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When inter-firm relationship benefits mitigate power asymmetry

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ABSTRACT

Literature generally advocates a utopian view of inter-firm relationship with equitable sharing of benefits and use of non-coercive influence strategies. However, some argue that such ideal relationships are not the norm, and power asymmetry and unequal distribution of benefits are a fact of ongoing inter-firm relationships. Despite this acknowledgment, there is still no framework that captures the nuances of inter-firm relationships in a comprehensive manner. This examination of such relationships contributes by proposing a conceptual framework using the power–benefit interaction. Furthermore, managerial and research implications of the proposed framework are also presented.

1. Introduction

Firms enter into partnerships to enhance their competitive position, create superior stakeholder value, and enhance efficiency and effectiveness by sharing resources and knowledge (Barringer & Harrison, 2000; Das & Teng, 2000; Tuten & Urban, 2001). This seems like a win–win for all stakeholders, and some researchers believe that everyone in the partnership benefits by balancing power (e.g., Dyer & Singh, 1998; Gummesson, 1999; Hausman & Johnston, 2010; Leonidou, Talias, & Leonidou, 2008; Muthusamy & White, 2006; Naudé & Buttle, 2000). However, others disagree with this utopian view (e.g., Blois, 1998; Campbell, 1997; Caniels & Gelderman, 2007; Clemens & Douglas, 2006; Hingley, 2005a; Kalafatis, 2000; Svensson, 2001). Inter-firm relationships are motivated fundamentally by the need to gain competitive advantage (Oliver, 1990). Given different goals, expectations, resources, and knowledge of partner firms, each firm tries to enhance its competitive advantage, resulting in asymmetry of power exercised (Hingley, 2005a). For example, the dominant firm may use different power sources (French & Raven, 1959), such as coercive and non-coercive, to ensure partnership governance in accord with its own interests. In comparison, other partner firms, particularly the weaker ones, may accept the imbalance and concede to the more powerful partner firm's expectations, as long as they also benefit (Clemens & Douglas, 2006; Hingley, 2005a; Muthusamy & White, 2006; Tuten & Urban, 2001). This may not always be the case, however.

Power has been investigated extensively using different lenses, including the power sources (French & Raven, 1959), exertion of power in organizations (Hardy & Clegg, 1996; Marx, 1976; Thomas, Sargent, & Hardy, 2011; Weber, 1978), whether power is mediated or not (Benton & Maloni, 2005; Maloni & Benton, 2000), power dependencies, and the difference between potential and enacted power (Gaski, 1984; Handley & Benton, 2012; Provan, 1980). However, given the overwhelming focus on the balanced power perspective, no framework exists which captures the full spectrum of power asymmetry reality in inter-firm relationship. We address this gap by proposing a typological framework with sources of power – i.e., coercive and non-coercive (French & Raven, 1959) as one dimension, and partnership benefits as another – and discuss the antecedents and consequences of each typology.

Scholars who acknowledge power asymmetry (e.g., Cox, Lonsdale, Watson, & Qiao, 2003; Cox, 2004a; Walters et al., 2001) address the types of relationships (adversarial, collaborative, arm's length, etc.), but relegate benefits as a function of relationship type. This paper first acknowledges business relationship types as derived from benefits received and power exercised. Second, we address the interaction of direct and indirect benefits associated with the partnership and the power type exercised by the more powerful firm. For this we rely on prior literature which alludes to how these two dimensions interact to influence relationship dynamics. Third, the paper makes suggestions for firms within each type of relationship. Lastly, this paper offers a dynamic perspective of shifts in inter-firm partnerships using the social exchange theory [SET] lens.

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Motivated by authors such as Clemens and Douglas (2006), Hingley (2005a), and Muthusamy and White (2006), this study contributes by integrating literature on the exercise of coercive and non-coercive power and benefits as motivators for relational exchange, and offers a conceptual framework capturing inter-firm relationship reality, ideal or not. This comprehensive examination of inter-firm power dynamics should help managers approach inter-firm partnerships more realistically. The proposed framework also directs future researchers to investigate various contingencies, which guide a firm to use combinations of power bases in inter-firm relationships.

Toward this goal, we first review existing literature on inter-firm relationships and power within such relationships. Next, in reviewing the extent literature, we attempt to reconcile and extend competing perspectives through a proposed conceptual framework. Finally, we present the implications for managers and future researchers.

2. Inter-firm relationships

Inter-firm relationships have been examined in the literature using diverse theoretical lenses (cf. Barringer & Harrison, 2000; Oliver, 1990), including transactional cost economies (Williamson, 1991), resource-based view (Barney, 1991; Das & Teng, 2000; Wernerfelt, 1984), strategic choice (Powell, 1990), stakeholder theory (Freeman, 1984), learning theory (Kogut, 1988), and institutional theory (DiMaggio & Powell, 1983). These theoretical perspectives focus on the reasons for inter-firm relationship formation. For example, resource-based view and learning theory suggest that firms enter into a relationship with another firm to acquire desired resources, including knowledge and competencies which are rare, valuable, inimitable, and non-substitutable (Barney, 1991; Kogut, 1988). Transactional cost economies argue that firms form partnerships to reduce transaction specific costs, such as labor, raw material, and process. Other theories – strategic choice, stakeholder, and institutional theory – focus on expectations and long term desires of the firms and its stakeholders.

