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Supplier–customer relationships: A case study of power dynamics

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A B S T R A C T

Against the backdrop of earlier research on power in supplier–customer relationships, our study focuses on the power dynamics, which lead low-power suppliers to re-balance their power relationship with strategic customers. An in-depth qualitative study is used to examine the case of a network made of several dyads (FMCG strategic customers/corrugated packaging suppliers).

Our findings are slightly counter-intuitive: a new stream of literature tends to show that supplier performance is relationship-driven. We find here that the supplier performance is process-driven: to reach the targeted level of performance and to move out from a low-power position, the suppliers develop a two-step process. First, suppliers shift their focus from a product centric approach to a customer business process one, supplying "Process Support Services". Second, suppliers initiate "Performance Process Services" to position themselves to outsource the customer's business processes, hence creating interdependency and a countervailing power with the strategic customer.

1. Introduction

The purpose of this paper is to investigate power dynamics in supplier–customer relationships. The paper takes an interaction approach (IMP Group, 1982) to understanding shifts in power balance between customers and suppliers in their relationships. The aim of the paper is to contribute to IMP theory through developing a better understanding of the dynamics of power in long-term supplier–customer relationships. The context of the research is an in-depth case study of suppliers of 'quasi-commodity' products and their relationships with their customers. The paper therefore further seeks to understand how 'low complexity' product suppliers may change the dynamics and balance of power in their customer relationships.

The development and management of supplier–customer relationships has been the focus of attention by management scholars over several decades (Ford et al., 1986; Anderson et al., 1994; Dyer and Singh, 1998; Araujo et al., 1999). In IMP literature it has been found that an understanding of the structure and dynamics of supplier–customer relationships is critical for firms in enabling them to have a clearer view of their current and potential positions in relationships (Ford, 1980; Dwyer et al., 1987; Håkansson and Snehota, 1995; Wilson, 1995).

Collaborative approaches to supplier–customer relationships have also been highlighted in previous studies (Ehret and Ploetner, 2006; Ulaga and Eggert, 2006), with some researchers linking relational benefits to higher value creation and appropriation for firms (Wagner et al., 2010). The risk of dependence on a relationship counterpart is therefore outweighed by the benefits that accrue from long-term interaction and relationship-building activities (Ellram, 1991; Anderson and Katz, 1998; Cousins and Lawson, 2007; Kleemann and Essig, 2013).

Several authors have highlighted that product category management impacts on supplier–customer interaction (Gelderman and Weele, 2005) by creating situations where supplier–customer relationships are transactional when the market is competitive (standard products) and collaborative when customers search for customization of products and service solutions (Dubois and Gadde, 2000). Therefore 'strategic partnership' development is more likely in the context of highly customized products, whereas 'market exchange' is more appropriate when products are relatively standardized (Bensaou, 1999; Axelsson and Wynstra, 2002; Svahn and Westerlund, 2009).

For several decades a number of researchers in the field of IMP research have been interested in understanding the dynamics of power and dependence in supplier–customer relationships. It has been highlighted that an underdeveloped area of research on interaction patterns concerns power (Olsen, 2011). Power relations can be an important phenomenon that creates particular exchange forms (Easton, 2004). Power has been found to dominate in certain situations and contexts e.g., in the UK food sector where large retailers control complex supply networks (Hingley, 2005) or the

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textile industry where small suppliers predominate and focal retailers reconfigure networks of relationships (Johnsen and Ford, 2008). Customer and supplier perceptions on power dynamics may differ widely in relationships (*ibid.*). Recent research has identified areas that customers and suppliers seek to influence and the relative priorities of these areas for both parties (Meehan and Wright, 2011). Power has been found to differ in its underlying origins, depending on the experience of different companies. There is therefore scope to develop a better understanding of how power dynamics are experienced by customers and suppliers (Meehan and Wright, 2012) and how supplier–customer interaction in relationships can influence power dynamics and balance.

It is to the complex issue of power dynamics and balance in supplier–customer relationships that we will turn in this study, by addressing the following research question: how can suppliers and customers change the balance of power in their long-term relationships?

This paper attempts to fill the gap in knowledge on power dynamics in supplier–customer relationships by reporting on the findings from a longitudinal and embedded case study involving data collection from two customers in the fast moving consumer goods (FMCG) industry and from three of their common corrugated packaging suppliers.

The study contributes to the literature on supplier–customer relationships through looking at power dynamics from the perspective of the strategic realignment of power in supplier–customer relationships, which has been largely overlooked by the academic literature.

