Time-span and risk of partner opportunism in strategic alliances

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Keywords Time study, Partnership, Risk management, Strategic alliances

Abstract The temporalities of opportunism – a term that generally means “self-interest seeking with guile” – have not been adequately examined in the literature. This article suggests that opportunism is a variegated phenomenon that can be better appreciated by exploring the role of its temporal dimension. Adopting this temporal approach, the article proposes a framework of partner opportunism in strategic alliances that incorporates the two fundamental dimensions of time and risk. It then discusses four types of partner opportunism in this comprehensive time-risk framework. Finally, the article indicates directions for further research.

Introduction

A notable feature of business in recent times is the accelerated formation of strategic alliances, or interfirm cooperative arrangements aimed at pursuing mutual strategic objectives. Despite this encouraging trend, the failure rate of these alliances has been remarkably high (Das and Teng, 2000a). One of the major reasons for alliance dissolutions has been the opportunistic behavior of partners. Opportunistic behavior refers to “self-interest seeking with guile” (Williamson, 1975, p. 9). In this article we attempt to better understand the dynamics of such opportunistic behavior. We suggest that opportunism is not a monolithic phenomenon, and that it would be useful, therefore, to develop a more comprehensive framework of opportunistic behavior. In that effort, we explore the temporal dimension that continues to be neglected in studies of both opportunism among firms and partner opportunism in strategic alliances.

A review of the literature suggests that few guidelines are available for examining various types of opportunism. We believe that recognizing the temporal dimension is central to appreciating the essence of opportunism. Our approach to understanding opportunistic behavior focuses on its two fundamental dimensions: time-span and risk. The first dimension relates to the duration of potential negative impact of opportunistic behavior on confidence in partner cooperation. This temporal dimension, which we term as the time-span of opportunism, or “opportunism horizon”, has not been explored in the literature, and is somewhat akin to the well-known notion of time-span of decisions (Jaques, 1979). The second dimension, of risk, captures the degree of the potential negative impact of opportunistic behavior in terms of the apprehension that a partner may not be committed to mutual interests in an alliance. An appreciation of the roles of both these dimensions is necessary for an adequate understanding of the essential nature of opportunistic behavior. We believe the risk consequences of opportunistic behavior can be better understood, and more effectively controlled and prevented, if we recognize their potential in terms of the temporal categories that we propose here.

The author wishes to thank N. Rahman for research assistance.
We divide the article into four parts. First, we elaborate on the temporal aspects of opportunistic behavior, introducing the notion of opportunism horizon, or the period of time during which there would be significant consequences from opportunistic behavior. Second, we examine the nature of opportunistic behavior in strategic alliances, clarifying, in particular, how the possibility of opportunism results in relational risk in alliances. We then propose a time-risk framework of opportunistic behavior based on the two dimensions of opportunism horizon and relational risk. Finally, we indicate directions for further research and mention some of the significant managerial implications of the framework.

Temporal horizons of opportunism

Opportunism in strategic alliances

Opportunism is widely construed as seeking gain for oneself at the expense of others. Such behavior is usually associated with breaches of contract. We list in Table I some illustrative observations from the literature on opportunistic behavior in strategic alliances. As the table illustrates, scholars have focused on a wide variety of topics relating to opportunism.

Opportunism takes various forms, depending on the mechanism used for the governance of business activities. Unlike in markets and hierarchies, strategic alliances attract substantial threats of opportunistic behavior, often a cause of their inherent instability. Given the negative connotations of opportunism, scholars have also investigated control mechanisms that might be used to curb opportunism.

As alluded to earlier, the literature on opportunism has generally treated it in monolithic terms. Recently, however, Wathne and Heide (2000) offered a framework of four forms of opportunism – namely, evasion, refusal to adapt, violation, and forced renegotiation. These forms vary along two dimensions: existing vs. new circumstances, and passive vs. active behavior. In this framework, evasion and violation are opportunistic forms under existing circumstances, whereas refusal to adapt and forced renegotiation are opportunistic forms under new circumstances. Similarly, evasion and refusal to adapt are opportunistic forms that are passive, whereas violation and forced renegotiation are opportunistic forms that are active in nature. As will be evident from the framework that we propose in this article, the two dimensions in our framework are different from those used by Wathne and Heide. We are concerned with the degree of risk, our second dimension, not the mode of behavior. Our first dimension, being introduced here, is the temporal span of opportunistic behavior, or opportunism horizon.

