The effect of cultural differences on the relationship between contract governance and opportunism

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Abstract

Purpose – The purpose of this study is to determine the dimensions of cultural differences, which are theoretically most relevant to contract functions in international marketing. Moreover, the contradiction between contract governance and opportunism is reconciled by exploring the boundary conditions of specific cultural differences.

Design/methodology/approach – The authors obtained 235 bilateral data provided by Chinese exporters and overseas distributors. The authors matched a secondary data set with the questionnaire data, which were analyzed by confirmatory factor analysis and a hierarchical moderation model.

Findings – The results demonstrate that while contract specificity is less successful in this area, contingency adaptability is useful in reducing opportunism. Moreover, as the national cultural differences regarding uncertainty avoidance, power distance or individualism-collectivism become more pronounced. One contractual dimension will be more effective at curbing opportunism, while the other will be less effective.

Research limitations/implications – Despite sample limitations, to the best of the authors' knowledge, this paper is the first to theoretically identify the effect of cultural difference dimensions in contract governance, unlike past studies taking cultural differences as an aggregated variable. Furthermore, by exploring the boundary conditions of cultural differences, this paper effectively reconciles the conflicting findings on the relationship between contract governance and opportunism in various cultural context.

Practical implications – Exporters' managers can design contingency adaptability to complement the limitations of contract specificity and consider cultural differences' contingency effects.

Originality/value – First, the authors identify cultural differences dimensions related to contract governance, refining and emphasizing the research context. Second, comparing the efficacy of contract specificity and contingency adaptability in specific cultural context can show which contract is better at preventing opportunism.

Keywords Contract specificity, Contingency adaptability, Cultural differences, Channel members' opportunism, Exporting

Paper type Research paper

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Introduction

In cross-border cooperation, contract governance is recognized as one of the primary mechanisms to safeguard the interests of channel members by clarifying the roles and obligations of the exporter and distributor in dealing with behavioral uncertainty and environmental uncertainty (Jap and Ganesan, 2000; Wuyts and Geyskens, 2005). Although the idea that contracts are effective in binding opportunism is intuitively appealing (Crosno *et al.*, 2021), the empirical evidence is equivocal, yielding negative (Handley and *Angst*, 2015; Wang *et al.*, 2016; Wang and Larimo, 2020) or positive (Wu *et al.*, 2007; Zhou and Xu, 2012) relationships.

To address this inconsistent finding, the relevant research proposes to improve the generalizability of the contract governance–opportunism relationship by investigating its boundary conditions (Cao *et al.*, 2018), as institutions are the main determinants of contract enforcement costs (North, 1990). Existing studies focus mostly on institutional factors such as the legal environment (Cavusgil *et al.*, 2004; Zhou and Xu, 2012), government support (Bai *et al.*, 2016; Sheng *et al.*, 2018), regulatory uncertainty (Jia *et al.*, 2020; Wang *et al.*, 2016) and national culture (Handley and *Angst*, 2015) and further examine their moderating effects. However, these contract studies have been conducted mainly in a single context within the country, and we know less about the efficacy of the contract in a cross-border context. Given that cultural difference is an important component of institutional factors, it reflects cognitive and behavioral differences among multinational firms in international marketing (IM) contexts and largely determines the efficacy of international strategies (Boyd and Fulk, 1996; Yang *et al.*, 2012). We believe the proper alignment between cultural differences and contract governance is instrumental in revealing contract efficacy and its variations, which has not received sufficient attention in current contract researches.

Accordingly, this study examines how national cultural differences affect the boundaries of contract governance efficacy. Specifically, we take a different approach from previous contract research by considering cultural differences, not as an aggregated construct (Beugelsdijk *et al.*, 2017; Bryan *et al.*, 2015; Giannetti and Yafeh, 2012; Prashantham and Eranova, 2020) but instead draw on the paradigm of international business research (Griffith *et al.*, 2021; Malik and Zhao, 2013; Tower *et al.*, 2019) to select particular dimensions of cultural difference that are most relevant to the contract governance function and further explore their respective moderating effects. The current study shows firms interact with business partners in a controlled or coordinated manner in the context of uncertainty avoidance, power distance and individualist-collectivist differences [1], and we believe that these interaction characteristics are consistent with the contract functions (Barr and Glynn, 2004; Chen *et al.*, 2014; Earley and Gibson, 1998; Hofstede, 1989; Iyer, 1998; Lee, 2011; Roxenhall and Ghauri, 2004; Yang *et al.*, 2011), potentially affecting the binding effect of contracts on opportunism.

In addition, the design of a complete contract is characterized by both contract specificity and contingency adaptability (Luo, 2002), with the former reflecting the degree of explicitness and precision in dealing with daily issues (Griffith and Zhao, 2015; Mooi and Ghosh, 2010) and the latter reflecting the inclusiveness and flexibility of contract agreements in addressing unexpected events (Boyd, 1990; Luo, 2002). It is also unclear whether the effect of contracts on opportunism varies across moderating variables. By comparing governance efficacy under different conditions, we investigate whether the governance efficacy of contract specificity and contingency adaptability is context-dependent, seeking to reconcile the inconsistent findings regarding the effect of contract governance on opportunism.

This study makes two theoretical contributions to the study of channel governance in IM domain. First, instead of viewing cultural difference as an aggregated construct (Beugelsdijk *et al.*, 2017; Bryan *et al.*, 2015; Giannetti and Yafeh, 2012; Prashantham and Eranova, 2020), we identify specific dimensions of cultural differences that theoretically lead individuals to behave in ways that are consistent with the contract function (control or coordination), which contributes to generating a more nuanced understanding of contract contexts. Second, our investigation identifies the comparative efficacy of contract specificity and contingency adaptability within the context of the given cultural differences, allowing us to confirm the theoretical assumption that the certain contract dimension may be more successful in binding opportunism in a given cultural context (Luo, 2002, 2005). By adopting a cultural difference perspective, we contribute to the emerging area of IM research, which seeks to address "how and why culture difference matters" in the contracting arena (Griffith *et al.*, 2021; Malik and Zhao, 2013; Tower *et al.*, 2019).

In the following sections, we first review the existing literature on opportunism, contract functions and cultural differences and then develop the hypotheses. Next, we elaborate on the methodology and use bilateral data from Chinese exporters and their foreign distributors to examine the hypotheses. Finally, we summarize our findings, discuss their theoretical and managerial implications and offer suggestions for further study.

Theoretical underpinnings

Opportunism and contract functions

Opportunism is defined as "self-interest seeking with guile" and includes "lying, stealing, cheating, and calculated efforts to mislead, distort, disguise, obfuscate, or otherwise confuse" (Williamson, 1985). Opportunism is usually triggered by uncertainty (Williamson, 1985), which is classified into environmental uncertainty and behavioral uncertainty (You *et al.*, 2018). Environmental uncertainty refers to the speed and unpredictability of environmental changes regarding cooperation matters (Boyd, 1990), and behavioral uncertainty reflects the difficulty of predicting and understanding the actions of trading partners (Krishnan *et al.*, 2016; Zhou and Poppo, 2010). This approach provides a useful framework for analyzing uncertainty in cross-border cooperation, which is exposed to volatile international political games and rapid technological evolution, both of which are beyond the control of channel members (Zona *et al.*, 2019).

Contract governance is a type of formal governance approach, in which the responsibilities and obligations of all parties are specified primarily through explicit contracts (Lusch and Brown, 1996; Wuyts and Geyskens, 2005). Theoretically, contract specificity and contingency adaptability are key characteristics of a complete contract. The functions of these two contractual dimensions in dealing with opportunism are differentiated (Luo, 2002). Specifically, scholars argue that contract specificity restrains opportunism mainly through the function of controlling behavioral uncertainty (Luo, 2005). Contract specificity refers to the degree of elaboration of the partners' obligations, incentives and penalties in all procedures, such as technical specifications, implementation processes, financing and legal aspects (Mooi and Ghosh, 2010), thus ensuring that the firms do not deviate from the established contract content. Contingency adaptability is the extent to which unanticipated contingencies are accounted for and relevant guidelines for handling these contingencies are delineated in the contract (Luo, 2002). The role of contingency adaptability is to coordinate both firms in coping with environmental uncertainty (Luo, 2002), with the partners agreeing to clarify principles, develop alternative solutions and formulate new policies based on an open information exchange mechanism to avoid environmental contingencies that force channel members to unilaterally pursue their

self-interest (Boyd and Fulk, 1996). Therefore, firms need to match specific contract governance functions to transactions with exchange risk in a cost-efficient manner (Williamson, 1985).