Previous research has tended to focus on a “static” analysis of relationships (Kraljic, 1983; Bensaou, 1999), or one related to the relationship maturity stages (Dwyer et al., 1987; Cannon and Perreault, 1999; Salle et al., 2001). In addition, power dynamics in relationships have predominantly been studied from the customer's viewpoint (Cox, 2001a, 2001b; Caniëls and Gelderman, 2005, 2007), rather than from both the customer and supplier perspectives. Power dynamics from the perspective of ‘both sides of the coin’ in relationships therefore remains an under-investigated area in purchasing, and supply research (Ramsay, 1996; Caniëls and Gelderman, 2007). There is scope for developing a clearer picture of how supplier and customer perceptions and experiences of power dynamics are manifested in their relationships. This study therefore aims to contribute to a better understanding of power dynamics between suppliers and their strategic customers casting new light on previous studies and developing findings on the links between product categories and the dynamics of power in relationships.

In the next section a literature review on power in relationships is presented, examining how the power balance in supplier–customer relationships may change and focusing on the concept of countervailing power. We fine-tune our research questions and the paper continues with a discussion of the research methodology and the findings from the case studies. The paper draws conclusions and finishes with an examination of the theoretical and managerial implications of the research, the limitations and future research directions.

2. Literature review

2.1. The definition of “power” in supplier–customer relationships

The study of power can be found, not exclusively but with a high level of interest, in the channel management literature (El-Ansary and Stern, 1972; Hunt and Nevin, 1974; Wilkinson, 1974, 1979, Gaski, 1984, 1986). Although most of these studies apply to dyads or triads (i.e., dealer/distributor/client relationships), Gaski and Nevin (1985): 140 acknowledge that such studies may be easily applied to other types of interactions, including those between supplier and customer.

Many definitions have been given to the word “power”. Dahl (1957): 203 writes: “A has power over B to the extent that A can get B to do something that B would not otherwise do.” This definition is expanded by Emerson, who comments that: “the power of actor A over actor B is the amount of resistance on the part of B which can be potentially overcome by A” (1962: 32).

Rooted in the first social exchange theories (Thibaut and Kelley, 1959; Blau, 1964; Emerson, 1962), power is analyzed within ‘dependence’ relationships, which conveys the idea that each party has power over the other. Power imbalance is the difference between the actors' levels of power and is a measure of the relative power of the actors in the relationship (Molm, 1990: 429). This means that one party is less dependent and more powerful (Molm, 1990) or, from the opposite perspective, that one actor is less able to “resist” and therefore “suffers” under its perception of the other actor's power.

2.2. An IMP perspective on power in supplier–customer relationships

IMP researchers have long considered the importance of power and dependence in relationships. In IMP literature, the distribution of power depends on the ‘interaction’ pattern (Håkansson and Waluszewski, 2013), which “implies that the position of the actors involved, in relation to direct and indirect counterparts, is of critical importance” (2013, p. 451) (Henders and Håkansson, 1995; Mattsson, 1989). The IMP paradigm of the interaction approach takes place within the context of relationships between companies, which are embedded in networks (Campbell, 1984; Håkansson, 1986; Smith and Easton, 1986). Early IMP research focused on dyadic relationships, but soon moved to the development of theory on network dynamics (Axelsson and Easton, 1993). Håkansson and Snehota (2006), p. 265 state that “It is therefore the activities taking place between the organization and the other parties, rather than activities within the organization itself, which are the determinants of the bargaining position and of the overall effectiveness of the organization in achieving its goals.” From there, we understand that power is a dynamic construct that can shift or change according to the purchasing or selling strategies of the actors.

Some IMP researchers stress the notion of power shifts (Håkansson and Gadde, 1992; Johnsen and Ford, 2001), but do not fully analyse the causes of such shifts. They assess that the more that a customer or supplier commits to a relationship (…), the more powerful that counterpart becomes (Ford et al., 2002), which links to the notion of relationship value. Ford et al. (2002, p. 176), based on previous work from Håkansson (1982), define three aspects of a relationship that provide value: activity links (coordination of the activities between the two companies); resource ties (resource adaptation between companies) and actor bonds (social exchange). Resource ties play a major role in power distribution as any change in resource availability or demand will impact the power balance.

Ford et al. (2003) noted that power in a relationship is not necessarily the monopoly of a single company, nor is it uni-dimensional. A problem allied to power and dependence in relationships is that it is seldom symmetrical (Håkansson and Gadde, 1992). The greater significance of a relationship to one firm may create difficulties for both firms in handling and managing their relationship (Ford et al., 2003).

Power asymmetries have been found to be influential in determining the direction of relationships and the positioning of a customer and supplier vis à vis their ongoing interaction in long-term relationships (Johnsen and Ford, 2008). In relationships with power asymmetries the most powerful actor may dictate and govern the behavior of its counterpart and control the direction of interaction (Dwyer and Walker, 1981). Self-interests are therefore more difficult for the less powerful party to develop in relationships when