The threat of opportunistic behavior is an integral part of the alliancing phenomenon (Das and Rahman, 2002). Empirical investigations of various aspects of opportunistic behavior in the context of alliances have been undertaken only in relatively recent times. Lee (1998) finds support that decision-making uncertainty, cultural difference, and economic ethnocentrism increase the possibility of the alliance partner to behave opportunistically. Kale et al. (2000) introduce the notion of relational capital, which is based on trust and interaction, and show that relational capital deters partner opportunism. Deeds and Hill (1998) explore opportunistic behavior and its potential threat in biotechnology research alliances. They find significant evidence that a strong relationship between partners is a more effective deterrent of opportunistic behavior than is the use of mutual hostages or rigorous contractual arrangements.
Deeds and Hill (1998) “The initial period in an alliance’s life will be characterized by low levels of opportunism. However, during the middle years, significantly higher levels of opportunism are likely to be perceived as the project progresses. Finally, after this period the level of opportunism begins to decrease” (p. 159)

Gassenheimer et al. (1996) “Opportunism may stem from the reluctance of members to fulfill commitments to partners in cooperative arrangements” (p. 70)

John (1984) “As bureaucratic structuring increases, the lack of autonomy and self-control creates frustration. This frustration is particularly acute for the autonomy-oriented entrepreneurs in the wholesaling and retailing sectors of marketing channels. It is translated into aggressive retaliatory behavior that is characteristically opportunistic” (p. 280)

Johnson, Cullen, and Sakano (1996) “Results indicated that opportunistic tendencies did not diminish as the IJV relationship aged” (p. 79)

Nootenboom (1996) “While it is clearly in the interest of a group as a whole for everyone to be trustworthy and trusting, since that would greatly reduce transaction costs for all, individuals may be tempted to defect and be opportunistic while pretending to be trustworthy. The extent of this temptation increases as more people are trustworthy, and it further depends on the efficiency and reliability by which such defection can be detected and communicated, and the ensuing risk of a loss of reputation that is detrimental to future partnerships” (p. 989). “Prior estimates of propensity towards opportunism are adapted as a function of events. If no opportunism is perceived, the subjective probability of the partner’s taking advantage of opportunities for opportunism may decline; when opportunism is perceived, it will increase” (p. 1003)

Weaver and Dickson (1998) “Perceived opportunism measures the difference between an alliance participant’s expectation of fairness and the perception that an alliance partner has behaved in such a manner as to benefit his or her own firm without regard for the best interests of others in the alliance. Perceived opportunism is the belief that an alliance partner has not adhered to the explicit or implicit controls governing the relationship” (p. 507). “The variance in alliance outcome quality attributed to the perception of opportunistic behavior is predicted to be above and beyond that explained by objective measures of opportunism as well as the variance explained by goal-based and firm-specific factors” (p. 510)

Williamson (1975) “Opportunism refers to a lack of candor or honesty in transactions, to include self-interest seeking with guile” (p. 9). “Opportunism extends the conventional assumption that economic agents are guided by considerations of self-interest to make allowance for strategic behavior” (p. 26). “The strategic manipulation of information or misrepresentation of intentions … are to be regarded as opportunistic” (p. 26)

Williamson (1979) “Where personal integrity is believed to be operative, individuals located at the interfaces may refuse to be a part of opportunistic efforts to take advantage of (rely on) the letter of the contract when the spirit of the exchange is emasculated. Such refusals can serve as a check upon organizational proclivities to behave opportunistically” (p. 240)

Williamson (1996) “Because those who use transaction cost economics work out of a farsighted-contracting setup (contracts, albeit incomplete, are nonetheless viewed in their entirety), the main message of opportunism is not that of Machiavellian grabbing or Get them before they get us. Rather, upon looking ahead and recognizing the types of hazards that are posed by opportunism, the main message is to give and receive credible commitments (in cost-effective degree)” (p. 50)
They also find support for their claim that opportunism will vary within different stages of the alliance life cycle. Weaver and Dickson (1998) observe that alliances among small and medium sized firms are unique breeding grounds for opportunistic behavior. Johnson et al. (1996) find that, in international joint ventures, the threat of opportunism persists even after the relationship matures.

It is critical, when studying alliance management, to assume the existence of opportunistic potential (Das and Teng, 1998). Opportunism can have several serious consequences for any interfirm collaboration. First, the potential for opportunistic behavior is a major source of transaction costs in interfirm alliances. Firms perceiving the threat of opportunism are faced with a greater need for screening, negotiating, and monitoring partners’ behavior, resulting in increased transaction costs. Second, given that firms strive to maximize gains, self-interest seeking behavior will be prominent in the alliance context. The failure to see beyond the short-term optimization of self-interest hampers cooperative effort that is essential to alliance success. Perceived potential for opportunism poses the most critical threat to satisfactory cooperation, and is instrumental in causing alliance dissolution. Finally, both scholars and practitioners need to appreciate the insidious nature of partner opportunism in terms of the relational risk (discussed later) that it directly generates.

