

## **Opportunistic Behavior in Organizations**

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*This paper examined possible causes of organizational opportunistic behavior in terms of the power of an organization and the dynamics of the environment it is operating in. As a result, six models of organizational opportunistic behavior have been proposed by the writer analyzing low, moderate and high levels of opportunistic behavior according the degree of dependence and control of an organization which make up its power and the environmental munificence, dynamism and complexity which constitute the organization's task environment. These theoretical models are suggested for further research in order to test their practical implications.*

### **1. Introduction**

The aim of this position paper is to investigate the reasons of the inclination of organizations towards opportunistic behavior and develop a model of the possible conditions both inside and outside of the organization leading to opportunism. The motivation behind this study is to conceptualize the effect of the combination of the two important concepts of the resource-dependence theory, that are dependence of an organization and control of an organization, with Aldrich's (1979) three environmental dimensions, that are environmental munificence, environmental dynamism, and environmental complexity, on the possible level of the application of opportunistic behavior in the environment that the organization operates.

The significance of this study is that it differs from previous studies by conceptually combining two core constructs of the resource-dependence theory with Aldrich's environmental dimensions and by being the first study to estimate the effects of this combination on the level of the possibility of opportunistic behavior in the organizational environment.

The following section of this paper, which is the literature review, discusses the headlines the concept of opportunism and its relation to power, organizational task environments, and Aldrich's environmental dimensions. In the third section, the methodology and the model are discussed, where six 2\*2 matrices have been come up with in order to determine the possible level of opportunistic behavior by organizations demonstrating the relation of organizational power resulting from the level of dependence and control with the dynamics of the external environment in terms of Aldrich's environmental dimensions. In the fourth section, which encompasses the findings and discussion, the six matrices are analyzed more in-depth. The fifth section provides a summary of the paper and the conclusions, and in the sixth section, the references of the paper can be found.

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### 2. Literature Review

#### 2.1 The Definition of Opportunism and its Relation to Power

According to Williamson's markets and hierarchies perspective (Williamson 1975; Williamson & Ouchi 1981), economic activity will be more efficient and transaction costs will be lower, when it is conducted within a single organization, or hierarchy, rather than through a market of several organizations.

Williamson (1975) states that there are four conditions that characterize most inter organizational exchanges. These conditions that bring about transaction costs are: uncertainty about or the complexity of future environmental states, bounded rationality, small numbers of bargaining, and opportunism. Uncertainty and bounded rationality together make up situations in which contracts based on transactions between two organizations cannot specify all possible contingencies. Also, most markets are characterized by relatively small numbers of possible transaction partners, some of whom act opportunistically, or in ways that include "making false or empty, which means, self-disbelieved threats and promises in the expectation that individual advantage will thereby be realized" (Williamson 1975, p. 26).

Opportunism is defined as "self-interest seeking with guile" (Hill 1990). More generally, opportunism refers to the incomplete or distorted disclosure of information, especially to calculated efforts to mislead, distort, disguise, obfuscate, or otherwise confuse (Williamson 1985, p. 47). Williamson emphasizes that in relations among organizations, such behaviors as hard bargaining or intense disagreement are not opportunistic, nor are advantages that may result from a unique location or skill the result of opportunism. Rather, for an organizational advantage to be considered as a result of opportunism, "the strategic manipulation of information or misrepresentation of intentions" (Williamson 1975, p. 26) must have occurred. Activities like taking shortcuts, breaking promises, masking inadequate or poor quality work, and generally being dishonest in order to gain advantage are examples.

It is important to note that the emergence of opportunism is less probable in hierarchical relationships within an organization than it is in relations between organizations. This is due to the fact that the strong social constraints against deceit and deception generally exist among people who work together and there is a potential for internal sanctions. As a result, the possibility of controlling opportunistic behavior, thereby reducing transaction costs, is a major reason why organizations move from markets to hierarchies (Williamson & Ouchi 1981). The incidence of opportunistic behavior may be low when relations among organizations are long-term because of the expectation of repeat business. In spite of this fact Williamson (1981) always expects some level of opportunistic behavior in firms.

