e.g., Frazier & Summers, 1986). Similarly, firms that act opportunistically toward their exchange partners can expect to have their behavior reciprocated (Gilliland & Manning, 2002; Provan & Skinner, 1989;

Ross & Robertson, 2007), because “[o]pportunism begets opportunism” (Gundlach et al., 1995, p. 82).

While tit-for-tat retaliatory behavior tends to be dysfunctional (Parks & Komorita, 1998), a firm’s threat to retaliate against its partner’s opportunism can be a useful, albeit “myopic,” tool for managing opportunism (cf. Williamson, 1993, p. 105). “A threat of retaliation may work well against a potentially misbehaving partner because it tends to convey the clear message that the partner’s self-interest may be jeopardized” (Das & Rahman, 2001, p. 62). However, the effectiveness of such threats depends upon the partner’s perceptions of their credibility and the capability of the firm to carry out the threat (cf. Danilovic, 2001, p. 343). One way to demonstrate the firm’s credibility and capability is to behave opportunistically against its partner. Such behavior can promote efficient outcomes (e.g., Eaton & Morrison 2003, p. 42). We expect the legitimate authority inherent in common ownership to add further weight to the threat of retaliation (cf. Heide, 1994). Hence, we predict that

**Hypothesis 4:** The negative effect of common ownership on reseller opportunism is expected to be enhanced (diminished) the more (less) opportunistically the supplier behaves toward the reseller.

Figure 1 graphically represents the hypotheses described above.

## METHOD

### Study Context

We test the hypotheses and the overall model depicted in Figure 1 in the context of distribution channel relations within the hotel industry. We focus on the dyadic channel

relationship between the hotel (the reseller in this case) and its brand headquarters (the supplier).

The hotel industry was chosen for two key reasons. As Dahlstrom et al. (2009) note, effective channel relationships between hotels and their brand headquarters are necessary to achieve market success, and relationships between hotels and their brand headquarters vary in depth and complexity. The unit of analysis in our study was the relationship between two well-known hotel companies (i.e., the brand headquarters) and their individual hotel properties (i.e., the hotels themselves) in the United States and Canada. Because our hypotheses incorporate the perspectives of both the reseller and the supplier, we conducted two separate, but concurrent, mail surveys of both the hotel (i.e., the reseller) and its brand headquarters (i.e., the supplier).

The hotel general manager survey yielded a response rate of 28.8%, while the brand representative survey generated a response rate of 70.9%. Because of missing data in both surveys, we could match only 296 hotels with their brand representatives, amounting to 17.9% of the hotel general managers who were delivered mailed questionnaires. Thus, we test our hypotheses using a matched sample of 296 hotel brand headquarters relationships, as reported on by 296 hotel general managers (one per hotel) and 37 brand representatives (reporting on about 8 hotels each).

Note that the hotels in our sample are (a) either owned by the hotel brand ( $n=49$ ) or franchised by an independent owner ( $n=247$ ), and (b) either operated under a separate management service contract ( $n=149$ ) or are independently managed ( $n=147$ ). Regardless of the hotel's operating arrangement, the hotel's general manager must ensure that the hotel adheres to the brand's standards. However, because of ownership's prominence in TCE, the goal of this research is to understand some conditions under which hotel ownership is effective in limiting channel partner opportunism. For this reason, our focus is on the individual hotel property's ownership arrangement, not its operating arrangement.

## Measures

We measured our constructs using structured questionnaires in both surveys. To ensure the content validity of the measures, we thoroughly reviewed the relevant academic and practitioner literatures to guide our questionnaire development. In addition, we refined our questionnaire through an extensive pretest with hotel practitioners. As a result of these steps, we believe that our measures possess adequate content validity. Except where noted, all constructs were measured with 7-point Likert-type scales (Appendix A).

### *Hotel General Manager Measures*

Constructs that the hotel general managers reported on included hotel opportunism toward its brand headquarters, hotel ownership, and hotel perceptions of the relational norms governing the hotel brand headquarters relationship.

*Opportunism* refers to self-interest seeking with guile; therefore, any measure of that construct must reflect not only self-interest seeking, such as rational self-interest (Al-Khatib et al., 2011) but guile as well. We adapted four items developed by previous researchers investigating opportunism (e.g., Anderson, 1988; Dwyer & Oh, 1987; John, 1984; Provan & Skinner, 1989).