**Importance of time in opportunism**

When scholars have attempted to incorporate the element of time in their discussions on opportunism, they have done so only in a tangential manner. Table II offers a glimpse of the literature that deals with opportunism and time. While temporal aspects have not been tied to opportunism in any systematic way in previous research, the role of time in understanding opportunism is undeniable from the brief review of the literature. This article directly links opportunism with time – to offer a better understanding of the temporal dynamics of opportunism.

A member firm in an alliance, considered as the focal firm, can only realize the impact of its partner’s opportunism in the course of future alliance activities. Therefore, it becomes incumbent upon the focal firm to take preventive measures to safeguard itself from the consequences of potential partner opportunism in the future. There is, thus, a temporal span that the focal firm has to contend with to decide what kinds of preventive measures need to be adopted. The challenge for the focal firm is to “see” the potential threats of partner opportunism residing in the future (Das, 1987, 2004). Here, identifying the specific opportunism type is also important, for different types connote different dangers, and need to be curbed with unique combinations of deterrence mechanisms.

As a general point, we should note that opportunistic behavior would hurt a firm’s image, reputation, and future business potential. Thus, a firm (the focal firm as well as its partner) that intends to continue operating in a specific market over the long haul (perhaps to exploit industry-specific competitive advantages) will not find such behavior a viable option (Axelrod, 1984; Heide and Miner, 1992). Indeed, as Hill (1990, p. 507) observes: “the invisible hand of the market is an evolutionary selection mechanism. In the long run, an efficient market will delete actors whose behavioral repertoires (decision rules) depress performance” (Alchian, 1950; Nelson and Winter, 1982). He argues that opportunistic behavior does not pay in the long run, even under conditions of high asset specificity, because the invisible hand of the market punishes
the opportunist by exposing its characteristics and eventually driving it out of the market. This will cause other firms within the market to be reluctant to get involved in such a high-risk relationship with the opportunistic firm. Evidently, there is a distinct, if subtle, temporal consideration that informs the appreciation (by the focal firm) of such potential opportunistic behavior (by the partner firm).

**Time-span of opportunism (or opportunism horizon)**

Time has been of abiding interest in many disciplines (see Das, 1990, for a compilation of research contributions in 21 categories), and has recently attracted increasing attention in the management field (e.g., Whipp et al., 2002). The notion of temporal horizon has been applied to planning and risk in management and organizational studies (Das, 1986, 1991, 1993; Das and Teng, 1997). Here, we introduce the notion of the temporal horizon of opportunism, which we call “opportunism horizon”. In the context of strategic alliances, opportunism horizon is the temporal distance between the time a partner firm engages in opportunistic behavior against the focal firm and the

### Table II.

<table>
<thead>
<tr>
<th>Authors</th>
<th>Illustrative observations</th>
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<tr>
<td>Chiles and McMackin (1996)</td>
<td>“In a multiperiod prisoners’ dilemma, both parties act with the expectation that they may engage each other again. This expectation of future economic relations, known as the ‘shadow of the future’ (Axelrod, 1984, p. 126), constrains the actors’ opportunistic behavior in the current period” (p. 86)</td>
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<td>Coase (1988)</td>
<td>“The propensity for opportunistic behavior is usually effectively checked by the need to take account of the effect of the firm’s actions on future business” (p. 44)</td>
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<td>Deeds and Hill (1998)</td>
<td>“RC [relational contracting] argues that concern for the long-term health of the relationship leads to self-monitoring on the part of the parties to the exchange and the deterrence of opportunistic action. Therefore, characteristics of the partners or the relationship that are conducive to the creation of a strong, long-term relationship should serve as deterrents to opportunism” (p. 145)</td>
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<td>Hill (1990)</td>
<td>“The invisible hand of the market mechanism selects organizations on the basis of their repertoires of behavior, suggesting that the distribution of cooperative and opportunistic actors is not exogenous to the economic system. Rather, over the long run, the invisible hand deletes actors who are habitually opportunistic” (p. 503)</td>
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<td>Nooteboom (1996)</td>
<td>“It is reasonable to say that prior to transaction, one is uncertain about the partner’s potential opportunism, and hence should take opportunism into account. Once one takes time into account, in ongoing transactions, it is unreasonable to ignore the formation of perceptions about propensities towards opportunism, and the possibility of building trust” (pp. 987-988)</td>
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<td>Patashnik (1996)</td>
<td>“The potential for opportunistic behavior should be assessed before adopting budgetary reforms so that mechanisms can be developed for checking it. Opportunism in a budgeting context is usually associated with self-dealing by bureaucrats” (p. 206)</td>
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<td>Williamson (1996)</td>
<td>“Provided that opportunism is examined in the context of farsighted contracting, the lesson is to look ahead, perceive possible hazards, and take hazard-mitigating actions” (p. 48)</td>
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intended point in the future when the substantive effects of the opportunism cease or peter out. The span or horizon of partner opportunism is the temporal distance between the moment the partner engages in opportunism to the point in time when the partner can no longer continue to engage in such behavior. That is not to say that the consequences or effects of that behavior will not continue to be felt by the focal firm.