Cultural differences and contractual efficacy

Institutions are "the humanly devised constraints that structure human interaction" (North, 1990) and include formal rules and laws and informal norms such as culture. Institutions differ between countries, such institutional differences can create costs or opportunities associated with the efficient and effective development and implementation of marketing activities (Mitra and Golder, 2002; Solberg, 2008). In the IM domain, institutional differences are considered as a key factor affecting the contractual efficacy (Batsakis *et al.*, 2022), which is defined as the effect of a contract adopted by a firm to achieve a certain purpose (Crosno *et al.*, 2021). Firms can avoid the contractual inefficiencies arising from institutional differences by learning the written laws and regulations of the host country. In contrast, it is difficult for firms to master the informal institution such as cultural traditions, which is defined as the commonly shared values and beliefs (Holmes *et al.*, 2013; Wang and Larimo, 2020).

Researchers have conducted extensive studies on institutional factors and contract governance (see Table 1 for a review). These studies have focused mainly on the contingent effects of institutional characteristics. In contrast, we follow the practice of existing IM studies to examine the role of cultural differences based on the Hofstede framework, which is believed to be appropriate for examining management-related phenomena (Drogendijk and Slangen, 2006; Griffith *et al.*, 2021). We select the three cultural dimensions most relevant to the control and coordination functions of contracts: uncertainty avoidance, power distance and individualism-collectivism, and calculate cultural differences between channel partners. Uncertainty avoidance reflects the extent to which people feel threatened by ambiguity (Hofstede *et al.*, 2010). Power distance refers to the extent to which societies tolerate inequalities (Hofstede, 1980). The individualism-collectivism dimension reflects people's willingness to embrace the group to which they belong (Hofstede, 2001).

Hypothesis

In line with institutional theory, the cultural difference dimensions are modeled as key boundary conditions affecting the relationship between contractual dimensions and opportunism, and this section discusses our research variables and their hypothesized relationships (Figure 1).

Contractual dimensions and channel members' opportunism

Previous literatures have recognized that firms should adopt proper contract governance to reduce uncertainty, aiming to reduce partners' tendency to violate (Iyer, 1998; Lee, 2011; Malhotra and Lumineau, 2011; Roxenhall and Ghauri, 2004; Yang *et al.*, 2011). Our focus is the extent to which these contractual dimensions vary in their level of specificity or adaptability and their impact on the opportunism of channel members.

Normally, in more specific contracts, parties attempt to state, at the date of contracting, how they will handle or resolve various situations regarding routine cooperation. Contract specificity is important for achieving cooperation goals in international exporter–distributor relationships (Mooi and Ghosh, 2010), where is used to control behavioral uncertainty with explicit details (Luo, 2005), thus greatly deterring opportunistic behavior. Next, we will demonstrate how contract specificity can reduce opportunism by reducing behavioral uncertainty in two ways.

Table 1. Summary of selected studies of contractual efficacy in IM channel governance

Reference	Sample	Independent variable	Dependent variable	Moderators	Key findings
Luo (2002) *SMJ*	293 foreign expatriates in China and local nationals	Term specificity and contingency adaptability	IJV performance	–	Contingency adaptability and term specificity together constitute complete contract and stimulate IJV performance
Cavusgil *et al.* (2004) *JIM*	162 U.S.-based manufacturing firms and independent foreign distributors	Formal contract	Foreign distributor opportunism	Legal environment hostility	Formal contracts as prescribed by transaction cost analysis, although negatively related to opportunism, do not have a significant effect on the alleviation of foreign distributor opportunism
Wu *et al.* (2007) *JIBS*	142 U.S.-based manufacturers and their foreign distributors	Formal contract	Distributor opportunism	–	The hypothesis that formalized and explicit contract can suppress opportunism has not been confirmed
Zhou and Xu (2012) *JIBS*	168 foreign subsidiaries and their major Chinese suppliers	Detailed contract	Local supplier opportunism	Relational governance	Detailed contracts have an insignificant effect in markets where legal institutions are not well established
Griffith and Zhao (2015) *JIM*	151 U.S. exporters and their primary foreign buyers	Contract specificity Contract violation (mediator)	Relationship performance	Country business risk Country globalization Contract monitoring	Contract specificity is not directly related to contract violation but, rather, that country-level factors moderate the efficacy of contract specificity. The results also demonstrate that contract monitoring can mitigate the negative association between contract violation and relationship performance
Handley and Angst (2015) *SMJ*	102 U.S.-based outsourcing firms and their foreign customers	Contractual governance	Service provider opportunism	National culture (individualism-collectivism, uncertainty avoidance)	Contractual governance can curb opportunism and its efficacy is highly contingent on cultural context

(*continued*)

Table 1.

Reference	Sample	Independent variable	Dependent variable	Moderators	Key findings
Wang *et al.* (2016) *JOM*	293 buyer-supplier dyads, 61 are international (foreign buyer-local supplier)	Contracts	Supplier opportunism	Regulatory uncertainty and relationship structure	Contracts are more effective in deterring supplier opportunism when regulatory uncertainty is high
Wang *et al.* (2016) *JBR*	188 IJVs in China	Government resource dependence; Government policy uncertainty	Foreign partner opportunism	Contract specificity; Shared vision	Contractual specificity is effective in reducing the effect of resource dependence on foreign partner opportunism
Sheng *et al.* (2018) *JAMS*	420 buyer–supplier exchanges of manufacturing firms in China	Contractual governance	Opportunism	Government support	Contractual governance is more efficient in constraining opportunism when government support is high
Wang *et al.* (2019) *IBR*	324 managers of local suppliers in China and 162 managers working for international buyers located in 15 different OECD countries	Formal contracts Relational governance	International buyer opportunism	Transaction-specific investments	Formal contracts help safeguard supplier physical transaction-specific investments (TSI) against international buyer opportunism, but they are ineffective at safeguarding local supplier human TSIs
Jia *et al.* (2020) *IMM*	206 Chinese export firms and foreign distributors	Contract design and contract application (mediator)	Opportunism	Regulatory uncertainty	Both contract design and contract application have a negative impact on supplier opportunism
Wei *et al.* (2021) *IMM*	38 Chinese firms participated in a total of 180 cross-border IT outsourcing projects	Contract-based control	Relational conflicts	–	Outsourcers' contract-based control has a positive association with relational conflict perceived by vendors

(*continued*)

Table 1.

Reference	Sample	Independent variable	Dependent variable	Moderators	Key findings
Giannetti and Yafeh (2012) MS	Syndicated loan contracts provided by Dealogic's Loanware Database from 1980 to 2005	Cultural difference	Contract contents	–	More culturally distant lead banks offer borrowers more strictive loan contracts
Bryan *et al.* (2015) JCF		Cultural difference	Contract structure	–	Cultural distance is strongly and significantly related to differences in the relative use of equity-based contract
This study	*235 Chinese export firms and foreign distributors*	*Contract specificity and contingency adaptability*	*Opportunism*	*National culture difference (uncertainty avoidance difference, power distance difference, individualism-collectivism difference)*	*Both contract specificity and contingency adaptability can effectively constrain opportunism and the direction of contractual efficacy is highly contingent on the particular dimension of cultural difference*

Notes: *IBR = International Business Review; IMM = Industrial Marketing Management; JAMS = Journal of the Academy of Marketing Science; JBR = Journal of Business Research; JCF = Journal of Corporate Finance; JIBS = Journal of International Business Studies; JIM = Journal of International Marketing; JOM = Journal of Operations Management; MS = Marketing Science; SMJ = Strategic Management Journal*
Source: Authors own work

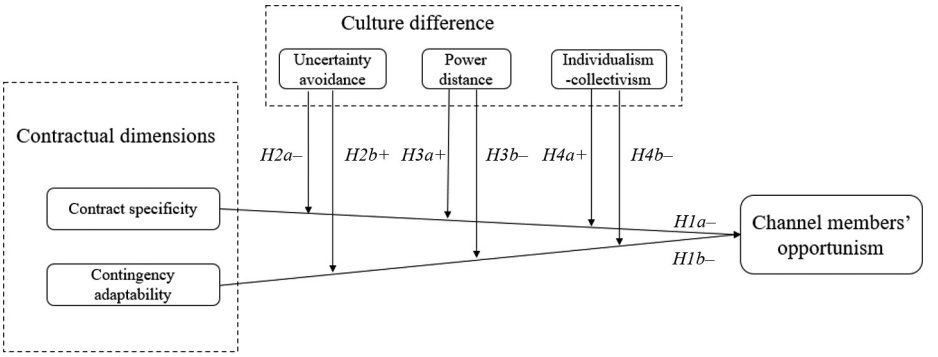

Figure 1. Conceptual framework

Notes: For *H2a-H4b*, a positive moderating effect means that cultural differences strengthen the negative association between contractual dimension and opportunism, while a negative moderating effect means the opposite
Source: Authors own work

First, explicitly specified contracts narrow the scope and severity of risks to which a cooperation is exposed, allowing channel members to legally monitor the technical, legal, financial and implementation activities of partners. It not only enhances the transparency of the cooperation but also ensures that task assignments and work schedules are effectively implemented (Chen *et al.*, 2009; Poppo and Zenger, 2002), thereby encouraging subsequent cooperation.

