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# The Impact of Key Retail Accounts on Supplier Performance: A Collaborative Perspective of Resource Dependency Theory☆

Christian Hofer[1], Henry Jin[2], R. David Swanson[3], Matthew A. Waller[4], Brent D. Williams*

*Department of Supply Chain Management, Sam M. Walton College of Business, University of Arkansas, Fayetteville, AR 72701, United States*

**Abstract**

Existing literature suggests that the increasing concentration in the retail industry is allowing powerful retailers to exploit their weaker suppliers, which causes the suppliers' performance to suffer. This study takes a collaborative perspective of resource dependency theory and suggests that when suppliers engage in supply chain relationships with key retail account (KRA) customers, their performance may improve, depending on the varying levels of the supplier's and KRAs' market shares. The empirical analysis of data from two large retailers, Wal-Mart and Target, and a broad cross-section of their suppliers provides ample support for most of the hypotheses set forth in this paper: Suppliers that depend on KRAs for a significant share of their total revenues relinquish some of their leverage in the marketplace, but as the KRAs gain market share, their suppliers' performance tends to increase. Cumulatively, these results provide evidence of collaborative supplier–KRA relationships, such that a supplier's dependency on KRAs may positively affect supplier performance. This finding supports a more positive, symbiotic view of dependency, resulting in important implications for key account management, supply chain management, and retail research and practice.
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*Keywords:* Supply chain relationships; Resource dependency theory; Supplier performance; Retailing

## Introduction

Who is effectively king of the retail channel: Retailers or suppliers? This question seemingly has overwhelmed the rapidly changing retail landscape, in which large retailers (e.g. Wal-Mart and Target) continue to increase their revenues, gain market share, and intensify concentration in the retail industry. According to extant literature, this greater size and influence has shifted power from suppliers to retailers (Bloom and Perry, 2001), and suppliers seem to agree. Specifically, suppliers "believe that retailers control almost two-thirds of the overall power" in the channel and expect them to continue increasing that power (Progressive Grocer, 2009; see also Brown et al., 2005; Savitt, 1989). In this vision of the retail industry, large, powerful retailers are eight hundred-pound gorillas, demanding concessions and squeezing every last drop of profit from suppliers. But such a vision appears too simplistic, especially when we consider relationship marketing and partnership literature (Arnold et al., 2001; Farris and Ailawadi, 1992; Ganesan et al., 2009; Gassenheimer and Lagace, 1994; Gassenheimer et al., 1998; Koza and Dant, 2007; Seevers et al., 2010).

For example, many large retailers have adopted category management (Bezawada et al., 2009; Hall et al., 2010), are driving the use of new information sharing technologies (e.g. radio frequency identification) to manage supply chains (Delen et al., 2007; Gaukler et al., 2007; Hardgrave et al., 2008; Heese, 2007), and are using innovative methods to interact with consumers (e.g. smartphone-enabled in-store promotions, relationship marketing; Progressive Grocer, 2010). Thus, these retailers are seemingly using their resources, including their close access to consumers, to work with suppliers and create focused branding strategies that emphasize brand equity and thus enhance customer loyalty to both the brand and the store.

This study adopts the perspective of the supplier and explores how having key retail accounts (KRAs), where a KRA represents a large portion of the supplier's sales, affects the supplier's financial performance. In addition, we investigate how supplier

☆ The authors are listed in alphabetical order.

* Corresponding author. Tel.: +1 479 575 2477.
*E-mail addresses:* chofer@walton.uark.edu (C. Hofer), yjin@walton.uark.edu (H. Jin), rswanson@walton.uark.edu (R.D. Swanson), mwaller@walton.uark.edu (M.A. Waller), bwilliams@walton.uark.edu (B.D. Williams).

[1] Tel.: +1 479 575 6154.
[2] Tel.: +1 479 575 4055.
[3] Tel.: +1 479 575 4005.
[4] Tel.: +1 479 575 8741.

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financial performance is influenced by both the supplier's and the KRAs' market shares. To investigate these relationships, we adopt resource dependency theory (RDT), one of the most influential theories in organizational theory and strategic management (Hillman et al., 2009). This theory suggests that firms depend on their environment and other actors within that environment for success. When a retailer controls key resources, such as access to large groups of consumers, the other firms in the supply chain become more dependent on the retailer. While resource dependency is often equated to the use of coercive strategies and adversarial relationships, we rely upon a collaborative perspective of resource dependency, where a supplier and its KRAs are partners seeking to create value for each member of the supply chain.