However, the consequences of various types of opportunistic behavior of a partner firm unfold at different points of time in the future. These consequences may have potency, for adversely affecting the focal firm, for a short duration or for a long duration. For example, payment delays can be considered a short-span opportunistic behavior by a partner firm, because its effects will be realized relatively soon after the initial act. Another example of short-span opportunism is the misappropriation of quasi-rent generated from specific investments, because the effect of the misappropriation can be felt soon after it takes place. Opportunism with a long-span horizon is evident when a partner firm withholds necessary information to prevent the focal firm from gaining a legitimate decision-making leverage. The effects of such an action may not usually be realized right away, so that the opportunist may continue to reap the unfair advantage from withholding information over an extended period of time. Misrepresenting information or intentions also has a long-span opportunism horizon because the effects of such actions would usually take some time to unfold.

Opportunism and risk in strategic alliances
It is generally recognized in the strategy literature that the potential for partner opportunism adds to the element of risk in alliances. However, the precise nature of this risk needs to be identified. The construct of risk in interfirm alliances has been disaggregated into relational risk and performance risk (Das and Teng, 1996). Briefly, relational risk in an alliance is the probability that the partner will not cooperate fully. Performance risk refers to the probability of not attaining the performance goals even when partners cooperate fully. Clearly, opportunism, or deceitful self-interest seeking, generates only relational risk. Performance risk, by definition, does not relate to opportunism because it is based on the given condition of full partner cooperation. In a recent article, Ireland et al. (2002, p. 434) discuss these two types of risk in alliances in the following way:

There are at least two types of alliance risks—relational and performance (Das and Teng, 2001). Relational risk is concerned with the probability and consequent actions when a partner does not appropriately commit to an alliance and fails to behave as expected. Thus, relational risk denotes decision makers’ concerns regarding the level of cooperation between partners. Opportunistic behaviors that are oriented to the individual firm’s benefit rather than to the good of the alliance demonstrate relational risk. Performance risk regards the factors that may impede achieving alliance objectives. Relational risk is internally oriented and is influenced in part by how each partner allocates and manages the resources it commits to an alliance. In contrast, performance risk is externally focused. Relational risk is associated with the relationship between partners; performance risk is grounded in the interactions of alliance partners with the external environment. Finally, performance risk is common to all strategic decisions while relational risk is idiosyncratic to individual strategic alliances (Das and Teng, 1996, 2000b, 2001). Alliance managers can have a much broader and deeper effect on relational risk, primarily by carefully managing the firm’s social capital.
Thus, the construct of performance risk in interfirm alliances is no different from that in single firms. Relational risk, however, is unique to strategic alliances. We should note that the particular type of risk attendant to opportunism in alliances – namely, relational risk – has yet to be adequately explored in the literature.

According to Das and Teng (1996, p. 831), “the term ‘relational risk’ addresses the possibility and the consequence that the partners in inter-firm alliances do not fully commit themselves to joint efforts”. We view relational risk in terms of the adverse consequences of possible partner misbehavior, so that the magnitude of the risk to the focal firm would be determined by the amount of potential damage. Therefore, the perceived opportunistic behaviors of the partner that may not cause any substantial harm to the focal firm can be said to entail low relational risk, whereas the behaviors that may severely damage the focal firm would pose high relational risk. Note that we are not using the notion of “risk” in the traditional sense of probability of negative variance. Rather, our treatment of the focal firm’s relational risk assessment is concerned with the adverse consequences of potential opportunistic behavior by the partner firm. Both scholars and practitioners need to appreciate the insidious nature of partner opportunism in terms of the relational risk that it directly generates.

The degree of relational risk is also a relative issue. In other words, our assignment of riskiness to different opportunistic behaviors depends on the severity of the potential damage of one type of opportunistic behavior vis-à-vis another. For the sake of simplicity, we group different types of opportunistic behaviors into two broad categories: low risk and high risk.