When joined with bounded rationality and asset specificity, the risk of opportunism suggests that participants to an exchange may attempt to expropriate the composite quasi rent that persuaded others to enter the exchange in the first place (Alchian & Woodward 1988). A quasi rent can be defined as the excess above the returns necessary to maintain a resource in current operation. It can be employed in order to recover sunk costs, such as those that result from investments in specific assets. On the other hand, a composite quasi rent refers to the proportion of quasi rent generated by a resource that depends on continued association with the resources of others.

## Baker

Opportunism results in gaining an advantage relative to other organizations, thus it may be related to power. If an organization engages in opportunistic behavior, it can influence the decisions of other organizations according to its own needs (Provan & Skinner 1989).

Any organization can engage in opportunistic behavior, regardless of the strength of its position relative to others. For example, a powerful supplier may behave opportunistically in relations with its dealers in order to exploit weaker members to gain further advantages. On the other hand, a relatively weak dealer may also engage in opportunistic behavior because it may regard opportunism as the only way of making sure that its needs are met in relations with a powerful supplier (Provan & Skinner 1989).

Williamson (1975) explains the emergence of opportunistic behavior by focusing on two important aspects of power – dependence and control over decisions. If we look at the dependency aspect of power from the perspective of a supplier-dealers relationship, we can state that generally, dealers' dependence on a major supplier will be substantially higher than the supplier's dependence on any one dealer (Provan 1982; Skinner & Guiltinan 1986). However, the dependence of dealers on their primary suppliers is likely to vary, depending on such factors as the number and availability of alternative suppliers (Pfeffer & Salancik 1978) and the internal strengths of a dealer, which may enable itself to provide itself with many service suppliers (Blau 1964). Given these factors, we can assume that dealers that are highly dependent on a primary supplier are less likely to engage in opportunistic behavior.

The second aspect of power related to dealer opportunism is a primary supplier's control over dealers' decisions. Such decisions might include broad decisions and decisions related to daily operations. Suppliers have the capacity to exert control over some dealer decisions (Provan 1980; Wrong 1968) because all dealers are at least moderately dependent on their suppliers. Thus, dealers may feel that their decision autonomy is being threatened. One way to resist this threat is engaging in opportunistic behavior. This response is consistent with Brehm's (1966) theory of psychological reactance. This theory holds that when individuals have their freedom constrained, they are likely to resist, taking actions to improve their condition. In the example of the supplier-dealer relationship, improving the condition may take the form of opportunistic behavior in order to preserve decision autonomy.

## 2.2 Organizational Task Environments

The organizational task environment is operationalized in ways that are consistent with the population-ecology and resource-dependence conceptualization the interaction of organization and environment (Dess & Beard 1984). Population-ecology theory as developed by Campbell (1969) and others (Aldrich & Pfeffer 1976; Hannan & Freeman 1977; Aldrich 1979; McKelvey & Aldrich 1983) focuses primarily on the resources available to populations of organizations, the aggregate birth and death rates of these populations, and their spatial distribution. According to Aldrich and Reiss (1976) and Nielsen and Hannan (1977), organizational populations change in number and characteristics as resources and other elements of their environment change.

Resource-dependence theory as developed by Pfeffer (1972a, 1972b), Jacobs (1974), Mindlin and Aldrich (1975), Aldrich and Pfeffer (1976), and Pfeffer and Salancik (1978) views organizations by looking at their dependence on other organizations for resources. According to the definition of Jacobs (1974) and Pfeffer and Salancik (1978), environmental dependence means the importance of a resource to the organization and the number of

## Baker

sources from which the resource is available, as well as the number, variety, and relative power of organizations competing for the resource. Pfeffer and others have demonstrated that the various strategies organizations can use to reduce external resource dependence vary systematically with the kinds and degrees of dependence, e.g. the size and composition of boards of directors (Pfeffer 1972a, 1973), merger and joint-venture activity (Pfeffer 1972b; Pfeffer & Nowak 1974), and executive recruitment and succession (Pfeffer & Leblebici 1973).