To measure *hotel ownership*, we asked each hotel's general manager to indicate on a nominal scale whether the hotel was 100% owned by brand headquarters, partially owned by the brand headquarters, or 100% independently owned. Only a small number of our sample hotels were partially owned; therefore, we focused solely on those that were either 100% brand-owned (i.e., common ownership) or 100% independently owned. We then used a dummy variable (OWN) to represent hotel ownership (OWN=0 for independently owned hotels and OWN=1 for hotels owned by brand headquarters).

Macneil (1980) states that the *relational norms* of preservation of the relationship, role integrity, and harmonization of conflict are especially intensified in relational exchanges. Relationship preservation refers to the desire to maintain the relationship into the future, while role integrity refers to the expectations for future performance and the flexibility to accommodate future role needs (Kaufmann & Stern, 1988; Macneil, 1980). "The norm of harmonization of relational conflict refers to the extent to which channel members achieve mutually satisfying resolution of their conflicts (Macneil, 1980)" (Brown et al., 2000, pp. 53–54, emphasis deleted). Hotel general managers rated these three aspects of their channel relationship, based on items developed by Kaufmann and Dant (1992). (See Appendix A.)

We used confirmatory factor analysis to evaluate the reliability and validity of the hotel-level measures. In our measurement model, we conceived relational norms as being a second-order factor reflected by relationship preservation, role integrity, and conflict harmonization; all other constructs were posited to be first-order, reflective measures. We dropped four questionnaire items due to excessively high residuals—one opportunism item and three relational norms items. The resulting measurement model for the hotel-level constructs was estimated and found to fit the data adequately ( $\chi^2=118.851$ ,  $df=49$ ,  $p\leq.01$ ; GFI=0.939, CFI=.947, RMSEA=0.070).

For each multiple-item construct, the composite reliability coefficient exceeded the recommended guideline of 0.60 (Bagozzi & Yi, 1988). All factor loadings were

statistically significant. As evidence for the measures' discriminant validity, each factor was significantly smaller than unity (Phillips, 1981), and each factor's average variance extracted exceeded its squared correlation with every other factor (Fornell & Larcker, 1981). As a whole, these results provide evidence of the reliability and validity of our hotel-level measures.

### *Brand Representative Measures*

We measured brand headquarters opportunism toward the hotel by adapting the questionnaire items used with the hotel general managers' sample. We used four questionnaire items developed by Anderson (1988) and John and Weitz (1988) to measure *ease of performance monitoring* (see Appendix A).

*Transaction-specific assets* (TSAs) are those investments that are devoted to the channel relationship and have little value outside of that relationship. In the hotel industry, TSAs are primarily intangible (e.g., time and effort developing a customer base for the hotel, systems and procedures tailored to the hotel). Based on previous research (Klein et al., 1990), we developed four items to measure the brand headquarters' investment in idiosyncratic assets (see Appendix A).

Our empirical study examines two supplier organizations. We set *BRAND*=0 for the first hotel brand and *BRAND*=1 for the second. We included this dummy variable to account for any differences in the way in which these two firms manage their hotel system.

Recall that our sample is composed of matched responses between hotels and their brand representatives. With 37 brand representatives reporting on 296 hotels, the average representative reported on 8 hotels. Because of the consistency motif—the phenomenon wherein “respondents apparently have an urge to maintain a consistent line in a series of answers, or at least what they regard as a consistent line” (Podsakoff & Organ, 1986, p. 534)—the data from these representatives may suffer from halo effects, leniency or harshness, and central tendency, all symptomatic of informant reports that are not independent (Cocanougher & Ivancevich, 1978). Hence, the data from these representatives violate the usual independence assumption required in multivariate analysis.

To overcome this problem, we computed the mean responses for each representative on each questionnaire item. Based on these means, we then estimated a first-order confirmatory factor analysis measurement model to assess the reliability and validity of our brand representative-level construct measures. Because of the small sample problems in such an analysis, we used the jackknife technique to develop parameter estimates as well as estimates of various goodness-of-fit indices (Crask & Perreault, 1977; Fenwick, 1979). The advantage of using

this method with small samples is that it provides unbiased or nearly unbiased estimates. We developed programming code built around SAS PROC CALIS to generate our jackknifed estimates of our first-order confirmatory measurement model.