Shirking, free-riding, and withholding full cooperation in an ongoing alliance are examples of opportunistic behavior whose potential occurrence could be sources of relational risk. The level of relational risk a firm will experience will be proportional to the perceived scope and consequence of opportunism. The higher the threat of opportunism, the more will be the resultant relational risk. Relational risk can, thus, be either low or high, depending on the threat level. Refraining from giving full effort for the success of a collaborative project, delaying payments to partners, providing sub-standard products, etc., are forms of opportunistic behavior that do not suggest the highest degree of hostility or non-cooperation. In other words, these behaviors would tend to result in low relational risk. Alternatively, there would be high relational risk in the presence of stealing proprietary technology, distorting key decision-making inputs, and similar activities.

A time-risk framework of opportunistic behavior
In this section we examine, in turn, the nature of short-span and long-span opportunistic behavior and then integrate these two time-span categories with the relational risk dimension, discussed earlier, to propose a time-risk framework of opportunistic behavior (see Table III).

Short-span opportunism
As we mentioned earlier, opportunistic behavior of a partner firm is short span when its effects can be realized by the affected focal firm soon after the opportunist’s guileful action. This kind of opportunistic act arises from a conscious short-term decision of the opportunist. Delivering substandard products, being deliberately wasteful of alliance resources, and taking advantage of the focal firm’s resource commitments are
<table>
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<th>Opportunism horizon</th>
<th>Low relational risk</th>
<th>Risk level</th>
<th>High relational risk</th>
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<td><strong>Short-span</strong></td>
<td></td>
<td><strong>Type 1</strong></td>
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<td></td>
<td>“misrepresenting one’s abilities” (Deeds and Hill, 1998, p. 143)</td>
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<td>“reluctance of members to fulfill commitments to partners in cooperative arrangements” (Gassenheimer et al., 1996, p. 70)</td>
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<td></td>
<td>Shirking “involves the withholding of full effort and cooperation in an ongoing relationship. Shirking, free riding, and stonewalling are examples of such behaviors” (Griesinger, 1990, p. 487)</td>
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<td></td>
<td>“shirking or failing to fulfill promises or obligations” (John, 1984, p. 278)</td>
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<td>Providing products that are of an inferior quality than originally agreed upon (Provan and Skinner, 1989, p. 204) non-adherence “to the explicit or implicit controls governing the relationship” (Weaver and Dickson, 1998, p. 507)</td>
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<tr>
<td><strong>Long-span</strong></td>
<td></td>
<td><strong>Type 2</strong></td>
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<td></td>
<td>“expropriation of tacit technological knowledge” (Dutta and Weiss, 1997, p. 347)</td>
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<td>infidelity “results when an agreement is abrogated or a relationship abandoned to the advantage of the instigator but without provision or remedy for the other party” (Griesinger, 1990, p. 486)</td>
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<td>“hold-up” (Klein, 1996, p. 461)</td>
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<td></td>
<td>Exploitation of partner’s specific assets (Notoeboom, 1993, p. 443)</td>
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<td>“stealing”; “cheating” (Williamson, 1985, p. 47)</td>
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<tr>
<td><strong>Long-span</strong></td>
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<td><strong>Type 3</strong></td>
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<tr>
<td><strong>Long-span</strong></td>
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<td><strong>Type 4</strong></td>
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<td></td>
<td>“willful deception” (Gassenheimer et al., 1996, p. 69)</td>
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<td>Dishonesty “comes into play when one party to an exchange possesses information about a transaction that could significantly alter the other party’s assessment of the outcomes,” and such information is concealed, misrepresented, or not contributed. (Griesinger, 1990, p. 486) “defect … while pretending to be trustworthy” (Notoeboom, 1996, p. 989)</td>
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**Table III.** A time-risk framework of opportunistic behavior

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<th>Partner</th>
<th>opportunism</th>
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<th>opportunism</th>
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illustrative of short-span opportunistic behavior. The effects of this type of opportunism are mostly predictable, given the short duration of its potency. The nature of short-span opportunistic behavior is also fairly comprehensible in the alliance context. Therefore, firms can often take necessary precautions (e.g., additional contractual terms addressing specific short-range opportunistic scenarios) before engaging in a collaborative project. Often such behavior will pose low relational risk, so that the cooperative spirit may dampen somewhat but will generally endure. However, short-span opportunism can also pose high relational risk in a collaborative relationship, which may destroy the cooperative spirit.