### 2.3 Aldrich's Environmental Dimensions

Aldrich (1979, p.63) has derived three dimensions from an extensive review of the literature on population-ecology theory and resource-dependence theory that "refer to the nature and the distribution of resources in environments, with different values on each dimension implying differences in appropriate structures and activities". Aldrich's (1979) codification of environmental dimensions is represented below:

- Munificence: capacity
- Dynamism: stability-instability, turbulence
- Complexity: homogeneity-heterogeneity, concentration-dispersion
- These three dimensions are almost identical to the important environmental conditions identified by Child (1972, p.3): illiberality, variability, and complexity.

#### 2.3.1 Environmental Munificence

Organizations seek environments that permit organizational growth and stability. Such growth and stability may allow the organization to generate slack resources (Cyert & March 1963), which can in turn provide a buffer for the organization during periods of relative scarcity. Slack can also provide a means of maintaining organizational coalitions, provide resources for organizational innovation, and serve as a means of conflict resolution (Bourgeois 1981; Chakravarthy 1982). Furthermore, Hirsch (1975) found that organizations use complex, external social relationships to co-opt "institutional gate keepers" in order to ensure a flow of resources and to obtain a more munificent environment. Also, Staw and Sz wajkowski (1975) found that organizations competing in less munificent environments were more likely to commit illegal acts.

In the business-policy literature, Hofer (1975, p. 789) stated that the industry or product-evolution cycle is the "most fundamental variable in determining an appropriate business strategy". The primary variable in this cycle is the rate of sales growth, which is the primary factor settling an environment's munificence. In addition, several portfolio strategy models consider market growth to be an important contingency and a primary determinant in the long-term viability of a given business strategy. Ansoff (1965) proposed that market growth permits member organizations to strengthen their competitive position in a given market or expand their existing product-market scope.

#### 2.3.2 Environmental Dynamism

Literature in organization theory and business-policy theory on dynamism suggest that turnover, absence of pattern, and unpredictability are the best measures of environmental stability-instability. Miles, Snow, and Pfeffer (1974) and Jurkovich (1974) have put forward that it is important to distinguish between the rate of environmental change and the unpredictability of environmental change. Accordingly, dynamism should be restricted to

## Baker

change that is hard to predict and that heightens uncertainty for key organizational members.

Members of organizations in a dynamic environment are more likely to segment homogenous elements of their environments (March & Simon 1958) to enable them to cope with uncertainty. Thompson (1967, p. 159) considered dealing with uncertainty the “essence of the administrative process”. According to the literature from organization theory, business policy, and industrial organization, organizational strategies and tactics such as buffering collusion, long-term contracts, and vertical integration create a more predictable environment. Uncertainty also affects organization structure, due to the fact that as task uncertainty rises, more information must be processed among decision makers to achieve a given level of performance (Galbraith 1973).

As Aldrich (1979, p.69) proposed, environmental turbulence “leads to externally induced changes that are obscure to administrators and difficult to plan for”. This idea emphasizes the degree of interconnection among environmental elements. In addition, according to Pfeffer and Salancik (1978), interconnectedness among organizations creates uncertain and unstable environments for organizations. Terreberry (1968) firstly emphasized the difficulty of planning for changes in an organization’s task environment when such changes originate in its residual environment. According to Terreberry (1968), the degree of interconnection in an organization’s residual environment was increasing as industrial economies evolved.

### 2.3.3 Environmental Complexity

Child (1972) defined environmental complexity as the heterogeneity of and range of an organization’s activities. Duncan (1972), Pennings (1975), Tung (1979), and others have claimed that managers facing a more complex or heterogeneous environment will perceive greater uncertainty and have greater information-processing requirements than managers working in a simple environment.

