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Improving power position with regard to non-mediated power sources – The supplier's perspective

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ABSTRACT

Power asymmetry is commonly treated as an inherent feature in relationships between sellers and buyers within an industrial setting. This study aims to explore suppliers' practices oriented towards balancing power within asymmetrical relationships with large business customers, as well as understanding how these practices bring some important benefits for suppliers. Our research structures these practices into four general tactics, namely: 'orientation towards product specialization', 'making extraordinary efforts', 'learning to work together' and 'maintaining a reasonable share of customer sales'. This study contributes to existing knowledge on asymmetrical business relationships by illustrating empirically how these supplier tactics influence benefits acquired by suppliers through different power sources, specifically non-mediated power sources such as: referent, informational and expert power.

Our research proposes a dual tactical approach towards business partners, especially towards big, dominant customers: on the one hand, dedicating resources as long as this is safe and beneficial, but on the other hand, learning, developing own competencies and being open to new counterparts. Our research illustrates that these two orientations are not contradictory, but complement each other, because their joint implementation empowers a supplier and does not occur at the cost of losing an existing key customer.

1. Introduction

Cooperating companies are rarely similar in terms of their resources and competencies. Actually, one would even demand business partners to be meaningfully different, because such differences enable synergy effects (e.g. in joint product development, or supply chain integration). Therefore, an important management task for the smaller company would be to implement tactics that mitigate power asymmetry in relationships with big, valued partners and, at the same time, maximize the benefits acquired from such relations. In this paper, we explore power asymmetry-related tactics using the example of SMEs supplying multinational companies, and we provide evidence that such tactics may be beneficial for SMEs and do not come at the cost of losing business partners.

Empirical research on balancing power by suppliers dealing with bigger business customers is very limited. Only recently, Lacoste and Johnsen (2015) and Pérez and Cambra-Fierro (2015) applied case study research to identify process-related practices leveraging performance of suppliers and improving their power position in relation to powerful customers in the FMCG industry and computer software industry. Our study follows the same research avenue and assumes that even if a power imbalance is typical in relationships with big customers, it should be carefully managed to protect the seller from effects related to the dark side of a relationship, and to safeguard relationship investments. Thus, our study has two interrelated objectives. Firstly, it is aimed at exploring supplier tactics related to non-mediated power which improves the suppliers' power position in relationships with big customers. Secondly, our study provides an understanding of how these power-related tactics leverage benefits acquired by suppliers in relationships with their key customers.

We utilize a longitudinal case study approach with regard to Polish small and medium-sized suppliers selling to big customers that have recognizable brands and occupy strong positions within international supply chains. We focus on exchange relationships that take place

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within two industries: SMEs providing manufacturing outsourcing to big manufacturers, and SMEs developing real estate facilities for international retail brands such as supermarkets. All the business dyads that we focused on were characterized by clear power asymmetry and strong inter-cultural differences between sellers (Eastern Europe) and buyers (Western Europe).

2. Literature review

2.1. Power asymmetry and the power sources perspective in B2B relationships

Although power utilization and power asymmetry are commonly perceived as typical features of exchange business relationships (Belaya & Hanf, 2009; Ford, Gadde, Håkansson, & Snehota, 2003; Wilkinson, 1973) and utilizing power may increase satisfaction in the supply chain (Benton & Maloni, 2005), remaining in asymmetrical relationships and maintaining a strong dependence on a business partner are treated as risky and demand the application of management tools. This is mainly because power dominance correlates with relationship dysfunctions such as: unfair distribution of relationship rent (Dyer, Singh, & Kale, 2008) partner opportunism (Provan & Skinner, 1989), opportunity costs (Mitręga & Zolkiewski, 2012) and staying stuck in close but unprofitable business relationships (Capaldo, 2007).

Power is a key concept in business-to-business relationships. As Cowan, Paswan, & Van Steenburg (2015, p. 142) concluded in their literature review, power within a social exchange can be understood as "the potential to affect another's behaviour, manifests when a firm demands something incompatible with another firm's desire, and the firm receiving the demand shows resistance". In asymmetrical relationships, one party is recognized as being more influential and able to exercise control over the other party. A large portion of industrial marketing literature underlines the negative effects of power asymmetry in B2B relationships, such as: unequal distribution of benefits, which predominates for the more powerful party (Cowan et al., 2015; Easton, 2002; Munksgaard & Medlin, 2014), neglecting the interests of the low-power party by the high-power party (Wolfe & McGinn, 2005), limited effectiveness of cooperative initiatives (Pfeffer & Salancik, 1978; Ulrich & Barney, 1984), especially when coercive power is asymmetrical (Benton & Maloni, 2005; Vaaland & Håkansson, 2003), dysfunctional conflicts and a repressive atmosphere (Ojansivu, Alajoutsijärvi, & Salo, 2013). Generally, there is also a consensus among researchers that exchange partners should avoid using power in coercive ways (Benton & Maloni, 2005; Cox, 2001; Frazier & Rody, 1991).