Second, contract specificity clearly defines the responsibilities, obligations and expected performance in many aspects, such as technical and legal issues (Das and Teng, 2001). This implies that developing more detailed provisions can reduce misunderstandings between the parties. In addition, contract specificity is considered as an effective means of discouraging counterparties from engaging in ex post opportunistic renegotiations (Mooi and Ghosh, 2010), and partners must fulfill their duties in compliance with established contractual provisions or be punished. Thus, we propose the following:

H1a. Contract specificity is negatively associated with channel members' opportunism.

However, specific contracts have inherent limitations in adapting to environmental uncertainty. When the unexpected events arising from the external environment disrupts the original co-operative arrangements, this contractual dimension cannot prevent channel members from taking opportunistic actions beyond the scope of the contract (Cannon *et al.*, 2000). Therefore, when dealing with opportunism, firms need to make up for the shortcomings of contract specificity by emphasizing contingency adaptability, which contains relevant guidelines to ensure that firms are not bound by rigid terms and can effectively handle unexpected crises (Luo, 2005).

In fact, no matter how hard a firm tries, it cannot make environmental uncertainty disappear completely. Firms need to remain flexible and adaptable when faced with such exogenous uncertainty that is far beyond the firm's control (Koberg, 1987; Mooi and Ghosh, 2010). However, contingency adaptability can help the involved parties maintain close cooperation in the face of unforeseen events by allowing them to remain flexible without being bound to specific terms. When both firms do not have to maximize their own interests at the expense of their partners' benefits, then the cooperation between the two firms will not be suspended.

Furthermore, contingency adaptability is especially important in highly volatile environments because it provides firms with strategic flexibility and organizational agility to deal with changing environmental factors (Aulakh *et al.*, 1996). If one trading partner adapts smoothly and flexibly to unforeseen events (Poppo and Zenger, 2002), the other partner's operational practices will improve, and the partner will be less likely to behave opportunistically in return (Huo *et al.*, 2016). Therefore, when channel participants can coordinate their actions based on contingency adaptability to maximize joint benefits, the possibility of exporters or distributors engaging in opportunistic behaviors to pursue their self-interests is greatly reduced:

H1b. Contingency adaptability is negatively associated with channel members' opportunism.

The moderating effect of uncertainty avoidance differences

Uncertainty avoidance indicates "the extent to which the members of a culture feel threatened by ambiguous or unknown situations" (Hofstede, 2001). Cultures exhibiting high s stable working conditions and reject ambiguous terms. Actors from these countries respect established agreements even if these are not entirely in line with their interests (Hofstede, 2001; Malik and Zhao, 2013). In contrast, people with low uncertainty avoidance embrace unpredictable situations more easily and prefer adaptability and informal regulations, and they are inclined to use adaptive frameworks that leave room for uncertainty (Tower *et al.*, 2019).

We argue that two firms that differ in uncertainty avoidance may not agree on how to control behavioral uncertainty, leading to a decreased binding effect of contractual specificity on opportunism. For firms in contexts with low uncertainty avoidance, deviating modestly from the established contractual provisions is acceptable, which helps them maintain greater autonomy in the contractual implementation (Erramilli, 1996). But firms in contexts with high uncertainty avoidance hold the opposite view, asserting that uncertainty behavior can lead to ambiguous outcomes that damage their legal rights (Wuyts and Geyskens, 2005). Therefore, in actual cooperation, firms in high–uncertainty avoidance contexts may emphasize contract specificity to ensure that their partners' behavior remains predictable (Barkema and Vermeulen, 1997; Barr and Glynn, 2004). This might be resisted by firms in low–uncertainty avoidance contexts, which might interpret the emphasis on contract specificity as a signal of mistrust and take a negative attitude toward partners (Tower *et al.*, 2019). We argue neither firm is justified in making concessions for the other and thus changing their original behavior patterns, making it difficult for contract specificity to function effectively in controlling opportunism. Therefore, we propose the following:

H2a. When uncertainty avoidance differences increase, the negative effects of contract specificity on opportunism are weakened.

Differences in uncertainty avoidance between partners may facilitate the efficacy of contingency adaptability in curbing opportunism. Because when uncertainty avoidance increases, both firms have similar views on how to respond to environmental uncertainty in a coordinated manner.

Although firms in high–uncertainty avoidance contexts may insist on adopting restrictive and rigid contracts (Steensma *et al.*, 2000), when they cannot effectively counter unexpected external events, it may be more beneficial for these firms to switch to flexible

collaborative solutions because reducing ambiguity and achieving certain outcomes is the fundamental concern for such firms (Gunkel *et al.*, 2016). This suggests that firms with low uncertainty avoidance at this time will likely be proactive in catering to their contract partners, enabling both firms to make more certain decisions. We thus infer that when uncertainty avoidance differences increase, both firms tend to emphasize contingency adaptability to cooperate. They are not bound to the original terms and are willing to be autonomous to maintain cooperation (Hofstede, 1989), suggesting that the coordination mechanism of contingency adaptability functions well in curbing opportunistic behavior. Therefore, we propose the following:

H2b. When uncertainty avoidance differences increase, the negative effects of contingency adaptability on opportunism are strengthened.

The moderating effect of power distance differences

Power distance expresses the degree to which "the less powerful members of institutions and organizations within a country expect and accept that power is distributed unequally" (Hofstede, 2001). In a culture with high power distance, organizations strongly prefer hierarchical systems and support the existence of prestige, thereby highlighting status differences between members (Samaha *et al.*, 2014). In contrast, firms in contexts with low power distance embrace equality and independence, and people are more likely to accept convincing opinions rather than executive commands (Hofstede, 1980).

We believe that the dampening effect of contract specificity on opportunism is reinforced when the difference in power distance between firms is large. In contexts with large differences in power distance, bilateral firms are inclined to emphasize the control function of the contract to reduce the room for opportunistic behavior (Chen *et al.*, 2014). Managers from cultures with high power distance rely heavily on formal rules to guide implementation behavior. Given that these formal rules are usually outlined in the agreement, firms in such cultures can assess whether the partner's behavior is consistent with norms (Daniels and Greguras, 2014). In this case, firms with a low-power distance background also carry out their duties by the established contractual terms, because pursuing equality is a distinctive characteristic of this type of firm (Engelen *et al.*, 2014; Hui *et al.*, 2004). Especially in the context of low power distance, firms cannot tolerate unilateral dominant behavior in cooperation but rather prefer to interact in an egalitarian manner (Caputo *et al.*, 2019). We contend that the increased power distance will help prevent firms from deviating from the original design, as reflected by the firm in the high-power distance context insisting on taking advantage of contract specificity, while the firm in the low-power distance context also makes reciprocal claims. Therefore, we propose the following hypothesis:

H3a. When power distance differences increase, the negative effects of contract specificity on opportunism are strengthened.