Short-span and low relational risk (Type 1). When short-span opportunistic behavior involves low relational risk, the alliance and the focal firm suffer relatively minor setbacks. Failing to ship a specified amount of a product, or of the exact quality of supplies in accordance with a schedule, being deliberately extravagant with alliance resources, delaying payments, not adhering to the governance rules concerning the relationship, etc., will all negatively affect the focal firm’s profitability, and even the alliance’s performance occasionally. However, the intensity of the negative impacts is usually not severe for the firm or the alliance. Unless this kind of behavior continues, the focal firm will not perceive high relational risk regarding its opportunistic partner. It is unlikely that this type of behavior will become a recurring phenomenon, though, because such behavior is usually easy to comprehend and predict, and can therefore be controlled by strictly invoking contractual provisions and focused monitoring. However, if a partner firm succeeds in repeatedly acting this way, the affected focal firm will suffer losses. We briefly describe a case to illustrate short-span opportunistic behavior involving low relational risk.

In the alliance between Ciba Geigy, the Swiss pharmaceutical giant, and Alza, a small entrepreneurial organization, we can appreciate the effects of a partner’s shirking behavior, a fairly common complaint in alliances. Doz (1996) reports that soon after the birth of the alliance in 1977, Alza started pointing fingers at its Swiss partner for not being fully committed to the alliance. Alza was unhappy about Ciba’s lackluster approach to the alliance projects, and felt that Ciba’s shirking-type behavior was the major reason for slow growth. By 1979, the two companies started resenting each other’s behavior (i.e., Alza resenting Ciba Geigy for its sluggish pace, and Ciba Geigy resenting Alza for its lack of respect for Ciba’s hierarchy), and the alliance headed toward dissolution, which finally transpired in 1982.

This type of behavior is not a direct threat to the collaborative arrangements existing between firms. Usually, such behavior harms alliance performance. Obviously, the opportunist’s gain will outweigh its share of loss from the lower performance of the alliance. The affected focal firm, however, will have to suffer its share of loss from the alliance. It is possible that the alliance is eventually terminated, but usually that will not be precipitous but gradual, with the affected focal firm beginning its severance process once it observes this kind of partner opportunism.

Short-span and high relational risk (Type 2). Short-span opportunistic behavior of a partner may also occur in the context of high relational risk, paralyzing the focal firm. The partner firm may siphon off substantial benefits from the joint effort. Cheating, stealing the focal firm’s technology, luring away its personnel, and misappropriating quasi-rents from the firm’s transaction-specific investments are examples of this type of opportunistic behavior.
Consider the example of Craw-Kan Telephone Cooperative, Inc., a rural telephone company of Girard, KS, that provided phone rooms to ETC, a telemarketer and franchisee of AmeriCom, in exchange for ETC’s guarantee to buy 20 million minutes of phone usage a year from Craw-Kan (Margolies, 2000, p. D24). However, once Craw-Kan made its transaction-specific investment, ETC failed to keep its part of the bargain, leaving Craw-Kan helpless with $1.2 million investment in the phone rooms. Craw-Kan, consequently, sued ETC and its franchiser AmeriCom. Although Craw-Kan has won the case, technical issues have rendered the court verdict questionable.

Whenever a firm in an alliance makes some transaction-specific investment, it becomes vulnerable to its partner’s exploitation of the associated quasi-rents. Although the focal firm may realize very early that it is being denied its fair share of the rewards from the alliance, it may not be able to retaliate, because a break with the partner will undermine the value of the transaction-specific investment. In other words, the potential loss of investment from terminating the alliance will be greater than the loss incurred from the partner’s opportunistic exploitation. This type of opportunism often renders the victim helpless. The opportunistic partner continues to extract most of the rent from the alliance, taking advantage of the focal firm’s transaction-specific assets. Members could become bitter when the situation persists. Thus, this type of opportunistic behavior stands in the way of cooperation and its possibility heightens the relational risk in the alliance.

However, it is still possible to proceed with forming alliances involving transaction-specific investments because short-span opportunistic behavior with high relational risk can sometimes be predicted ex ante, and identified promptly ex post. Also, if investment is tangible, its appropriation can be safeguarded through contractual clauses and mutual hostages. It may be worthwhile sometimes to contest such opportunistic behavior in court to recover the losses.

