Power in Business-to-Business relationships – some problems of interpretation

Keith Blois* and Sylvie Lacoste+

Abstract

Power is a complex topic and because of this in any writing on ‘power’ there is a difficulty in maintaining a clear line of argument as, in addition to a need to be very precise in the use of language, there is a requirement for statements to be inter-linked with each other and for caveats to be associated with them. This paper will examine aspects of the concept of power using examples from the behaviour of the managements of industrial MNC’s or their suppliers which have made ‘power’ interpretations of their situations. It will thus provide an understanding of aspects of the concept of power which a manager should take account if they choose to use a power interpretation.

Key words: Power; B2B relationships; perceptions.

* University of Oxford and Lancaster University
Address: 54 Newland Mill, Witney, OX28 3SZ, UK
e-mail: keith.blois@btinternet.com

+ EDSDO – Doctoral School (IAE Paris 1 La Sorbonne/HEC/ENSAM)
Address: University of Paris 1 La Sorbonne,
IAE Paris – 21 rue Broca, 75005 Paris, France
e-mail: Sylvie.lacoste@profecogest.com
Power in Business –to-Business relationships – some problems of interpretation

Keith Blois and Sylvie Lacoste

Abstract

Power is a complex topic and because of this in any writing on ‘power’ there is a difficulty in maintaining a clear line of argument as, in addition to a need to be very precise in the use of language, there is a requirement for statements to be inter-linked with each other and for caveats to be associated with them. This paper will examine aspects of the concept of power using examples from the behaviour of the managements of industrial MNC’s or their suppliers which have made ‘power’ interpretations of their situations. It will thus provide an understanding of aspects of the concept of power which a manager should take account if they choose to use a power interpretation.

Key words: Power; B2B relationships; perceptions.

Introduction

‘Power’ is a complex topic for several reasons. First, in everyday usage (and sometimes within academic discussions) the word ‘power’ is treated as having several synonyms. Second, there is the difficulty in separating out the existence of ‘power’ and the perception of its existence. Third, there is the substantial risk that any argument becomes circular. As Beetham (1991, pp.6-15) shows, even as great a scholar as Weber struggles with these three issues - particularly when discussing the concept of ‘legitimate power’ where he sometimes uses the word ‘authority’ instead of power and views power as being ‘legitimate’ because those involved believe it to be so. It follows that in any writing on ‘power’ there is a difficulty in maintaining a clear line of argument as, in addition to a need to be very precise in the use of language, there is a requirement for statements to be inter-linked with each other and for caveats to be associated with them. This paper will examine aspects of the concept of power using examples from the behaviour of the managements of industrial MNC’s or their suppliers which have made ‘power’ interpretations of their situations. It will thus provide an understanding of aspects of the concept of power which a manager should take account if they choose to use a power interpretation.

This paper will take account of Berger and Luckman’s comment that: “It is important to keep in mind that the objectivity of the institutional world, however massive it may appear to the individual, is a humanly produced, constructed objectivity.” (1966, p.78) That is that people often act in a manner so as to “create what they want to find” (Weick, 1995, p.30) and thus a manager who believes that they are in a power situation (whether a dominant or a subservient one) will act in a manner which confirms this. The paper will therefore provide an example of a situation in a buyer-supplier relationship which can be interpreted from a ‘power’ point of view but which is open to other interpretations. Dependent upon the interpretation used different managerial responses would appear to be appropriate.