Organizations competing in industries that require many different inputs or that produce many different outputs should find resource acquisition or disposal of output more complex than organizations competing in industries with fewer different inputs and outputs. This is due to the large number and variety of organizations with which they must interact in their “organization set” (Evan, 1966) to deal with critical contingencies.

According to Chandler (1962), in many industries, a diversification strategy that involved the organization in new product and market activity led to a change in the organization’s internal organization structure, i.e., decentralization increased as the diversity of an organization’s activities increased. Expansion also increases the complexity and diversity both in the operations of an organization and its requirements for administrative control.

Organizations in a network probably deal with a greater number of suppliers, customers, and competitors in their task environments. Duncan (1972) viewed environmental organizations as external factors that managers take into account in their decision making. Aldrich (1979, p. 72) stated that the increase in structural complexity of the environment would increase the need for strategic activities.

### 3. The Methodology and Model

This paper combines the power of an organization which consists of its dependence on others and its control on its own decisions with Aldrich’s environmental dimensions which are made up of environmental munificence, environmental dynamism and environmental complexity. Six figures have been drawn as 2\*2 matrices, each analyzing the tendency of an organization to behave opportunistically according to single aspects of the power of an organization and Aldrich’s environmental dimensions.

Figure 1 and 2 analyze the inclination of an organization toward opportunistic behavior in terms of its power and the first environmental dimension of Aldrich, which is environmental munificence.

**Figure 1: Level of opportunistic behavior in an organization according to dependence of an organization and environmental munificence**

		Dependence of an organization	
		Low	High
Environmental Munificence	Low	High level of opportunistic behavior	Moderate level of opportunistic behavior
	High	Moderate level of opportunistic behavior	Low level of opportunistic behavior

**Figure 2: Level of opportunistic behavior in an organization according to control of an organization and environmental munificence**

		Control of an organization	
		Low	High
Environmental Munificence	Low	High level of opportunistic behavior	Moderate level of opportunistic behavior
	High	Moderate level of opportunistic behavior	Low level of opportunistic behavior

In Figure 3 and 4, the likelihood of opportunistic behavior by an organization is analyzed according to the power of the organization and Aldrich’s second environmental dimension, namely environmental dynamism.

## Baker

**Figure 3: Level of opportunistic behavior in an organization according to dependence of an organization and environmental dynamism**

		Dependence of an organization	
		Low	High
Environmental dynamism	Low	Moderate level of opportunistic behavior	Low level of opportunistic behavior
	High	High level of opportunistic behavior	Moderate level of opportunistic behavior

**Figure 4: Level of opportunistic behavior in an organization according to control of an organization and environmental dynamism**

		Control of an organization	
		Low	High
Environmental dynamism	Low	Moderate level of opportunistic behavior	Low level of opportunistic behavior
	High	High level of opportunistic behavior	Moderate level of opportunistic behavior

Figure 5 and 6 exhibit the emergence of opportunistic behavior in organizations according to the dependence and control dimensions of the power of an organization and Aldrich's third environmental dimension - environmental complexity.

**Figure 5: Level of opportunistic behavior in an organization according to dependence of an organization and environmental complexity**

		Dependence of an organization	
		Low	High
Environmental Complexity	Low	Moderate level of opportunistic behavior	Low level of opportunistic behavior
	High	High level of opportunistic behavior	Moderate level of opportunistic behavior

## Baker

**Figure 6: Level of opportunistic behavior in an organization according to control of an organization and environmental complexity**

		Control of an organization	
		Low	High
Environmental Complexity	Low	Moderate level of opportunistic behavior	Low level of opportunistic behavior
	High	High level of opportunistic behavior	Moderate level of opportunistic behavior

### 4. Findings and Discussion

As mentioned earlier, organizations are more likely to engage in opportunistic behavior as their dependence on other organizations decreases. In other words, an organization which is highly dependent on another organization will try to avoid opportunistic behavior. Likewise, if environmental munificence increases, organizations will again not see a need to behave opportunistically. Therefore, the model in Figure 1 follows. In an environment where both the dependence of an organization and environmental munificence is low; the organization is highly likely to engage in opportunistic behavior. On the contrary, an organization which is highly dependent on other organizations is not very likely to behave opportunistically. In other cases where a highly dependent organization is in an environment which is not munificent or a less dependent organization is in an environment which is highly munificent, then some level of opportunistic behavior can be expected.