Except for the jackknifed RMSEA estimate, the model appeared to fit the data acceptably ( $\chi^2=77.585$ ,  $df=24$ ,  $p\leq .01$ ; GFI=0.931, CFI=.919, RMSEA=0.17). The jackknifed loadings were all statistically significant ( $p\leq .01$ ), and the construct reliabilities were strong (i.e., the smallest was 0.883 for the ease of monitoring the hotel's performance). The jackknifed factor correlation between the brand headquarters opportunism and the brand variable was quite high (0.705). However, its squared value was less than the minimum corresponding average variance extracted for these two constructs, thereby providing evidence of the discriminant validity of these two measures (Fornell & Larcker, 1981).<sup>1</sup> All of this suggests that our measures for the brand representative constructs are sufficiently reliable and valid to proceed with hypothesis testing.

### Data Analysis

Since virtually every brand representative reported on multiple hotels, the brand representative data may violate the independence assumption of OLS regression analysis. To combat this problem, we use hierarchical linear modeling (HLM) to estimate the model depicted in Figure 1. By treating the representatives as groups and, for each representative, computing the mean response for each questionnaire item, HLM controls for the dependence among each representative's reports for each of his or her hotels.

As a result of the fact that HLM presumes a multi-level structure to the data, it can provide improved estimates of effects within individual units (e.g., channel member firms) and can be used to estimate the impact of variables measured at one organizational level (e.g., supplier) on those measured at another (e.g., reseller) (cf. Raudenbush & Bryk, 2002). Thus, we posit a hierarchical linear model for representing our hypothesized relationships among hotel-level and brand-representative level constructs. The hierarchical linear model that we estimate in our study is derived in Appendix B.

To enhance the interpretability of the parameter estimates, we normalized the exogenous variables of Equation B6 (Appendix B) (cf. Aiken & West, 1991).

<sup>1</sup>The magnitude of the correlation between brand headquarters opportunism and the brand variable suggests that multicollinearity might be a potential problem in our data analysis. We re-estimated our HLM model of Figure 1 by dropping the brand variable. The results did not change meaningfully; significant coefficients remained significant, and nonsignificant coefficients stayed nonsignificant. This suggests that the high correlation between these two construct measures had no bearing on our results.

TABLE 1  
Means, Standard Deviations, and Correlations Among Measures

	1	2	3	4	5	6	7	8	9	10	11
1. HOPPRT	1.000										
2. OWN	0.049	1.000									
3. HREL	-0.266	0.077	1.000								
4. QTSA	0.047	0.145	-0.069	1.000							
5. QOPRT	-0.040	-0.021	0.037	-0.063	1.000						
6. QMON	0.026	0.166	-0.059	0.325	-0.497	1.000					
7. BRAND	-0.062	0.141	-0.138	0.214	-0.039	0.047	1.000				
8. OxQOPRT	-0.005	-0.040	-0.026	-0.079	0.432	-0.232	-0.152	1.000			
9. OxQMON	-0.056	0.351	0.027	0.195	-0.255	0.403	0.109	-0.588	1.000		
10. OxQTSA	0.004	0.296	0.006	0.413	-0.084	0.189	0.210	-0.191	0.459	1.000	
11. OxHREL	-0.032	0.182	0.353	0.007	-0.032	0.030	0.025	-0.073	0.064	0.006	1.000
Mean	2.062	0.169	0.000	0.000	0.000	0.000	0.196	-0.008	0.062	0.054	0.029
Std. dev.	1.090	0.375	1.000	1.000	1.000	1.000	0.398	0.431	0.393	0.406	0.350
Composite reliability	0.726	—	0.949	0.898	0.933	0.883	—	—	—	—	—
Avg. variance extracted	0.507	—	0.866	0.758	0.823	0.721	—	—	—	—	—

Descriptive information, including the means, standard deviations, and correlations, among the measures incorporated in our model, are reported in Table 1. We then estimated the composite equation (i.e., Equation B6) using SAS PROC MIXED (Singer, 1998).