A subtle kind of opportunistic behavior may be in evidence when tacit knowledge gets transferred from one firm to another. Often, the result can be fatal for the affected firm. Bleeke and Ernst (1995, p. 99) provide an example of “what happened to a US chemicals company – a world-class producer of industrial coatings – that formed an alliance with a Japanese organization”. The US firm contributed production-process skills, while the Japanese firm brought in key customers. Both of these resources – production-process skills and connections with key customers – are tacit in character, embedded in each company in complex ways, and not easily transferable. Hence, this alliance experienced a few successful years in the beginning till one of the member firms acquired the tacit resource of another. The Japanese firm “learned the production-process skills originally supplied by the US organization, and it still controlled the relationships with key customers”, and subsequently bought out the US company (Bleeke and Ernst (1995), p. 99). However, it should be noted that this type of opportunistic behavior is more problematic when the alliance is with a competitor and less so with a firm operating along the value chain (e.g., a manufacturing firm’s alliance with retailers and suppliers).

**Long-span opportunism**

The effects of long-span opportunistic behavior in an alliance take some time to unfold. A firm may not be able to point to such long-range actions of its partner, but can usually realize the possibilities of various types of long-span opportunism.
The consequences of the partner’s withholding information, distorting performance results, nurturing hidden agendas, etc., may not become evident quickly to the focal firm, so that a partner can continue to behave opportunistically for an extended period of time. As with the earlier temporal types, long-range opportunistic behavior may be associated with both low and high relational risk.

*Long-span and low relational risk (Type 3).* Even with low relational risk, a partner’s long-span opportunism can result in substantial financial loss for the affected focal firm. Consider the alliance between Siemens AG and RCA Corp., which ended abruptly when RCA disclosed information that it had been withholding from Siemens (Parkhe, 1998, p. 428). By all indications, RCA had been considering a major change in its business direction (moving away from its computer business, the basis for the alliance), and from a cooperative standpoint it should have conveyed this information to Siemens to let it prepare for exiting the alliance. However, for fear that this information may prompt Siemens to be more cautious in contributing to the alliance, RCA kept its plan a secret – it withheld critical information from its partner. It is unclear as to how long RCA kept its plan a secret. Nevertheless, it was not until after RCA explicitly expressed its intention to move out of its computer business that Siemens realized the adverse fallout.

When a partner firm withholds critical information from the focal firm and attempts to confuse and obfuscate calculatively, it is engaging in long-span opportunism with low relational risk. Such behaviors create a strategic disadvantage for the focal firm in alliance decision making. However, withholding information or creating confusion may not seriously jeopardize the future of cooperation. If a firm detects such a problem, it is more likely to become extra-cautious. Because this behavior is usually fairly well hidden, it may take a while before the victim firm realizes its partner’s opportunistic intentions. The loss from this type of partner opportunism would likely be greater than in short-span opportunism with low relational risk.

*Long-span and high relational risk (Type 4).* Opportunism with a long-span horizon and associated with high relational risk usually leads to the demise of an alliance. Often the opportunist acquires the victim firm or some particular division of it. Consider the classic case of Northwest and KLM’s transatlantic operating alliance that was forged in 1992. In the beginning, KLM agreed to bail Northwest out of bankruptcy by providing $500 million in fresh capital (Tully, 1996, p. 68). However, KLM introduced “draconian terms . . . that would open a way for KLM to wrest control away from the Americans” (Tully, 1996, p. 68). Although Northwest unwillingly accepted the bargain, “two days before the meeting, KLM abruptly withdrew the proposal, leaving a shell-shocked Northwest totally in the lurch” (Tully, 1996, pp. 68, 70). Apparently, it was a calculated effort by KLM to take advantage of Northwest’s confused position. Once KLM’s distortion of intention and information became known, major shareholders (such as Richard Blum) accused KLM of “slyly unsheath[ing] a sword at the 11th hour,” and co-chairman Checchi remonstrated bitterly that KLM’s behavior was “‘blackmail,’ ‘extortion,’ and ‘betrayal’” (p. 70). Instead of bailing out Northwest with $500 million, KLM finally squeezed $50 million in exchange for a series of lucrative options and a promise to secure $500 million in permanent financing by the end of 1993 (p. 70). Clearly, KLM’s promise was ‘self-disbelieved’ (see Williamson, 1975, p. 26). But this time Northwest co-chairmen knew that KLM’s promise lacked substance and the bankruptcy threat was still real (p. 72). Northwest eventually
managed to secure a $870 million, three-year wage reduction deal at the last minute to surmount the effects of KLM’s long-span opportunistic behavior in the context of very high relational risk.

An affected firm may notice the consequences of this type of opportunism only after some significant time had elapsed, and may suffer considerably. Because of loop holes in most contracts, it is difficult to successfully prevent long-span opportunism. Thus, a firm has to be especially alert for clues to detect long-range partner opportunism.