What is Power? Discussions of ‘power’ are hindered by a problem that words used by ‘the laity’ may be used in very precise, specific, and different ways by specialists. Indeed, words such as: ‘influence’; ‘dominance’; ‘authority’; etc. are used interchangeably with ‘power’ and this can result in the word ‘power’ being subject to imprecise usage. Often lay people will use ‘power’, ‘control’ and ‘influence’ as if they are interchangeable and, while some academic writers on ‘power’ either explicitly or implicitly subscribe to the same approach, others see a need to separate the use of ‘power’ from such terms.
For example, Bachrach and Baratz (quoted in Lukes, 2005, p.21) developed a typology of 'power', which embraced: coercion, influence, authority, force and manipulation. Another example is Polsby who stated: “‘influence’ and ‘control’ are serviceable synonyms” for ‘power’.” (Polsby, 1963, pp.3-4). Lukes, perhaps unintentionally, illustrates the difficulty of distinguishing between these terms when he suggested that the exercise of power is a form of influence stating: “To put the matter sharply, A may exercise power over B by getting him to do what he does not want to do, but he also exercises power over him by influencing, shaping or determining his very wants.” (Lukes, 2005, p.27) Yet later Lukes seeks to separate ‘power’ from ‘influence’ with the statement that cases: “where individuals or groups significantly affect one another in the absence of conflict of interests between them, will be identifiable, as cases of ‘influence’ but not of ‘power’.” (Lukes, 2005, p.35) In comparison Luhmann unequivocally sought to distinguish ‘power’ from a number of these alternative words stating that he wished to avoid “overloading the concept of power with attributes of a very broadly and loosely defined process of influence.” (Luhmann, 1979, p.109) and commented that: “Power must therefore be differentiated from coercion (Zwang) to do something concrete and specific.” (Luhman, 1979, p.112)

Given this background it is not surprising that the word ‘power’ has many definitions. Dahl defined power as follows: “A has power over B to the extent that A can get B to do something that B would not otherwise do.” (1957, p.203) This definition was expanded by Emerson who commented 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, p.32) An example of this type of power is where a Key Account Customer implemented an ERP and therefore required their suppliers to install a new EDI. The Key Account Customer made it clear that they would not countenance any attempt by the supplier to recoup the costs of installing the new EDI by increasing their prices. The supplier was thus forced to implement a procedure which, while in the customer’s immediate interests, increased its costs but brought with it no immediate benefits.

Both Dahl’s and Emerson’s approaches to ‘power’ have been criticized because, while it is accepted that the use of power can sometimes be seen in overt attempts to directly change another party’s behaviour, such an interpretation takes “no account of the fact that power may be, and often is, exercised by confining the scope of decision-making to relatively ‘safe’ issues.” (Bachrach and Baratz, 1963, p.6) Lukes commented “Indeed, is it not the supreme exercise of power to get another or others to have the desires you want them to have – that is, to secure their compliance by controlling their thoughts and desires?” (2005, p.27) and this view arguably portrays a situation where the subordinate could even be unaware that the other party is controlling them. Furthermore, other writers have recognized that to A the relevance of B’s power is not necessarily limited to B’s direct power over A but arises from the extent of B’s capability of altering, say, the environment within which A operates or the behaviour of C, a third-party within whom A also interacts. This is reflected in Beetham’s comment that: “the power a person has indicates their ability to produce intended effects upon the world around them, to realise their purposes within it, whatever these purposes happen to be.” (1991, p.43) Such a position is supported by Luhmann’s discussion of the function of power which he sees as helping the party with power to regulate or at least limit the risks arising from contingency. Luhmann’s view is that power “secures possible chains of effect independent of the will of the participant who is subject to power – whether he wishes so or not.” (Luhmann, 1975, p.114)

This enhanced interpretation of power can be illustrated by considering the effects of the move by many Key Accounts to reduce the number of their suppliers. By doing this, Key Accounts take the risk that the suppliers will, because of their sense of increased importance, become more confident in challenging the Key Account’s power. The response of many Key Accounts to this situation has been to give potential suppliers encouragement to become ‘challengers’ to their current suppliers. An illustration is where an established supplier had developed an innovation exclusively for a Key Account. This move created a competitive gap over a potential supplier who, with the Key Account’s support, was mainly competing on
price. The Key Account then encouraged the challenger to enhance their R&D so as to be able to compete with the established supplier. Thus, the Key Account’s power enables it, by using a ‘challenger’, to change the basis of competition from price to innovation.