## RESULTS

The results of our analyses appear in Table 2. Our mean-centered intercept term in the null model indicates that the level of hotel opportunism varies significantly ( $p \leq .01$ )

TABLE 2  
Managing Distribution Channel Opportunism: The Role of Ownership

Variable	Hypothesis	HLM results				OLS estimate
		Null model		Hypothesized model		
		Fixed effect estimate	Random variance component estimate	Fixed effect estimate	Random variance component estimate	
Hotel-level effects						
Intercept		2.066 <sup>a</sup>		2.127 <sup>a</sup>	0.172	2.095 <sup>a</sup>
OWN				0.307 <sup>c</sup>	0.224 <sup>a</sup>	0.347 <sup>b</sup>
REL <sub>hotel</sub>				-0.379 <sup>a</sup>	0.008	-0.338 <sup>a</sup>
OWN × REL <sub>hotel</sub>	H3 (+)			0.223	0.000 <sup>d</sup>	0.190
Brand representative-level effects						
MON <sub>hq</sub>				0.024		0.008
TSA <sub>hotel</sub>				0.036		0.048
OPP <sub>hq</sub>				0.033		-0.019
BRAND				-0.271		-0.381 <sup>a</sup>
Cross-level effects						
OWN × MON <sub>hq</sub>	H1 (-)			-0.501 <sup>b</sup>		-0.486 <sup>b</sup>
OWN × TSA <sub>hq</sub>	H2 (-)			0.025		0.104
OWN × OPP <sub>hq</sub>	H4 (+)			-0.377 <sup>b</sup>		-0.272 <sup>c</sup>
Between-brand representative residual variance			0.031		0.404	
Intra-class correlation			0.026			
Incremental explained variance					10.8%	
R <sup>2</sup> ( $F=3.46$ ; $df=10,285$ ; $p<.05$ )						0.108
AIC				896.8		895.9

<sup>a</sup> $p \leq .01$ .

<sup>b</sup> $p \leq .05$ .

<sup>c</sup> $p \leq .10$ .

<sup>d</sup>Fixed parameter.

across brand representatives (cf. Raudenbush & Bryk, 2002). This finding motivates us to try to account for those factors that might be responsible for that significant variation, such as our hypothesized model. The results in Table 2 show that this model accounts for a substantial reduction in the within-representative residual variance (10.8%). Further, the AIC coefficient is smaller for our hypothesized model than the null model (895.9 versus 896.8, respectively), indicating a somewhat better fit to the data.

In terms of the variance components of the hypothesized model, Table 2 shows that the between-brand representative variance is 0.404, which represents 11.9% of the total variance. The significant random variance component estimate for the ownership variable (0.224,  $p \leq .01$ ) accounts for 15.7% of the total variance. This means that additional systematic variance in the ownership parameter could be explained by other hotel-level predictors (Hofmann, 1997). The variance component estimate for relational norms is quite small (0.008,  $p > .10$ ; 0.6% of the total variance), indicating that little additional systematic variance in the relational norms could be explained by other hotel-level predictors. Overall, within-brand representative variance amounted to 71.9% of the total variation in hotel opportunism.

The hotel-level parameter estimates for the hypothesized model are reported in Table 2. The intercept term indicates that the average hotel opportunism, after controlling for the various fixed effects, is quite low (i.e., 2.127 on a seven-point scale). The hotel-level results also indicate that company-ownership of the hotel slightly exacerbates the level of hotel opportunism directed toward brand headquarters (0.307,  $p \leq .10$ ). In contrast, when hotel general managers see their relationships with brand headquarters as being governed by strong relational norms, hotel opportunism towards brand headquarters is lower ( $-0.379$ ,  $p \leq .01$ ). The interaction between hotel ownership and the extent of relational norms (as seen by the hotel) has no significant impact on hotel opportunism (0.223,  $p > .10$ ). This result fails to support H3, the only hypothesized hotel-level relationship.

Table 2 shows cross-level HLM effects. We found that, when brand headquarters can easily monitor the process and outputs of its hotels, brand ownership leads to reduced hotel opportunism ( $-0.501$ ,  $p \leq .05$ ). To provide further insights into this significant cross-level effect, we decomposed it using the procedure described by Aiken and West (1991). The results of these steps appear in Figure 2.