Differences in power distance between partners may weaken the coordination function of contingency adaptability and thus reduce its constraining effect on opportunism. We speculate that the two types of firms are not equivalent in terms of the effort they devote to coordinate their partners. On the one hand, most decisions in firms with a high-power distance context rest on senior management to make (Daniels and Greguras, 2014; Mitchell *et al.*, 2000). However, the complex administrative hierarchy established by firms in this context prevents the information from being quickly delivered to decision-makers (Achrol, 1991), which leads to these firms missing the best chance to coordinate with their partners

(Hofstede, 1989). Therefore, regardless of whether firms in low–power distance cultures possess effective information-sharing capabilities, it is difficult for firms in high–power distance cultures to establish effective coordination mechanisms with counterparties and develop alternative solutions based on the guiding principles outlined in contingency adaptability. Therefore, we propose the following hypothesis:

H3b. When power distance differences increase, the negative effects of contingency adaptability on opportunism are weakened.

The moderating effect of individualism-collectivism differences

Individualistic culture presents a preference for loosely knit social structures that require individuals to take care of themselves and their immediate family, while collectivist culture presents a tight-knit social structure where members care for each other and have unquestioned loyalty (Hofstede *et al.*, 2010). Extant wisdom also suggests that individualist and collectivist actors differ significantly in whether they emphasize goals or processes (Earley and Gibson).

Specifically, firms in individualistic contexts are mostly process-oriented and emphasize the implementation process of cooperation. But firms in collectivistic contexts are largely goal-oriented and are more concerned with achieving the intended goals of cooperation (Earley and Gibson, 1998). For example, firms in individualistic contexts are not satisfied if partners misinterpret the meaning of contract terms or modify the content of the contract without permission (Leung and Lind, 1986); firms in individualistic contexts are more concerned with whether the partner's behavior is consistent with the process description of the original terms regardless of whether the final goal can be achieved. In this case, neither firm can easily deviate from the established goals or processes of cooperation, otherwise, they will trigger the counterparties' vigilance and prevention (Bruccoleri *et al.*, 2019). We posit that the two firms reinforce their control over partner behavior from a process and goal perspective, respectively, and thus jointly reduce the threat of opportunism. Therefore, we propose the following:

H4a. When individualism-collectivism differences increase, the negative effects of contract specificity on opportunism are strengthened.

By contrast, the inhibitory effect of contingency adaptability on opportunism is reduced when the individualism-collectivism differential between the two firms' cultures widens significantly. Existing research suggests that collectivists communicate more intimately and collaborate more coherently with in-group members, but not with outgroup members (Earley and Gibson, 1998). This difference is less noticeable among firms in individualistic cultures (Gudykunst *et al.*, 1987), which tend to adopt an equitable approach when interacting with their partners (Leung and Bond, 1984; Leung and Lind, 1986). It implies that collectivist firms may rarely exhibit a positive and enthusiastic willingness to interact with foreign partners, and they naturally receive indifferent responses from individualist firms. Without such close communication, the coordination mechanism of contingency adaptability is difficult to implement expectedly, making it impossible for the two firms to adopt consistent means to jointly respond to opportunism. Therefore, we propose the following:

H4b. When individualism-collectivism differences increase, the negative effects of contingency adaptability on opportunism are weakened.

Methods

Data collection procedures

This study examines the abovementioned hypotheses with a sample of Chinese export firms. We formulated our survey items based on previous studies. The questionnaire was revised after double back-translation by three scholars (Hoskisson *et al.*, 2000; Li *et al.*, 2008). The survey instrument was pretested in a pilot study with 27 managers of marketing channels of exporters who were familiar with their international channel partners. The respondents were informed about the academic use of the survey, and their confidentiality was guaranteed. To ensure the clarity and completeness of all of the items, we asked those respondents to respond to all of the questions and refined the survey based on their feedback on the terminology used.

During the formal data collection process, we commissioned a national market research company to conduct the survey, which is the preferred method in emerging markets for obtaining reliable and valid data (Sheng *et al.*, 2018; Yang *et al.*, 2018, 2012). For this study, we established two criteria to select qualified firms in China. First, we selected exporters with more than ten employees who exported at least 10% of their total revenue to more than three countries and used independent foreign distributors. It was important to exclude accidental or occasional exporters from the study (Obadia and Robson, 2021). Second, Chinese exporting firms and their foreign distributors were not investigated so that we could exclude the effect of vertical integration.

The national market research company randomly selected 1,560 firms, which covered a wide range of industries, including the electronics, mechanics and chemical industries. The interviewers first called the sample firms to request their cooperation and made appointments with marketing channel managers who were in charge of international business; they acted as the key respondents to identify specific foreign distributors with whom they had maintained long-term business relationships. In line with the methods of previous studies (Obadia and Robson, 2021), to maximize response variation, one-third of the respondents were asked to answer by focusing on their first or second most significant foreign distributors in terms of sales, one-third by focusing on their third or fourth most significant distributors, and one-third by focusing on one of their smallest foreign distributors. The interviewers informed the respondents of the academic nature of the study and the confidentiality of their responses with a summary report. Our interviews revealed that these individuals were the most knowledgeable about their firms' relationships with foreign distributors. Afterward, the respondents answered the questions about their exchanges with their foreign distributors. Similar to the approach of Kumar *et al.* (1993), the respondents were asked to provide data only for the attributes that they believed they were capable of evaluating, and respondents helped us to contact overseas distributors to get their feedback. We finally obtained bilateral questionnaire data from Chinese exporters and overseas distributors. After removing several unqualified respondents or those in charge of international business for less than 1 year, we obtained 235 usable and complete questionnaires from 610 qualified respondents.

The foreign distributors of 235 Chinese export firms were spread across 24 different host countries (the top nine host countries in terms of the number of surveyed subsidiaries were the USA, the UK, Japan, South Korea, Russia, Thailand, Singapore, Canada and Australia). Overall, the sample in our study represented a broad spectrum of firms by size, age, industry, ownership and other characteristics (Table 2). We conducted *t*-tests to compare the responding firms with the nonresponding firms. There was no significant difference between those two groups in terms of firm characteristics (i.e. exporter age, industry type, ownership), suggesting that nonresponse bias may not be a major concern in this research.

Characteristic description	Frequency	%
USA	49	20.85
UK	22	9.36
Japan	17	7.23
South Korea	17	7.23
Russia	14	5.96
Thailand	14	5.96
Singapore	13	5.53
Canada	13	5.53
Australia	12	5.11
Exporter ownership		
Nonstate-owned	133	56.60
State-owned	102	43.40
Exporter age		
10 years or less	35	14.89
10–20 years	148	60.85
More than 20 years	52	22.13
Industry		
Electronics	93	39.57
Mechanics	28	11.91
Chemical	17	7.23
Others	45	41.29

Note: Top 9 host countries
Source: Authors own work

Table 2.
Sample profile

Measurement

All measures used in our study were based on five-point Likert scales; the measurement items of the key constructs appear in Table 3. We used a multi-item measurement scale that contains individual items, factor loadings, average variance extracted (AVE) and other statistical figures. Table 4 shows the descriptive statistics and correlations among the focal variables.

Dependent variable. We adapted four items to measure *channel members' opportunism* from Liu *et al.* (2009). This construct is reflected by four perspectives that represent self-seeking behavior with guile, as noted in transaction cost economics (TCE) theory: twisting the truth, exploiting loopholes, hiding important information and breaking promises. Cronbach's α in this study was 0.805. Therefore, the method has satisfactory reliability.

Independent variables. Contract specificity pertains to the degree of explicitness and precision of contract agreements (Mooi and Ghosh, 2010). Drawing on TCE, we measure contract specificity using Mooi and Ghosh's (2010) four-item scales to assess the contractual dimensions concerning technical specifications, implementation procedures, financial and legal considerations and other contractual characteristics. Cronbach's α in this study was 0.802. Therefore, this method has sufficient reliability.