Figure 2 shows expected levels of opportunistic behavior by organizations according to the level of control of the organization on its own decisions and the level of environmental munificence. If an organization feels that its control of its own decisions is being threatened, then it will respond by behaving opportunistically. Also, in an environment which lacks munificence, organizations are likely to engage in opportunistic behavior. Accordingly, an organization which has a low degree of control on its decisions in a not so munificent environment is highly likely to engage in opportunistic behavior. On the other hand, if an organization which has a high degree of controlling its own decisions operates in a munificent environment, it may not feel the need to act in an opportunistic way. In other cases where an organization with a low level of control finds itself in a highly munificent environment or an organization with a high level of control operates in a less munificent environment, a moderate level of opportunistic behavior should be expected.

Figure 3 depicts four levels of opportunistic behavior according to the dependence of an organization and environmental dynamism. If an organization has a low level of dependence, it is highly likely to engage in opportunistic behavior. In addition, as environmental dynamism increases, the tendency of organizations to behave opportunistically increases directly. Therefore, the highest possibility of opportunistic behavior by an organization is faced when the organization's dependence is low but the environmental dynamism is high. Oppositely, the lowest level of opportunistic behavior should be expected if a highly dependent organization exists in an environment with a low level of dynamism. In cases in between, some moderate level of opportunistic behavior should be expected.

## Baker

Figure 4 shows the possibility of opportunistic behavior by an organization in terms of the level of control of the organization and the level of environmental dynamism. As the level of control of an organization on its own decisions and actions decreases, it may engage more in opportunistic behavior. This kind of behavior is also found more often in a dynamic environment. Subsequently, the highest possibility of opportunistic behavior is inherent in organizations whose control is low and which operate in a dynamic environment. The lowest degree of opportunistic behavior can be observed in organizations which have a high level of control and operate in a stable environment. Organizations with a low level of control in a stable environment and organizations with a high level of control in dynamic environments may display a moderate level of opportunistic behavior in their relations.

According to Figure 5, organizations with a low level of dependence in a highly complex environment are highly likely to engage in opportunistic behavior whereas organizations with a high level of dependence in a simple environment are not very likely to behave opportunistically. Highly dependent organizations in a complex environment and independent organizations in a simple environment are somewhat likely to act opportunistically.

According to Figure 6, organizations with a high level of control on their decisions in simple environments are least likely to engage in opportunistic behavior while organizations that possess a level control level on their decisions operating in highly complex environments are most likely to act opportunistically. Organizations with a low level of control in simple environments and organizations with a high level of control in complex environments show a moderate inclination towards opportunistic behavior.

## 5. Summary and Conclusions

This is a conceptual paper and the six models proposed in this paper are conceptual assumptions. Therefore, these assumptions require empirical studies in order to find out the actual level of the use of opportunistic behavior according to the level of the dependence and control of the organization and according to the qualities of the organizational environment that Aldrich (1979) proposed.

Each organization is expected to display some level of opportunistic behavior in its relations within its general environment. The level of opportunistic behavior is varied by a number of factors. This paper examined possible causes of organizational opportunistic behavior in terms of the power of an organization and the dynamics of the environment it is operating in. As a result, six models of organizational opportunistic behavior have been proposed by the writer analyzing low, moderate and high levels of opportunistic behavior according the degree of dependence and control of an organization which make up its power and the environmental munificence, dynamism and complexity which constitute the organization's task environment. These theoretical models are suggested for further research in order to test their practical implications.

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## Baker

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