Figure 2A shows that, when monitoring the hotel is difficult (i.e., low monitoring ease), brand headquarters faces higher opportunism from brand-owned than from independently owned facilities. When monitoring is relatively easy, brand headquarters experiences lower levels of opportunism from brand-owned hotels than

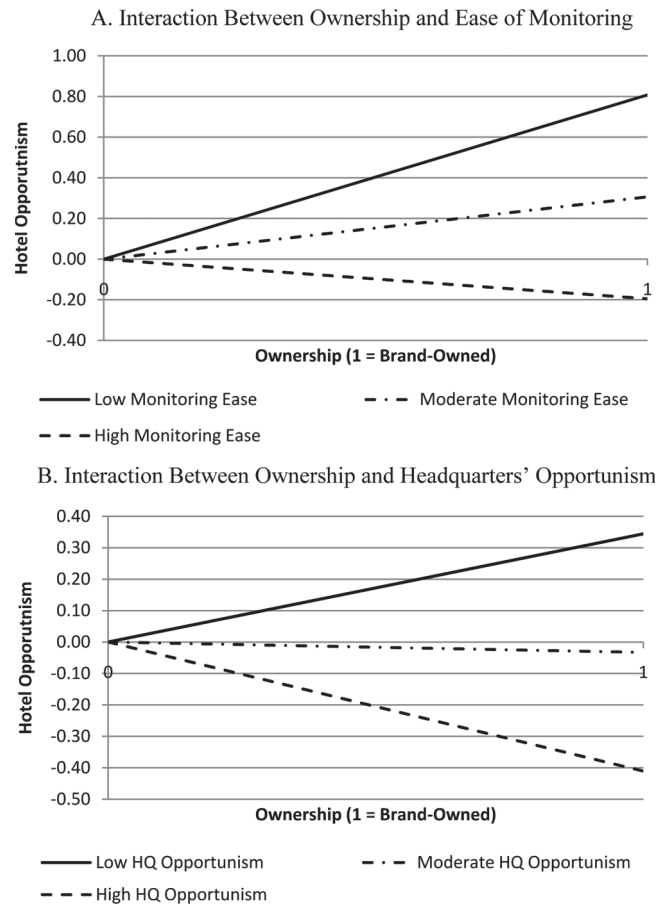


FIGURE 2 Decomposition of significant cross-level effects.

from independently-owned ones. Figure 2A shows that moderately difficult monitoring exhibits the same pattern as does difficult monitoring, but to a lesser degree. These results are consistent with our prediction in H1.

The findings in Table 2 indicate that the cross-level effect between hotel ownership and the brand headquarters' investment in transaction specific assets has no significant bearing on hotel opportunism (0.025,  $p > .10$ ). This finding is not consistent with our H2 prediction.

Table 2 also shows that the positive link between the hotels being brand-owned and hotel opportunism was dampened when the brand headquarters acted opportunistically against the hotel ( $-0.377$ ,  $p \leq .05$ ). This finding is consistent with our H4 expectations.

We decomposed this significant cross-level effect to provide more insight into this finding (Figure 2B). This graph shows that, when the brand headquarters behaves less opportunistically, the brand-owned hotels tend to engage in more of their own opportunism than do independently owned properties. As expected, higher levels of brand headquarters opportunism constrains opportunism by brand-owned hotels, relative to independently owned ones. Company ownership of the

hotel appears to have no significant effect on hotel opportunism when headquarters engages in moderate levels of opportunism.

In Table 2, we also report the OLS estimates for Equation B6, after pooling its error terms. In general, the OLS parameter estimates mirrored those for the HLM analysis, except for small differences in magnitudes and two key exceptions. First, the OLS parameter for the BRAND dummy variable achieved statistical significance, while its HLM counterpart did not. Second, the OLS parameter for the  $OWN \times OPP_{\text{supplier}}$  parameter was marginally significant ( $p \leq .10$ ), while its HLM equivalent reached the 0.05 level of significance. These differences occur because OLS cannot control for the interdependencies within the brand representative-level data, while HLM can.<sup>2</sup>

In summary, some of the HLM findings were consistent with our theoretical expectations, while others were not. In the following section, we discuss these results and their implications for managers and researchers.