On the other hand, several authors perceive power asymmetry as a natural aspect of business relationships, which, if managed wisely, enables control over relationship development and may be beneficial to both sides: the dominating party and the dominated (Cuevas, Julkunen, & Gabrielsson, 2015; Pérez & Cambra-Fierro, 2015; Wang, 2011). For example, Wilkinson (1973, 1996) and Stern (1971) argue over the positive aspects of using power within the management of distribution channels. In such channels "power is the means by which cooperation between individual channel members' activities are co-ordinated and the means by which any conflict between firms is controlled" (Wilkinson, 1996, p.32). Power asymmetry has been discussed in a recent special section of IMM on 'Power in Business, Customer, and Market Relationships', where some clearly asymmetrical relationships were presented as satisfactory from the perspective of the weaker side, as long as this side benefits from such a relationship and there is goal congruence between the parties (Hingley, Angell, & Campelo, 2015; Hingley, Angell, & Lindgreen, 2015). This study fully acknowledges this ambivalence of power asymmetry in B2B relationships and business networks, and it does not argue that power asymmetry is something wrong by definition. However, taking into consideration the risks associated with staying in a relationship dominated by a stronger side that we have already mentioned, this study assumes that a dominated supplier should carefully control how the relationship pie is split in an asymmetrical relationship with big customer, and control its position so that it does not become too vulnerable and exploited. We are especially interested in power sources that suppliers may use in a non-coercive way to balance their position without losing their relationships with key customers.

The different sources of power asymmetry have been widely studied on the basis of French and Raven (1959) who distinguish five power bases: reward, coercive, legitimate, referent and expert. Numerous studies using French and Raven (1959) categorized the power sources into two groups; coercive and other power sources, where expert, referent, legitimate and reward power were classified as non-coercive (e.g. Cowan et al., 2015; Frazier & Summers, 1984; Handley & Benton, 2012; Wilkinson, 1973; Wilkinson, 1996). In a similar spirit, the power sources were also divided into mediated and non-mediated power (Benton & Maloni, 2005; Nyaga, Lynch, Marshall, & Ambrose, 2013). In this second typology the mediated power sources; legitimate, coercive and reward "represent the competitive and negative uses of power traditionally associated with organizational theory" (Benton & Maloni, 2005, p.4). Coercive power means the potential of one firm to employ punishment to influence another firm's behaviour. Molm (1997) and Yeung, Selen, Zhang, and Huo (2009) provided examples of using coercive power sources such as: imposing financial penalties, withholding important support or reward, or threatening to withdraw an initial promise. The mediated power sources are complemented by non-mediated power sources, specifically referent power, expert and informational power. Generally, it is believed that utilizing non-coercive power, such as referent and expert power, is a more effective strategy in a long-term business relationship than using coercive power (Benton & Maloni, 2005; Cowan et al., 2015; Hausman & Johnston, 2010). When one party in the relationship has expert power, this means that they possess expertise and knowledge that the other party wants. Cooperating with a more competent partner usually increases the value of the relationship and makes the relationship more important for the less competent party (Palmatier, Dant, Grewal, & Evans, 2006). Informational power is a specific variation of expert power, because as Maloni & Benton (2000, p. 9) argued, "expert power refers to the perception that one firm holds information or expertise (such as product or process leadership) that is valued by another firm". According to Nyaga, Lynch, Marshall, & Ambrose (2013, p. 47) "referent power exists when one firm admires the way another conducts its operations and therefore values being identified with it". The literature is unanimous that the utilization of referent and expert power is positively correlated with a good relationship atmosphere and many vital relationship features such as trust and commitment (Crook & Combs, 2007; Zhao, Huo, Flynn, & Yeung, 2008). Therefore, we may conclude here that power asymmetry is a probable element of every relationship between selling and buying companies, but the weaker side should pro-actively anticipate some associated risks by balancing its position in a non-coercive way. We believe that neglecting the perspective of the supplier as the weaker side within exchange relationships, observable in B2B marketing, is somehow associated with slogans such as 'the customer is always right' which drive our thinking about exchange relationships. This slogan has been criticized in various business settings (e.g. Grandey, Dickter, & Sin, 2004; Sorell, 1994). Before we show how the suppliers investigated by us managed their relationships with big customers, we will review the literature with regard to some customer relationship management tactics that were previously proposed there and may be applicable to managing asymmetrical customer relationships.

2.2. Suppliers' tactics towards dominating big customers

Knowledge about managing an asymmetrical business relationship by the weaker partner is dispersed among various theoretical domains or research streams. Although these domains focus on balancing power