**Power over what?** Just as it can be argued that there is no such thing as ‘blanket trust’ (Blois, 1999) there is no such thing as ‘blanket power’ yet few writers suggest that A has power over B only with regard to specific matters. Nevertheless, just as Hardin pointed out, ‘to say ‘I trust’ you seems almost always to be elliptical, as though we assume some other phrase as ‘to do X’ or ‘in matters Y’ ” (Hardin, 1993, p.506) so also power is seldom, if ever, over all aspects of another party’s activities. However, the analogy with trust has a major limitation because, although A may trust B with regard to X, A may simultaneously quite rationally not trust B with regard to anything else at all. Yet with power there would seem likely to be some ‘cross-infection’ and an observer might say that A has power over B with regard to X and a separate observer might say that A has no power over B with regard to Y. Yet, an observer who knows of A’s power over B with regard to X might, on the presumption that both X and Y are important to B, reasonably assume that A also exercises some power over B with regard to Y. Whether or not A is able to exercise direct or indirect power over more than one category of B’s behaviour would seem to relate, as will be discussed below, to the basis of the power which is being exercised.

Interestingly, the basis of power may be split up by the supplier through their own customer segmentation. Consider a flavour supplier who had made a major breakthrough with flavours specifically developed for dairy products. The customer who was the global leader in dairy products had enough power to get exclusive access to this innovation. If this flavour supplier now makes another major breakthrough for flavours, not specifically designed for dairy products, but for all sweet products (confectionary, beverages, etc.), they will not even present that innovation to their dairy Key Customer which is, compared to some other global customers in beverages, quite small. In the case of the newest innovation, the dairy customer will have no direct power but may leverage the power it has over the supplier with regard to the flavour which is only used with dairy products.

**Bases of power** A variety of bases of power have been proposed by different authors. Beetham (1991, p.47-9), for example, suggested that power is based on: “the possession of material resources”; “the control of socially necessary activities”; and, “the occupancy of positions which carry with them the power of command”. A different approach was adopted by French and Raven (1959), who describe five bases of social power:

- Expert power is the power that a customer has, based on knowledge, expertise, or skills that are desired by a supplier;
- Referent power exists when a supplier values identification with the customer;
- Legitimate power is natural power: the supplier believes that certain customers have a natural right to influence its actions;
- Reward power exists when the customer provides rewards that are attractive to the supplier. When the customer is pleased with a supplier, it may increase the frequency or quantity of its purchases; and,
- Coercive power exists when the customer has the ability to provide punishments that are detrimental to the supplier.
This list has been extended by many authors such as Gaski (1984) who proposed “manipulation power” - that is the imposition of a constraint onto the other party through their environment – as another base of power.

As the list of possible bases has been extended, attempts have been made to categorize these bases and Hunt and Nevin (1974) influential study suggested that a distinction can be made between ‘coercive’ and ‘non-coercive’ power bases (see Figure I). The concept of a non-coercive base being that: “they involve the willingness on the part of one individual or group to yield power to another.” (Hunt and Nevin, 1974, p.188) However, the distinction between coercive and non-coercive power may in practice be less than clear. This is illustrated by the fact that, for example, a customer might possess some knowledge not directly connected with the item which it is purchasing, that the supplier would find valuable. If the customer will only share this knowledge on condition that the supplier acts in a certain way this is surely to coerce the supplier into behaving as the customer requires. The supplier might be very unwilling to do as the customer demands but the need for the knowledge might be so overwhelming that the supplier agrees to meet the customer’s requirements. Following Hunt and Nevin, who state that coercive power involves “potential punishment” (1974, p.118), the customer’s refusal to release this information without the supplier’s response is surely a form of coercive power. Yet arguably the customer might be described as using the release of the information as form of reward power (which is categorized by Hunt and Nevin as a form of ‘non-coercive power’) as an incentive to the supplier to act in the manner that has been requested. Whichever classification is used as, Beetham (1991) points out, these bases of power are often found together and indeed, where this is the case, they reinforce each other.