## DISCUSSION

The objective of our study was to investigate the impact of ownership as a mechanism for limiting one firm's opportunistic behavior toward another. We argued that the extent of the hotel's opportunistic behavior toward its brand headquarters was partially determined by its own characteristics, the brand headquarters' characteristics, and how the hotel's characteristics interacted with the brand headquarters' characteristics.

### Research Implications

Contrary to TCE theory, the "main effect" of common ownership aggravated, rather than limited, hotel opportunism. By aggressively implementing sanctions under the rights of ownership, firms "exacerbate rather than limit opportunism" and, thereby, provoke "the very behavior they were intended to discourage." (Brown et al., 2000, p. 62). Our cross-level findings reveal two conditions under which ownership *does* effectively limit opportunism in distribution channels, however. The first is ease of monitoring, and the second is retaliation.

<sup>2</sup>To examine the possibility that the operating arrangement might affect hotel opportunism, we included a dummy variable representing the presence of a management contract (1=the hotel was operated under a management contract; 0=the hotel was independently managed) in both the HLM and OLS analyses. In neither case did this dummy variable achieve statistical significance ( $p > .10$ ). Further, including the dummy variable weakened the overall fit of both estimated models. Thus, the management contract dummy variable was excluded from our analysis.

### Ownership and Ease of Monitoring

As just noted, we found that brand ownership of the hotel, by itself, led to increased hotel opportunism; this is especially true when coupled with conditions of lower-quality monitoring. Thus, independent ownership is more effective in limiting opportunism when only low-quality monitoring is possible. In these situations, profit-sharing arrangements limit partner opportunism by aligning the goals of the channel firms more closely. Stated somewhat differently, the positive impact of ownership on partner opportunism can be offset if the supplier is able to engage in high quality monitoring.

### Ownership and Retaliation

Our results also indicate that the link between ownership and the hotel's opportunism is negative when the brand headquarters engaged in its own opportunistic behavior toward the hotel. Although the sanctioning power of ownership may create the psychological reaction that boomerangs into opportunistic behavior (Frey, 1993; Moschandreas, 1997), our results suggest that a firm can reinforce its ability to sanction under common ownership by engaging in opportunistic behavior of its own. This suggests that retaliation creates a credible threat that can be an effective weapon to dampen, but not eliminate, opportunistic behavior (cf. Das & Rahman, 2001). This finding is the first to our knowledge that supports Williamson's (1993) contention that engaging in "pre-emptive opportunism" is one, albeit not very desirable, way to deter possible exchange partner opportunism. The drawback of this approach, however, is that it is likely to produce dysfunctional effects other than opportunism (e.g., lower levels of trust and commitment, greater propensity to exit the relationship).

### Managerial Implications of the Substantive Findings

Our findings provide a number of tools for managers to use to limit exchange partner opportunism in interfirm relationships, such as distribution channels. First and foremost, firms should try to establish a set of common behavioral norms with their exchange partners. This accomplishes two key goals. It defines what constitutes socially acceptable behavior within the exchange relationship, thereby, proscribing opportunism. By building shared behavioral norms, firms are better able to see how their goals overlap with one another.

Another tool for managing partner opportunism is common ownership but only under certain conditions. When the firm can easily monitor its partner's activities and outcomes, common ownership limits partner opportunism. Proximate geographic locations, sometimes reflected in firms adopting a "cluster" expansion strategy, make monitoring easier (cf. Brickley & Dark, 1987).



In addition, to nudge behavior in the desired direction, the firm can mete out more subtle rewards under common ownership than when the partner is independently owned. When monitoring is more problematic, ownership seems to exacerbate rather than limit partner opportunism. In such situations, the firm should emphasize developing stronger relational norms, instead of relying on ownership, to manage partner opportunism. In conditions where monitoring is difficult, independently owned exchange partners are sufficiently motivated by the profit motive to forego opportunistic behaviors. In other words, incentives rather than monitoring seems to be a better method for limiting the opportunism of independently owned firms.

### Additional Directions for Future Research

As with all research, ours has a number of limitations, which provide potential directions for future research. First, we limited our study to three mechanisms for managing opportunism—ownership, investment in idiosyncratic assets, and relational norms. Additional research is needed to examine other mechanisms for safeguarding against opportunism including screening, legal contracts, exclusivity (Iglesias et al., 2000) and formalization (Sheng et al., 2006). Also, future research might investigate interfirm opportunism in a global setting (e.g., Moore et al., 2010). Because we found that interfirm opportunism varied across brand representatives, research is needed to understand the reasons for that variation (e.g., personal characteristics of the representatives, managerial traits of the representative's supervisors).