Contingency adaptability reflects the degree of inclusiveness and adaptability of contract agreements (Luo, 2002). Because extant studies with validated measurements have not assessed contingency adaptability, we measure this construct by adapting Luo's (2002) three-item contingency adaptability scale through a multi-round q-sorting exercise with academic experts and seasoned managers. Each item matched the defined construct at a

Table 3. Reliability and validity analysis

Construct	Items	Standardized loadings	CR	AVE	Cronbach's alpha
Opportunism (Liu *et al.*, 2009)	• How often did this distributor lie about certain things in order to protect its interests in the last six months?	0.744	0.807	0.512	0.805
	• How often did this distributor fail to deliver promises, as described in the contract, for its own interests in the last six months?	0.632			
	• How often did this distributor breach informal agreements between our companies to maximize its own benefits in the last six months?	0.727			
	• How often did this distributor take advantage of "holes" in our contract to enhance its own interests in the last six months?	0.753			
Contract specificity Mooi and Ghosh (2010)	*How explicit and precise are the contractual characteristics of the agreement for controlling behavior uncertainty?*				
	• To what extent the terms of trade for technical specification was clearly contractually specified	0.78	0.805	0.512	0.802
	• To what extent the implementation procedures as a whole was very specific	0.618			
	• To what extent the contractual terms for finance were very detailed and specific	0.64			
	• To what extent legal considerations were well stipulated	0.805			
Contingency adaptability (Luo, 2002)	*How inclusive and flexible are the contractual characteristics of the agreement in response to environmental uncertainty?*				
	• Channel members would reiterate or confirm major principles and guidelines for addressing unanticipated contingencies as they arise	0.799	0.803	0.576	0.802
	• Being flexible and resilient is the characteristic of the contract content	0.738			
	• Channel members are allowed to work out a new deal rather than hold each other to the original terms when emergencies occur	0.738			
Contract utilization: (Samaha *et al.*, 2011; Crosno *et al.*, 2021)	• We often have to resort to our formal contract to resolve disputes with this distributor;	0.758	0.856	0.599	0.854
	• We have to frequently point out to distributors that their request is beyond the scope of our contract;	0.718			
	• Distributors often resorts to our formal contract to resolve disputes with us;	0.839			
	• Distributors often reminds us of our contract to ensure that we are meeting our obligations	0.777			

(*continued*)

Table 3.

Construct	Items	Standardized loadings	CR	AVE	Cronbach's alpha
Relational norms (Liu *et al.*, 2009)	• In this relationship, both parties expect that any information that may help the other party will be provided to that party	0.796	0.815	0.530	0.808
	• In this relationship, ideas or initiatives of both sides are widely shared and welcomed via open communication	0.6			
	• In this relationship, problems or conflicts are expected by both parties to be solved through joint consultations and discussions	0.642			
	• In this relationship, both parties play a healthy role in the other party's decisions via mutual understanding and socialization	0.844			
Supplier dependence (Samaha *et al.*, 2011)	• In our trade area, no other distributors could provide the supplier with comparable distribution	0.694	0.798	0.570	0.795
	• In our trade area, the supplier would incur substantial costs in replacing our firm with another distributor	0.729			
	• It would be difficult for the supplier to replace the sales and profits our firm generates	0.834			
Distributor dependence (Samaha *et al.*, 2011)	• We do not have other suppliers who could provide us with comparable product lines	0.712	0.770	0.528	0.770
	• Our total costs of switching to an alternative supplier would be prohibitive	0.756			
	• It would be difficult for our firm to replace the sales and profits generated from this supplier	0.711			
Total dependence (Kumar *et al.*, 1995)	• The sum of exporter dependence and distributor dependence				
Asset Specificity (Yang *et al.*, 2012)	• We have made significant investments in tooling and equipment dedicated to our relationship with this distributor	0.804	0.834	0.560	0.828
	• This distributor has some unusual technological norms and standards, which have required adaptation on our part	0.617			
	• Training and qualifying the distributors have involved substantial commitments of time and money	0.74			
	• Our production system has been tailored to meet the requirements of dealing with this distributor	0.815			

(*continued*)

Table 3.

Construct	Items	Standardized loadings	CR	AVE	Cronbach's alpha
Other control variables	• *Formal institutional distance*: This variable was calculated using the distance formula introduced by Kogut and Singh (1988) nd based on the 2019 Worldwide Governance Indicators of the World Bank *Geographic distance*: This variable calculates the shortest distance between countries, cited from the database provided by Berry *et al.* (2010) • *Transaction frequency*: How frequently has your company been deal with this targeted distributor? 1 Sometimes; 2 Often; 3 Very often • *Relational length*: How many years has your company been doing business with this targeted distributor? • *Exporter age*: Number of years since the exporter established the business *Exporter size*: Average sales for the last three years of your firm? (If your firm has been established for less than three years, you shall fill up sales according to the latest year, ten thousands RMB) • *Exporter ownership*: 0 non state-owned exporter; 1 state-owned exporter				
χ^2/DF	1.367				
RMSEA	0.040				
CFI	0.952				
TLI	0.944				
SRMR	0.047				

Source: Authors own work

Table 4. Descriptive Statistics and correlation matrix

Variables	Observations	Mean	SD	1	2	3	4	5	6	7	8	9
1. Opportunism	235	1.88	0.586	1								
2. Contract specificity	235	4.36	0.575	−0.28*	1							
3. Contingency adaptability	235	3.95	0.788	−0.52*	0.21*	1						
4. UAD	235	30.15	20.913	0.22*	−0.25*	−0.13*	1					
5. PDD	235	26.77	15.512	−0.21*	0.16*	0.02	−0.48*	1				
6. ICD	235	36.66	29.592	−0.19*	0.15*	0.04	−0.50*	0.85*	1			
7. Contract utilization	235	2.71	0.954	−0.26*	0.10	0.26*	−0.01	−0.09	−0.10	1		
8. Exporter age	235	2.64	0.489	−0.14*	−0.02	0.04	0.03	0.02	0.04	−0.12*	1	
9. Exporter size	235	6.23	1.287	−0.05	0.05	0.05	0.06	0.06	0.00	0.07	0.15*	1
10. Exporter ownership	235	0.43	0.497	−0.02	0.06	−0.05	0.03	0.02	0.01	−0.02	−0.20*	0.10
11. Relational length	235	8.49	3.660	−0.18*	0.07	0.15*	−0.14*	0.09	0.14*	−0.06	0.56*	0.17*
12. Relational norms	235	4.34	0.596	−0.11*	0.06	0.17*	−0.14*	0.12*	0.10	−0.08	0.06	0.02
13. Total dependence	235	7.41	1.230	−0.10	0.09	0.21*	−0.08	0.19*	0.19*	0.12*	0.15*	0.06
14. Asset specificity	235	4.01	0.583	0.03	0.12*	0.24*	−0.13*	0.22*	0.21*	0.04	−0.02	0.16*
15. Transaction frequency	235	2.41	0.519	−0.23*	0.14*	0.11*	−0.05	0.05	0.06	−0.03	0.16*	0.04
16. Formal institutional distance	235	6.40	3.407	−0.18*	0.16*	0.00	−0.44*	0.95*	0.81*	−0.11	0.00	0.11*
17. Geographic distance	235	8.59	0.519	−0.05	0.07	−0.03	−0.36*	0.53*	0.77*	−0.09	0.07	−0.08

Variables	Observations	Mean	SD	10	11	12	13	14	15	16	17
10. Exporter ownership	235	0.43	0.497	1							
11. Relational length	235	8.49	3.660	−0.12*	1						
12. Relational norms	235	4.34	0.596	−0.02	0.02	1					
13. Total dependence	235	7.41	1.230	−0.09	0.17*	0.05	1				
14. Asset specificity	235	4.01	0.583	0.01	0.15*	0.1	0.42*	1			
15. Transaction frequency	235	2.41	0.519	−0.12*	0.25*	0.03	0.1	0.28*	1		
16. Formal institutional distance	235	6.40	3.407	0.04	0.1	0.13*	0.15*	0.19*	0.05	1	
17. Geographic distance	235	8.59	0.519	−0.03	0.07	0.11*	0.18*	0.18*	0.03	0.47*	1

Notes: *$p < 0.1$ (two-tailed); **$p < 0.05$ (two-tailed); ***$p < 0.01$ (two-tailed)
Source: Authors own work

satisfactory level. Cronbach's α coefficient for this study was 0.802. Therefore, this method has sufficient reliability.

Moderating variables. Cultural difference is associated with foreign distributors in the host country, and cultural differences concerning individual collectivism, power distance, and uncertainty avoidance are measured based on Hofstede's cultural dimension scores (Hofstede, 1980). Although the extant literature has noted alternative cultural typologies, Hofstede's national culture dimensions have broader utilization in international channel research (Jia *et al.*, 2020), enabling direct comparison of cross-cultural groups. To capture the impact of the distance in scores on each index, we calculated the absolute value between China's and the nation j's score for each of the three dimensions (Malik and Zhao, 2013; Tower *et al.*, 2019). For example:

$$\text{Difference}_{UA} = |\text{Score}_{UA,j} - \text{Score}_{UA,China}|$$

where $\text{Score}_{\text{UA,j}}$ is Hofstede's uncertainty avoidance score for country j, and $\text{Score}_{\text{UA,China}}$ is Hofstede's uncertainty avoidance score for China. We used a similar approach to calculate distance scores for the remaining two indexes: PDD = power distance and IC = individualism-collectivism. A greater distance score indicates a higher degree of cultural separation between the two partners' nations.