These theoretical frameworks are primarily rooted in economic theories which focus inwardly on expected benefits as a reason for partnership formation. They propose that firms enter into partnerships with an expectation of reaping benefits, including cost reduction, resource and knowledge acquisition, alignment, and legitimacy (Barringer & Harrison, 2000). However, there is no consensus about how these benefits are distributed among partner firms, which, we argue, is critical since business relationships are unlikely to last – i.e., where firms become partners – if both parties are not satisfied with their values received. Some researchers (e.g., Dyer & Singh, 1998; Gummesson, 1999; Hausman & Johnston, 2010; Leonidou et al., 2008; Muthusamy & White, 2006; Naudé & Buttle, 2000) suggest that principles of trust and cooperation determine sharing of partnership benefits and success. Others (e.g., Blois, 1998; Campbell, 1997; Caniels & Gelderman, 2007; Clemens & Douglas, 2006; Hingley, 2005a; Kalafatis, 2000; Svensson, 2001) argue that inter-firm relationships are like political systems, where involved parties try to dominate or influence the behavior of the other party to gain control of critical resources. Thus, firms exert influence in a partnership (Astley & Sachdeva, 1984; Muthusamy & White, 2006; Pfeffer & Salanick, 1978) to obtain the most out of the affiliation by using different power sources (French & Raven, 1959).

Unfortunately, none of these theoretical frameworks address the tradeoffs made by firms between the benefits from such partnerships and the cost they are willing to pay, particularly in terms of loss of autonomy. Literature on partnerships suggests that firms, particularly the less dominant, forgo some autonomy when they enter into a business relationship (Mohr & Spekman, 1994). Loss of autonomy results from influence strategies used by the dominant firm to distribute benefits and interdependence on one another (Barringer & Harrison, 2000; Das & Teng, 2000). Fortunately, two theories offer a better platform from which we can extrapolate a conceptual framework that we believe advances our understanding of inter-firm relationships and provides managers a working model from which to develop business relationship strategies.

Social exchange theory (SET) and resource dependence theory (RDT) are externally focused and explain the division of benefits and risks, and the motivation to stay in an inter-firm relationship. RDT suggests that a key managerial task is to balance the conflicting demands of maintaining autonomy while also maintaining stable external relations with partners who have valuable and needed resources. Davis and Cobb (2010, p. 24) suggest that managers must "Choose the least constraining device to govern relations with your exchange partners that will allow you to minimize uncertainty and dependence and maximize your autonomy." RDT was built on the early work of SET (Emerson, 1962; Thibaut & Kelley, 1959) and views inter-firm relationship and the exchange structure as a natural response to conditions of uncertainty and dependence risks (Pfeffer & Salanick, 1978; Ulrich & Barney, 1984). More specifically, firms deal with higher uncertainty and dependence by increasing inter-firm cooperative efforts.

Yet, RDT does not shed much light on the specific mechanisms that firms use to govern relationships because "firms vary greatly in terms of the requirements they impose on a firm and the benefits they offer" (Heide, 1994, p. 73). That is, some powerful firms are highly opportunistic and milk the rewards they receive at the expense of a less dominant firm, while other firms' opportunistic efforts are subsumed in the global utility of the whole system (Heide, 1994). SET does not seem to suffer from these limitations, and views business relationships like a socio-political system with complex and dynamic interactions and tradeoffs between partners. Hence, we rely on Thibaut and Kelley's (1959) social exchange theory (SET) to anchor the development of our typological framework.

In this study, we distinguish between inter-firm relationships and partnerships. Firms start a relationship with other firms with a simple objective, to fulfill their needs, and other firms are just resource providers. Some of these relationships could turn into partnerships, but for that to happen, firms must lower barriers, work together to reach a common goal, put aside their individual problems and needs, and develop a team mentality. Thus, inter-firm relationships adopt the most basic form – transactional, selfish, and resource based – whereas partnerships are more long-term, relational, complex, and mutual. This view is consistent with the SET perspective and the literature on stages of inter-firm relationships.

2.1. Social exchange theory

Social exchanges determine the degree of dependence and power that firms possess in a relationship (Blau, 1964; Emerson, 1962; Hald, Cordon, & Vollmann, 2009). Key aspects of SET include relationship benefits, power, and the extent of one party's dependence on another (Blau, 1964; Lindgreen, Hingley, Grant, & Morgan, 2012; Thibaut & Kelley, 1959). At its core, SET suggests that firms monitor their behavior toward other firms by the situation, power type available to use, other firms' perceptions, and the impact of potential actions on a relationship (Ho, 1991). Lambe, Wittmann, and Spekman (2001) suggest that firms evaluate economic and social (i.e., direct and indirect) outcomes from each transaction, comparing them to what they perceive they deserve. Firms also look at the benefits from other potential exchange partners, such as image and merchandising (Hald et al., 2009). For relationally oriented firms, initial inter-firm transactions are crucial to determine relationship expansion, inertia, or dissolution (Narayandas & Rangan, 2004).

Similar sentiments have been expressed by scholars working on the stages of inter-firm relationships such as awareness, exploration, expansion, commitment, and dissolution (Dwyer, Schurr, & Oh, 1987; Scanzoni, 1979). During the exploration and expansion stages, firms use five subprocesses: (1) attraction, (2) communication and bargaining, (3) development and exercise of power, (4) norms, and (5) expectation development. However, during the commitment phase, firms rely on input from