In terms of methodological issues, analytical methods are needed to investigate mechanisms for managing both parties' opportunism simultaneously. Hierarchical analytical methods for nonrecursive models are sorely needed to examine channel relationships from both sides of the dyad.

### SUMMARY AND CONCLUSIONS

The objective of this article is to provide a dyadic perspective on the role of ownership in managing opportunism within the interorganizational context of distribution channels. We conducted two concurrent surveys of North American hotel company brand representatives (supplier) and the hotels (resellers) that they support. Using matched data, we investigated the hotel-level factors that influenced a hotel's opportunistic behavior toward its brand headquarters. We found that the hotel's perception of the relational norms shared with brand headquarters effectively restrains its opportunism. We also found that common ownership limited hotel opportunism under two conditions: (a) when brand headquarters could easily monitor the hotel's activities and outcomes and (b) when

brand headquarters engaged in opportunistic behavior of its own toward the hotel.

Our contributions to the literature on managing interfirm opportunism are several. First, we investigate how reseller (i.e., hotel) opportunism can be managed by using three types of mechanisms: (a) those that are characteristic of the reseller (viz., common ownership and reseller perceptions of relational exchange norms); (b) those that are characteristic of the supplier (i.e., brand headquarters) such as supplier opportunism toward the buyer, the ease with which the supplier can monitor the buyer's activities and outcomes; and (c) those that cross both levels of the dyad (e.g., common ownership with and the ease of monitoring the reseller). Second, to analyze these multi-level data, we used hierarchical linear modeling that allowed us to overcome the problem of dependent data that result when organizational informants report on more than one constituent (e.g., brand representatives reporting on several hotels). Finally, and most important, we clarify the role of ownership in managing opportunism by uncovering some conditions under which it works.

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## APPENDIX A

### Questionnaire Items for Multiple Item Scales

*Channel Member's Opportunistic Behavior* (1: strongly disagree; 7: strongly agree). Adapted from items developed by Anderson (1988), Dwyer and Oh (1987), John (1984), and Provan and Skinner (1989).

- HOPPR1 QOPPR1 To get the necessary support from headquarters/this hotel, we sometimes mask the true nature of our needs.
- HOPPR2 QOPPR2 To get the needed support from headquarters/this hotel, we sometimes overstate the difficulties our hotel/our firm faces.\*
- HOPPR3 QOPPR3 Sometimes we have had to alter the facts slightly in order to get what we need from headquarters/this hotel.
- HOPPR4 QOPPR4 On occasion, my hotel/our firm has had to lie to headquarters/this hotel about certain things in order to protect our interests.

*Relational Exchange* (1: strongly disagree; 7: strongly agree). Based on items developed by Kaufmann and Dant (1992).

#### 1. Preservation of the Relationship (PRSRV)

- HPRSRV1 Both my hotel and headquarters consider the preservation of our relationship to be important.
- HPRSRV2 My hotel and headquarters are committed to the preservation of a good working relationship.\*
- HPRSRV3 Both my hotel and headquarters think it is important to continue our relationship.
- HPRSRV4 Both my hotel and headquarters work hard at cultivating a good working relationship.

#### 2. Specification of Roles (ROLE)

- HROLE1 Our two organizations have well-formed expectations of each other which go beyond buying and selling of products and services.
- HROLE2 Our relationship with headquarters has led to complex expectations, on the part of both organizations, over all kinds of issues.\*
- HROLE3 Even though our relationship with headquarters is extremely complicated, both parties have clear expectations as to the role each performs.

#### 3. Harmonization of Conflict (HARMN)

- HHARM1 There are standard procedures for resolving disputes between my hotel and headquarters that do not involve third party intervention.
- HHARM2 My hotel and headquarters are very conscientious, responsive, and resourceful in maintaining a cooperative relationship.
- HHARM3 Both my hotel and headquarters are generally able to resolve disagreements to both parties' satisfaction.\*
- HHARM4 Both parties try to resolve any disagreements that arise between us in good faith.