We begin our investigation of the effect of retail industry dynamics on suppliers by reviewing relevant literature regarding the link between power and performance in a supply chain. Turning to RDT, we develop specific hypotheses about the effect of supplier and KRA market shares on supplier financial performance and then test these hypotheses using a robust data set drawn from the financial statements of more than 3,400 firms. The results generally support our hypotheses, which enable us to draw conclusions and implications for research and practice, as well as offer propositions for further research in this field.

## Background

Existing literature offers various insights into the relationship between channel power and firm performance. Channel power refers to the ability to control the marketing strategy decisions of other members in the distribution channel (El-Ansary and Stern, 1972), and channel members compete to gain power over their customers and suppliers (Cox, 1999). The earliest research in the field established that channel power relates to performance (Lerner, 1934).

In the specific context of retailer–supplier relationships, Bloom and Perry (2001) and Mottner and Smith (2009) also note that when the retailer is a KRA that represents a large percentage of the supplier's sales, its influence on supplier performance may be a function of the supplier's market power, such that the balance of channel power is the crucial determinant. Other research suggests that the power that a supplier can exert depends on the power of its retail partners (Brown et al., 1995; Manning et al., 1998; Chung et al., 2006). Yet, no studies unequivocally imply that a powerful KRA has a certain negative impact on suppliers (Ailawadi, 2001). In fact, the entire channel may benefit from the inclusion of a powerful retailer (Jerath, 2008; Maloni and Benton, 2000), in part because it increases channel efficiencies by increasing retail industry concentration (Dukes et al., 2006). Furthermore, supply chain structures and power regimes with dominant retailers can develop supply efficiencies and encourage integrated supplier and customer behaviors (Cox et al., 2004).

Whereas the link between channel power and performance appears well established, prior literature is less certain about *how* they relate. In line with the idea that channel power can be measured by understanding dependencies between channel partners (Pfeffer and Salancik, 1978; Ulrich and Barney, 1984), we link channel power and supplier performance using an RDT perspective to develop our hypotheses regarding the effects of supplier dependencies on KRAs.

## Theory and development of hypotheses

### *Resource dependency theory*

Resource dependency theory (Pfeffer and Salancik, 1978) attempts to explain the power-seeking behavior of firms in a retail channel according to how retailers and suppliers behave and interact within their environment. Because firms depend on their environment for survival and success, each firm in a retail supply chain relies on other firms. Firms survive or succeed if they can exploit their dependence on other firms or other firms' dependence on them to attain necessary resources (Ulrich and Barney, 1984). In a retail supply chain, suppliers and retailers possess unique sets of resources on which their partners may depend for their own success. Suppliers depend on retailers for access to consumers. Retailers, in turn, depend on suppliers for access to brands and products.

Prior research has extensively studied the effects of interfirm dependency on a variety of outcomes such as satisfaction (e.g. Andaleeb, 1996; Payan and McFarland, 2005), performance (e.g. Lewis and Lambert, 1991), trust (e.g. Laaksonen et al., 2008), and loyalty (e.g. Scheer et al., 2010), for example. Many of these studies adopt the perspective that dependency is associated with the use of coercive strategies and, ultimately, adversarial relationship climate and adverse performance outcomes (e.g. Duffy et al., 2003; Coleman and Mayo, 2007; Lai, 2009).

However, dependency does not unequivocally result in adversarial relationships between suppliers and retailers. Instead, many dependency relationships are balanced, symbiotic, cooperative, and mutually beneficial (Pfeffer and Salancik, 1978), and retailers can work to establish collaborative relationships with their suppliers, freely sharing information and jointly defining strategies (Hult et al., 2008; Mentzer et al., 2001; Min and Mentzer, 2004; Mottner and Smith, 2009). Supply chain management (SCM) offers a view of retailer–supplier relationships that are potentially collaborative, such that SCM practices enhance the financial performance of all supply chain members (Bowersox and Closs, 1996; Cavinato, 1992; Cooper and Ellram, 1993; Lee and Billington, 1992; Tan, 2002; Wisner and Tan, 2000). In this vein, researchers have emphasized the importance of trusting, committed relationships between key customers and suppliers as fundamental to superior firm performance (Alderson, 1957; Arndt, 1979; Davis and Mentzeret, 2008).

Brown et al. (1995) note that "firms have started to abandon the heavy-handed use of power [and instead] have begun treating their channel partners as just that—partners" (p. 363). Indeed, the movement from adversarial to collaborative relationships has been widely discussed in prior research (Bowersox et al., 2000; Palmatier et al., 2006; Koza and Dant, 2007). Accordingly, we adopt a collaborative perspective of resource dependency and

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