Control variables. We included several control variables to manage heterogeneity. First, we controlled for contract utilization because it is believed to constrain opportunism by increasing the marginal cost of guilty behavior (Crosno *et al.*, 2021; Pang *et al.*, 2023; Samaha *et al.*, 2011). Second, we controlled for exporter age, size and ownership (1 = state-owned and 0 = otherwise), which may determine firms' decision-making (Boyd and Solarino, 2016; Gao *et al.*, 2022; Wang *et al.*, 2022; Yang *et al.*, 2012). Third, as exchange characteristics may influence the efficacy of governance (Liu *et al.*, 2009; Liu *et al.*, 2023), we controlled for relational length, asset specificity, transaction frequency and relational norms (Heide, 1994; Liu *et al.*, 2009; Poppo and Zenger, 2002; Williamson, 1985; Yang *et al.*, 2012). It is worth mentioning that because the total interdependence between a distributor and its major supplier, as the interdependence structure of a dyadic relationship, can affect a partner's likelihood of opportunism (Heide, 1994; Lusch and Brown, 1996), we followed three parallel items adapted from Samaha *et al.* (2011) to measure both distributor dependence and exporter dependence. Then, we constructed our measure of total interdependence by summing the distributor dependence and exporter dependence scores (Kumar *et al.*, 1995). Fourth, previous studies (Zhou and Xu, 2012) have indicated that institutional factors shape channel participants' strategic decisions. Thus, we controlled for formal institutional distance, and geographic distance (Berry *et al.*, 2010; Fainshmidt *et al.*, 2014; Gao *et al.*, 2022; Zhang *et al.*, 2023; Zhang *et al.*, 2023). Additionally, we controlled for the impact of the industry.

Common method variance

To minimize common method variance (CMV), we incorporated secondary data to survey the relevant variables. Specifically, the data for the independent variables (uncertainty avoidance difference, power distance difference, individualism-collectivism difference) were collected from a secondary database. Meanwhile, we ensured the voluntary nature of the respondents and confidentiality of the survey, which aimed to diminish concern that the distributors might answer in a desirable way (MacKenzie and Podsakoff, 2012).

Statistically, we performed single-factor tests and exploratory factor analysis (Jia *et al.*, 2019; Wuyts and Geyskens, 2005) and demonstrated substantial issues with CMV (Podsakoff *et al.*, 2003). The test indicated that the initial single-factor variance was 18.515%, and the variance

explained by cumulative factors accounted for 65.653% of the total variance. The first factor without rotation was below the 50% standard, which also confirms that this study was limited by the influence of homology bias (Jia *et al.*, 2023; Podsakoff *et al.*, 2003). In addition, we assessed the occurrence of common method bias by comparing the fit between the measurement model with only traits, and the measurement model with both traits and a method factor (Podsakoff *et al.*, 2003; Williams and McGonagle, 2016). The comparison of two models' fit indices revealed that there was no significant variation ($\triangle\chi^2/df = 0.076$, $\triangle RMSEA = 0.005$, $\triangle CFI = 0.013$, $\triangle TLI = 0.012$, $\triangle SRMR = 0.004$), suggesting that they were robust despite the inclusion of a method factor (Podsakoff *et al.*, 2003; Williams and McGonagle, 2016). Thus, common method bias was unlikely to be a serious concern.

Reliability and validity

We used SPSS 25.0 to conduct confirmatory factor analysis (CFA) to estimate the fit index. The overall CFA model indicated that the scale was considered satisfactory ($\chi^2/df = 1.367$, $RMSEA = 0.040$, $CFI = 0.952$, $TLI = 0.944$, $SRMR = 0.047$). In addition, all constructs show a satisfactory level of reliability, with Cronbach's α ranging from 0.770 to 0.854 and comprehensive reliability ranging from 0.770 to 0.856. We also tested the convergence and discriminative validity of all constructs. All factor loadings were well above the recommended threshold of 0.6 (Yang *et al.*, 2012), and the AVE from the framework was between 0.512 and 0.599. Therefore, the scale showed acceptable convergent validity. Then, we evaluated the discriminant validity by examining whether the lowest AVE of all the facets was higher than the shared variance of each facet and other facets, and the results were supported.

Analysis and results

Hypothesis tests

Because the proposed model includes contractual dimensions and cultural difference dimensions, we adopted a hierarchical moderation model using Stata 17.0 to test the hypotheses. To reduce the effect of multicollinearity, we orthogonalized the independent variables by a modified Gram–Schmidt procedure, thus removing the common variance between the transformed variables and making them uncorrelated with each other (Maslach, 2016; Sine *et al.*, 2005). We show the regression results using five models. Model 1 includes only dependent variables and independent variables. Models 2–5 all include moderating variables, control variables and interaction terms.

As shown in Table 5, Model 1 demonstrates that contract governance accounts for 41.0% of the variance in opportunism. Contract specificity had an insignificant but negative effect relative to opportunism ($\beta = -0.071$, $p = 0.127$). It is consistent with the findings from previous literature that detailed contracts are not necessarily effective in constraining opportunism and their efficacy should depend on the boundary conditions (Cavusgil *et al.*, 2004; Griffith and Zhao, 2015; Zhou and Xu, 2012). In addition, contingency adaptability has a significant negative effect ($\beta = -0.277$, $p < 0.01$) on opportunism, providing support for *H1b*. These results confirm the suggestions to distinguish contract specificity and contingency adaptability. Adding the moderators and interaction terms in Model 2 increase the *R*-squared value by 0.1. The addition of moderators and interaction terms in Models 3 and 4 increase the *R*-squared value significantly compared with that in Model 1, which supports the moderating effects of cultural differences.

In a particular context of cultural difference, the negative relationship between these two contractual dimensions and opportunism may tend to increase or decrease respectively. *H2* pertains to the moderating effects of uncertainty avoidance differences on contract efficacy.

Table 5.
Standardized regression results

Variables	Model 1	Model 2	Model 3	Model 4	Model 5
Contract specificity	−0.071 (−1.532)	−0.166*** (−6.017)	−0.124*** (−6.298)	−0.139*** (−5.164)	−0.166*** (−6.154)
Contingency adaptability	−0.277*** (−4.845)	−0.212*** (−7.141)	−0.273*** (−10.125)	−0.243*** (−11.780)	−0.233*** (−10.486)
UAD		0.019 (0.420)	0.028 (1.110)	0.039 (1.203)	0.032 (0.930)
Contract specificity × UAD		0.120*** (8.376)			0.048** (2.375)
Contingency adaptability × UAD		−0.116*** (−6.934)			−0.044** (−2.583)
PDD		−0.171* (−1.919)	−0.221* (−1.826)	−0.225** (−2.321)	−0.200* (−2.034)
Contract specificity × PDD			−0.188*** (−8.211)		−0.071** (−2.292)
Contingency adaptability × PDD			0.160*** (7.088)		0.069** (2.134)
ICD		−0.100 (−1.537)	−0.078 (−0.952)	−0.078 (−1.328)	−0.095 (−1.516)
Contract specificity × ICD				−0.225*** (−8.178)	−0.121** (−2.755)
Contingency adaptability × ICD				0.186*** (10.999)	0.087** (2.085)
Contract utilization	−0.112*** (−3.355)	−0.094*** (−4.709)	−0.083*** (−4.798)	−0.074*** (−4.204)	−0.075*** (−4.333)
Exporter age	−0.122 (−1.460)	−0.128 (−1.644)	−0.129 (−1.221)	−0.099 (−1.144)	−0.117 (−1.386)
Exporter size	0.008 (0.375)	−0.010 (−0.409)	−0.016 (−0.616)	−0.022 (−0.768)	−0.020 (−0.748)
Exporter ownership	−0.097 (−1.596)	−0.092* (−1.761)	−0.061 (−1.208)	−0.065 (−1.341)	−0.063 (−1.259)
Relational length	−0.004 (−0.404)	0.001 (0.174)	0.002 (0.195)	−0.001 (−0.066)	0.002 (0.249)
Relational norms	−0.026 (−0.393)	−0.030 (−0.783)	−0.036 (−0.680)	−0.021 (−0.458)	−0.029 (−0.710)
Total dependence	−0.011 (−0.439)	−0.018 (−1.118)	−0.024 (−1.161)	−0.019 (−0.827)	−0.024 (−1.214)
Asset specificity	0.276*** (6.005)	0.250*** (5.469)	0.241*** (5.149)	0.232*** (4.578)	0.226*** (4.657)
Transaction frequency	−0.244*** (−4.131)	−0.267*** (−5.929)	−0.231*** (−6.044)	−0.241*** (−5.925)	−0.247*** (−5.520)
Formal institutional distance	−0.036*** (−3.288)	0.032 (1.201)	0.047 (1.510)	0.048 (1.617)	0.045 (1.508)
Geographic distance	0.004 (0.063)	0.144 (1.441)	0.114 (0.944)	0.124 (1.153)	0.137 (1.360)
N	235	235	235	235	235
Adjusted R^2	0.41	0.51	0.55	0.57	0.58