*Quality of Monitoring Hotel's Performance* (1: strongly disagree; 7: strongly agree). Based on items developed by Anderson (1988) and John and Weitz (1989).

- QMON1 Our evaluation of this hotel is based on quite accurate information.
- QMON2 It is just not possible to supervise this hotel closely. (reversed)\*
- QMON3 We have accurate reports about this hotel's activities.
- QMON4 It is difficult to evaluate whether this hotel follows our recommended operating procedures. (reversed)

*Transaction Specific Assets* (1: strongly disagree; 7: strongly agree) Based on items developed by Heide and John (1988, 1990) and Klein et al. (1990).

- QTSA1 Our hotel has spent a lot of time and effort to develop a strong customer base for this particular hotel.
- QTSA2 The systems and procedures we use in dealing with this hotel are no different from those that we use in dealing with other hotels. (reversed)\*
- QTSA3 We have spent a lot of time and effort to learn about the special needs and concerns of this hotel.
- QTSA4 If we switched to another hotel in this market area, we would lose a lot of the investment we've made.

\*Deleted item.

## APPENDIX B

## Derivation of Hierarchical Linear Model to Be Estimated

Equation B1 represents the hotel-level constructs in our model of Figure 1.

$$OPP_{reseller} = \beta_0 + \beta_1 OWN + \beta_2 REL_{reseller} + \beta_3 OWN \times REL_{reseller} + r \quad (B1)$$

where  $OPP_{reseller}$  is reseller opportunism toward the supplier,  $OWN$  is a dummy variable indicating whether the reseller and supplier share common ownership ( $OWN=1$ ), and  $REL_{reseller}$  is the reseller's perception of the extent of relational exchange norms it shares with the supplier. The  $\beta$ s represent the parameters to be estimated and  $r$  is the error term.

The brand representative level of the model is depicted by the following equation.

$$\beta_0 = \gamma_{00} + \gamma_{01} MON_{supplier} + \gamma_{02} TSA_{supplier} + \gamma_{03} OPP_{supplier} + \gamma_{04} BRAND + u_0, \quad (B2)$$

where  $MON_{supplier}$  is the ease with which the supplier can monitor the reseller's behavior,  $TSA_{supplier}$  is the supplier's investment in transaction specific assets to support its relationship with the reseller,  $OPP_{supplier}$  is the supplier's opportunistic behavior toward the reseller, and  $BRAND$  is a dummy variable that controls for the specific supplier company under study. The  $\gamma$ s are the parameters to be estimated and  $u$  represents the error term.

Cross-level effects (i.e., interactions between hotel-level and brand representative-level constructs) suggest Equation B3, wherein all terms are defined as before.

$$\beta_1 = \gamma_{10} + \gamma_{11} MON_{supplier} + \gamma_{12} TSA_{supplier} + \gamma_{13} OPP_{supplier} + u_1. \quad (B3)$$

To complete the HLM model, we depict  $\beta_2$  and  $\beta_3$  in Equations B4 and B5, respectively.

$$\beta_2 = \gamma_{20} + u_2. \quad (B4)$$

$$\beta_3 = \gamma_{30} + u_3. \quad (B5)$$

These equations allow us to include  $REL_{reseller}$  and the  $OWN \times REL_{reseller}$  interaction terms in the HLM model.

Substituting the cross-level and brand representative-level equations into the hotel-level equation. This yields Equation B6, which is the combined or mixed-level HLM equation.

$$OPP_{reseller} = \gamma_{00} + \gamma_{01} OWN + \gamma_{20} REL_{reseller} + \gamma_{30} OWN \times REL_{reseller} + \gamma_{01} MON_{supplier} + \gamma_{02} TSA_{supplier} + \gamma_{03} OPP_{supplier} + \gamma_{04} BRAND + \gamma_{11} OWN \times MON_{supplier} + \gamma_{12} OWN \times TSA_{supplier} + \gamma_{13} OWN \times OPP_{supplier} + u_0 + u_1 OWN + u_2 REL_{reseller} + u_3 OWN \times REL_{reseller} + r. \quad (B6)^3$$

<sup>3</sup>To avoid identification problems with the estimation of the model, we set  $u_3$  to zero. This implies that  $\beta_3$  is fully determined by the  $OWN \times REL_{reseller}$  interaction term.