Concluding remarks

Theoretical contributions

Although time seems to be an important dimension of opportunism, there is a dearth of research on the temporalities of partner opportunism. In this article we developed a framework to better understand the variegated phenomenon of opportunism in an attempt to facilitate its effective management. We proposed a time-risk framework of opportunistic behavior based on the two dimensions of opportunism horizon and relational risk. To our knowledge, the literature on partner opportunism has not incorporated the time dimension in any systematic fashion.

We discussed how different types of opportunism vary in terms of the length of time they take to unfold and the degree of relational risk they entail. We defined the time-span of opportunism (short and long), or opportunism horizon, in terms of the temporal distance between the time a partner firm engages in opportunism against the focal firm and the intended point in the future when the substantive effects of the opportunism cease or peter out. We also suggested that relational risk can be considered in terms of low and high values. By integrating time-span and relational risk, our framework allows researchers and managers to view opportunism through a new lens, one that specifically recognizes the realistic roles of time and risk in opportunism.

Limitations and future research

The categorization of opportunism into four distinct types can be useful in pursuing fresh avenues for research. We indicate some of these research topics here, noting that they are essentially meant to also address the limitations of the proposed time-risk framework. First, it would be worth exploring if particular types of opportunism are systematically more prevalent in certain kinds of alliances. In R&D consortia, for example, Type 1 opportunism (short-span/low relational risk) may be very common. Particular members of such consortia may well coast along without significant contributions, even as they continue to receive the collaborative benefits from other members. Similarly, it may be that technology-sharing alliances may provide more room for Type 2 opportunism (short-span/high relational risk), since the scope for misappropriating proprietary technology is greater. Long-span opportunism (Types 3 and 4) may be more prevalent in marketing alliances. Firms may withhold information about marketing channels or misrepresent their abilities in managing such channels in order to appear as potentially attractive partners in joint marketing alliances, where each member markets both members’ products. Clearly, a great deal of exploratory research is needed to achieve an adequate grasp of the intricacies of opportunism in the alliance context.
Second, our analysis also points to new directions in research in terms of the role of the different types of opportunism in the evolutionary process of alliances and in alliance performance (Das and Teng, 2002, 2003). It is likely that certain types of opportunism will emerge or flourish early in the alliance making process vis-à-vis other types. For example, opportunistic behavior that takes a long time to run through its effects will become apparent only when alliance members have been involved in the alliance for an extended duration. Also, it could be that opportunism that entails low relational risk may take place off and on during several stages of the alliance process, whereas opportunism involving high relational risk may usually occur once and only well after an alliance has been forged.

Third, our time-risk framework of opportunism should be useful in surmounting the basically static nature of the transaction costs approach, enabling us to appreciate various relational issues that emerge over time in interfirm relationships. By explicitly identifying time and risk as the underlying dimensions of opportunism (i.e., opportunism horizon and relational risk) we can now account for transaction costs over time and appreciate trust building efforts en route.

Fourth, future research should consider incorporating other time related variables, such as the temporal orientations of member firms, which may have significant effects on intertemporal choice in opportunistic endeavors. This will also, of course, help in better appreciating how time plays a central role in opportunism dynamics, and thereby facilitate the management of partner opportunism. In the context of international alliances, cultural differences may reveal certain types of opportunism to be more prevalent or less detectable. Future research needs to link different cultural dimensions to the prevalence of different opportunism types in alliances.

Finally, our time-risk framework of opportunistic behavior needs to be examined for its applicability to the three major forms of alliances, namely, equity joint ventures, minority equity alliances, and nonequity alliances. The differing potential for various types of opportunism in these alliance forms needs to be assessed for effective alliance management.

Managerial implications
We noted that strategic alliances are fertile breeding grounds for opportunistic behavior. Our proposed time-risk framework of opportunistic behavior, along with the extended discussion of the four types of opportunism, should serve as the essential set of guidelines for managers to incorporate effective deterrence mechanisms to curb and control opportunism. No doubt because of this need for appropriate deterrence mechanisms, we find a number of them mentioned in the literature, such as rigorous contractual provisions, mutual hostages, monitoring, and the like (Das and Rahman, 2001). We should note, however, that although some of these mechanisms seem to generally work well, none of them promises to consistently curb opportunistic behavior.

Although the applicability and appropriateness of each control mechanism is likely to vary in different situations, the literature does not adequately address these contingencies. Indeed, scholars with different disciplinary persuasions have taken different routes in arguing for specific control mechanisms. By proceeding from our proposed time-risk framework, managers in alliances should be better able to assess
the particular applicability of each deterrence mechanism to the four types of opportunistic behavior by partner firms.

References