Notes: *$p < 0.1$ (two-tailed); **$p < 0.05$ (two-tailed); ***$p < 0.01$ (two-tailed)
Source: Authors own work

We predicted that UAD is likely to attenuate the negative relationship between contract specificity and opportunism but facilitate the effect of contingency adaptability in restraining opportunism. As the results of Model 2 in Table 5 show, the interaction between contract specificity and UAD has a significant positive effect ($\beta = 0.120$, $p < 0.01$), thus supporting *H2a*. The interaction between contingency adaptability and UAD has a significant negative effect ($\beta = -0.116$, $p < 0.01$), supporting *H2b*.

In *H3*, we predicted that power distance differences would enhance the negative impact of contract specificity on opportunism and attenuate the negative impact of contingency adaptability on opportunism. As Model 3 in Table 5 shows, contract specificity × PDD is negatively related to contract efficacy ($\beta = -0.188$, $p < 0.01$), which supports *H3a*. Model 3 further indicates that the interaction between contingency adaptability and PDD is significantly positive ($\beta = 0.160$, $p < 0.01$), thus providing support for *H3b*.

For the moderating effect of the individualism-collectivism difference, the results of Model 4 in Table 5 indicate that the negative relationship between contract specificity and opportunism is enhanced by the moderating effect of ICD ($\beta = -0.225$, $p < 0.01$), which supports *H4a*. Conversely, ICD is shown to weaken the negative relationship between contingency adaptability and opportunism ($\beta = 0.186$, $p < 0.01$), consistent with the prediction of *H4b*.

Robustness tests

To reduce the autocorrelation among firms at the country level and enhance the robustness of the research results, this study clustered the standard deviations at the country level to control for country effects in the model. The estimated results are shown in Table 6. These models show a high degree of consistency with the core conclusions in Table 5, which further increases the support for the findings.

Endogeneity tests

To solve potential selection bias, we followed the approach proposed by Bascle (2008) and used the Heckman two-step method to test the model. First, the probit regression model was constructed to test whether specificity-oriented contracts and adaptability-oriented contracts affect opportunism_new, in which the measurement of opportunism_new was derived from the questionnaire item "Does your target distributor often have opportunistic behaviors? 0 = No, 1 = Yes". Second, the probability value "Lambda" was calculated and introduced as a control variable into the model affecting opportunism, where the measurement of opportunism was adapted from Liu *et al.* (2009). The coefficient of Heckman's lambda is insignificant ($\beta = 0.106$, $p = 0.743$), further suggesting no systematic selection bias in the sample. The results are shown in Table 7. The test results show that there is no selection bias in this paper.

Discussion

Theoretical implications

The internationalized marketing literature has extensively explored the relationship between contracts and opportunism (Handley and *Angst*, 2015; Wang *et al.*, 2016; Wang and Larimo, 2020) but has yielded inconsistent conclusions (Wu *et al.*, 2007; Zhou and Xu, 2012). The present study confirms these findings, revealing that provisions that attempt to cover all details (contract specificity) cannot effectively mitigate opportunism. Given that the efficacy of cross-border contract governance relies on cultural differences between countries, we argue that identifying specific dimensions of cultural differences associated with contract governance and testing their moderating roles would help to reveal a more nuanced

Table 6.
Robustness tests

Variables	Model 1	Model 2	Model 3	Model 4	Model 5
Contract specificity	−0.071 (−1.532)	−0.166** (−2.725)	−0.124*** (−3.068)	−0.139*** (−4.142)	−0.166*** (−4.547)
Contingency adaptability	−0.277*** (−4.845)	−0.212*** (−5.581)	−0.273*** (−8.796)	−0.243*** (−9.441)	−0.233*** (−8.564)
UAD		0.019 (1.046)	0.028 (0.859)	0.039 (1.160)	0.032 (1.140)
Contract specificity × UAD		0.120** (2.607)			0.048 (1.287)
Contingency adaptability × UAD		−0.116*** (−3.818)			−0.044 (−1.457)
PDD		−0.171* (−1.950)	−0.221** (−2.155)	−0.225** (−2.149)	−0.200** (−2.167)
Contract specificity × PDD			−0.188*** (−3.804)		−0.071 (−1.248)
Contingency adaptability × PDD			0.160*** (6.287)		0.069** (2.688)
ICD		−0.100* (−1.956)	−0.078 (−1.432)	−0.078 (−1.385)	−0.095* (−1.884)
Contract specificity × ICD				−0.225*** (−5.482)	−0.121* (−1.753)
Contingency adaptability × ICD				0.186*** (7.813)	0.087* (2.056)
Contract utilization	−0.112*** (−3.355)	−0.094** (−2.096)	−0.083* (−1.928)	−0.074* (−1.791)	−0.075* (−1.830)
Exporter age	−0.122 (−1.460)	−0.128* (−1.809)	−0.129* (−1.782)	−0.099 (−1.357)	−0.117 (−1.623)
Exporter size	0.008 (0.375)	−0.010 (−0.413)	−0.016 (−0.746)	−0.022 (−1.021)	−0.020 (−0.955)
Exporter ownership	−0.097 (−1.596)	−0.092* (−2.051)	−0.061 (−1.203)	−0.065 (−1.232)	−0.063 (−1.215)
Relational length	−0.004 (−0.404)	0.001 (0.163)	0.002 (0.203)	−0.001 (−0.070)	0.002 (0.256)
Relational norms	−0.026 (−0.393)	−0.030 (−0.725)	−0.036 (−1.038)	−0.021 (−0.564)	−0.029 (−0.796)
Total dependence	−0.011 (−0.439)	−0.018 (−0.816)	−0.024 (−1.205)	−0.019 (−0.973)	−0.024 (−1.234)
Asset specificity	0.276*** (6.005)	0.250*** (3.794)	0.241*** (3.874)	0.232*** (3.779)	0.226*** (3.846)
Transaction frequency	−0.244*** (−4.131)	−0.267*** (−5.351)	−0.231*** (−5.733)	−0.241*** (−5.363)	−0.247*** (−5.736)
Formal institutional distance	−0.036*** (−3.288)	0.032 (1.561)	0.047* (1.932)	0.048* (1.894)	0.045* (2.003)
Geographic distance	0.004 (0.063)	0.144** (2.180)	0.114* (1.784)	0.124* (1.926)	0.137** (2.410)
N	235	235	235	235	235
Adjusted R^2	0.41	0.51	0.55	0.57	0.58

Notes: *$p < 0.1$ (two-tailed); **$p < 0.05$ (two-tailed); ***$p < 0.01$ (two-tailed)
Source: Authors own work

Table 7.
The results of the Heckman two-step test

Variables	Model 1	Model 2	Model 3	Model 4	Model 5
Contract specificity	−0.071 (−1.530)	−0.166*** (−5.997)	−0.124*** (−6.056)	−0.139*** (−5.057)	−0.165*** (−6.002)
Contingency adaptability	−0.276*** (−4.831)	−0.212*** (−7.038)	−0.274*** (−9.868)	−0.244*** (−11.354)	−0.234*** (−10.250)
UAD		0.022 (0.517)	0.031 (1.163)	0.043 (1.394)	0.036 (1.164)
Contract specificity × UAD		0.120*** (8.272)			0.048** (2.377)
Contingency adaptability × UAD		−0.118*** (−6.860)			−0.045** (−2.727)
PDD		−0.171* (−1.918)	−0.221* (−1.841)	−0.225** (−2.361)	−0.200* (−2.060)
Contract specificity × PDD			−0.187*** (−8.256)		−0.068** (−2.447)
Contingency adaptability × PDD			0.161*** (7.272)		0.070** (2.231)
ICD		−0.098 (−1.485)	−0.077 (−0.950)	−0.076 (−1.308)	−0.093 (−1.496)
Contract specificity × ICD				−0.226*** (−7.828)	−0.124** (−2.687)
Contingency adaptability × ICD				0.189*** (10.398)	0.087* (2.071)
Lambda	0.106 (0.329)	−0.163 (−0.416)	−0.122 (−0.421)	−0.218 (−0.592)	−0.229 (−0.625)
Contract utilization	−0.114*** (−3.294)	−0.090*** (−4.422)	−0.080*** (−4.335)	−0.069*** (−3.360)	−0.070*** (−3.498)
Exporter age	−0.131 (−1.480)	−0.115 (−1.638)	−0.119 (−1.249)	−0.081 (−1.035)	−0.098 (−1.317)
Exporter size	0.006 (0.291)	−0.008 (−0.283)	−0.014 (−0.501)	−0.018 (−0.601)	−0.017 (−0.569)
Exporter ownership	−0.103* (−1.676)	−0.082* (−1.773)	−0.054 (−1.209)	−0.052 (−1.190)	−0.049 (−1.067)
Relational length	−0.003 (−0.295)	0.000 (0.006)	0.001 (0.077)	−0.003 (−0.250)	0.000 (0.026)
Relational norms	−0.026 (−0.394)	−0.029 (−0.743)	−0.035 (−0.647)	−0.020 (−0.419)	−0.027 (−0.629)
Total dependence	−0.014 (−0.526)	−0.014 (−0.666)	−0.022 (−0.860)	−0.014 (−0.487)	−0.019 (−0.728)
Asset specificity	0.288*** (5.257)	0.231*** (4.097)	0.226*** (3.381)	0.206*** (2.928)	0.199*** (2.914)
Transaction frequency	−0.245*** (−4.123)	−0.266*** (−5.682)	−0.230*** (−5.766)	−0.239*** (−5.591)	−0.245*** (−5.272)
Formal institutional distance	−0.036*** (−3.255)	0.032 (1.139)	0.047 (1.479)	0.047 (1.574)	0.044 (1.459)
Geographic distance	0.001 (0.015)	0.148 (1.567)	0.118 (0.979)	0.131 (1.244)	0.143 (1.470)
N	235	235	235	235	235
Adjusted R^2	0.41	0.51	0.55	0.57	0.58

Notes: *p<0.1 (two-tailed); **p < 0.05 (two-tailed); ***p<0.01 (two-tailed)
Source: Authors own work

relationship between contracts and opportunism, thus reconciling the contradictory findings of existing research. Our theorizing and results have several implications.

First, we deepen the contract governance literature's understanding of contextual moderators by shifting the conversation around cultural differences to the specific dimension of cultural differences (Beugelsdijk *et al.*, 2017; Bryan *et al.*, 2015; Giannetti and Yafeh, 2012; Prashantham and Eranova, 2020). Cultural differences reflect variations in terms of norms and values and serve as boundary conditions that influence the relationship between IM strategies and outcomes (Griffith *et al.*, 2021; Malik and Zhao, 2013; Tower *et al.*, 2019). The literature has shown that only specific dimensions of cultural differences rather than overall cultural differences influence IM strategy (Malik and Zhao, 2013; Tower *et al.*, 2019). However, this insightful argument has failed to be appreciated by contract researchers, who remain focused on overall cultural differences between countries and their role in the contract governance landscape (Bryan *et al.*, 2015; Jia *et al.*, 2020). Given that the relationship between contract governance and opportunism is dependent on context, we took a different approach from existing IM research by not considering cultural differences as an overarching construct, but rather identifying the dimensions of cultural differences that theoretically lead individuals to behave in ways that are consistent with the contractual function (control or coordination). The findings suggest that cultural differences along the dimensions of uncertainty avoidance, power distance and individualism-collectivism alter the efficacy of contract governance to varying degrees, confirming that the particular dimension of difference is an important lens through which to test interfirm contract governance patterns and outcomes.

Second, this study contributes to the IM literatures by highlighting the match between contract governance and cultural difference contexts as the key to constraining opportunism. Previous contract research has mainly examined the moderating role of cultural characteristics rather than cultural differences (Table 1), we believe that it is not sufficient to reveal the efficacy of contract governance in internationalization contexts (Boyd and Fulk, 1996; Yang *et al.*, 2012). As culturally relevant differences can create greater barriers to firms' successful engagement in cross-border cooperation (Couper *et al.*, 2020; Prashantham and Eranova, 2020; Wang and Chung, 2020). Focusing on the differences between the national culture is the key to gaining insight into the perceived and behavioral differences between firms and improving the way that they interact with partners (Bryan *et al.*, 2015; Jia *et al.*, 2020). Given that only specific but not all dimensions of cultural differences typically affect firms' strategic decisions and outcomes (Malik and Zhao, 2013; Tower *et al.*, 2019). We identified the cultural dimensions related to the contract function (control and coordination), i.e. uncertainty avoidance, power distance and individualism-collectivism and further calculate the differences between the host culture and the Chinese culture under these three dimensions. This study makes a preliminary attempt to assess whether specific cultural difference contexts differentially affect the relationship between the two contractual dimensions and opportunism. The findings suggest that a matching relationship exists between specific dimensions of cultural differences and contractual functions.

Managerial implications

From a managerial perspective, the successful operation of an exporter relies heavily on the firm's adoption of appropriate contract governance in a given cultural context. The current study provides two implications for exporter managers.

First, cross-border cooperation is typically fraught with uncertainty, and exporters' managers naturally tend to use specific contractual approaches when dealing with local

distributors in unfamiliar countries to ensure that both firms can follow established processes to achieve a certain goal. However, our research cautions that managers must be aware of the limitations of their traditional use of contracts. Because of bounded rationality, both firms are unable to specify all issues in advance, leaving room for opportunism triggered by unexpected events. This study offers managers the option of attempting to establish contingency adaptability with local distributors, which serves as an opportunity to negotiate a solution with the partner and reduce opportunism.

Second, exporter's managers have long faced with the challenge to overcome the cultural conflict and restrain channel members' opportunism. The natural cultural rifts between countries require that exporters' managers should familiarize themselves with the host country's cultural environment when engaging in cross-border cooperation and adapt their contract governance strategies accordingly. Moreover, managers should pay attention not only to the magnitude of aggregated cultural differences between host and home country but also to the differences in certain cultural dimensions. By doing so, managers can select the most appropriate contract governance strategies that are suitable for the given cultural difference contexts, thus reducing the risk of opportunism.

Limitations and further research

The interpretation of the findings of this study should be considered in light of its limitations. First, the study sample is small, which may challenge the findings' generalizability. We follow the empirical paradigm of existing IM studies to examine cooperation between a firm and its overseas partners. As shown in Table 1, the sample size of most studies ranged from 100 to 300, and the use of questionnaires to capture managers' strategic decisions in internationalization is common in current research. However, this approach also means that researchers can only infer the characteristics of a larger population from a small number of observations. We suggest that subsequent studies advance channel governance research based on secondary data obtained through techniques such as text analysis to gain more generalized insights.

Second, we realize that calculating the valence of cultural differences rather than absolute values might yield more insightful findings because the differences between cultures are directional. For example, from the perspective of magnitude, although both A and C differ from B by 5 points, the difference between the two groups is 5 points (A score minus B score) and −5 points (C score minus B score), respectively, indicating that the difference may not affect B in the same way. We encourage subsequent studies to focus on a particular cultural dimension (e.g. uncertainty avoidance) and explore the effect of the valence of cultural differences on interfirm cooperation, thus gaining a more nuanced understanding of cultural differences.

Third, the cross-sectional data that we use have inherent drawbacks that prevent us from better measuring the causal relationships in our model. That is, opportunistic behavior may, in turn, influence channel members' choice of contractual dimensions. We recommend that future studies take a longitudinal approach to test the causal relationship between contract governance and opportunism.

Note

1. Existing studies do not provide empirical evidence that masculinity–femininity culture is associated with control or coordination functions of contracts. Therefore, this cultural dimension is excluded from the present study.

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