Figure 1 Some bases of power

![Diagram of power bases]

Based on: Hunt and Nevin (1974)

For instance, when they own major brands, Key Accounts will often have both reward and referent power bases. The reward power arises from their ability to increase the volume of business allocated to a supplier. The referent power comes from the effect on the supplier’s reputation of being recognized as a supplier to a famous brand. The supplier can use this enhanced reputation in many ways including attracting other customers. Also Key Accounts may be perceived by their suppliers as having a legitimate power base because of their position as a major player in their industry.
Power or Powerfulness? Lukes commented that: “Power is a capacity not the exercise of that capacity (it may never be, and never need to be, exercised).” (2005, p.12) The distinction therefore between ‘being powerful’ and ‘having power’ is that where a body is described as ‘powerful’ this is because there are examples of it exercising its ‘power’. While a body may have ‘power’, if others either do not recognize it or if they operate on the assumption that it will not exercise this power, then it is not ‘powerful’ at that point in time. Yet the body with power may seek to use it at any time and thus become ‘powerful’. As Lukes says “… the power of the powerful consists in their being capable of and responsible for affecting (negatively or positively) the (subjective and/or objective) interests of others.” (2005, p.68)

A body may appear to possess ‘power’ and therefore be ‘powerful’ yet their power may never have been tested. Thus the clever bully (a person, an organization, or a state) may, while never having used force, convince others of their willingness to do so and their power then rests on their untested reputation of having the capacity for violence. But the bully is only powerful to the extent that others adjust their behaviour to take account of the bully’s expected reaction to being offended. Where ‘powerfulness’ rests on a reputation for having ‘power’, if they are to remain powerful, a body may need to demonstrate their power gratuitously from time to time. Note also that a party perceived by another to be powerful may be unaware of others’ perception (the physically strong man who thinks people follow his lead because they respect his intelligence rather than fear his strength) or be aware of others’ perception but knows it to be based on a false assumption (the bully who knows that they are no longer physically strong).

A supplier recently explained that, although they were its sole supplier, they were scared that their biggest European customer might get rid of them even though they had been almost its sole supplier since 2003 and they were currently developing together with the customer some common logistic platforms. This concern arose because the customer regularly invited competitive bids on small parts of their business but never to supply the customer’s requirements for the whole European market as this supplier was currently doing. When asked why it was thought the customer might get rid of them on a pure price basis while they were working so closely together, the supplier indicated that 7 years ago their then long term relationship with this customer had been ended after a newcomer’s competitive bid had undercut prices by 15-20%! In fact independent observers indicate that this event had happened 13 years, not 7 years, ago and at that time the supplier had only been meeting the customer’s domestic market needs. However, this event had been such a shock to the supplier that they no longer recognized the time which had elapsed since the event and that the relationship between the companies had since then been rebuilt and become so intertwined that the customer was now less powerful than it had been 13 years ago.

The Limits of power and Responsiveness A ‘submissive party’ is not powerless, indeed as Beetham commented: “… the subordinate are rarely ever powerless in the face of the dominant and relations between them contain elements of tension and struggle: …” (p.56) though their reaction will vary according to their situation. Thus, if A is a Key Account and B and C are two suppliers the power of A to change their behaviour will depend on their responses which will not be identical even if in objective terms B and C are indistinguishable. For example, the interpretation of market conditions by the two firm’s managements will not necessarily be the same. A subordinate’s power (no matter how limited it may be) relative to, say, a powerful customer may be based on many things and not the least important is the power of a third party – such as the State or public opinion.

Filser and Paché (2008) in their research on power bases between industrial suppliers and distributors stress that suppliers’ recognition of their distributors’ competencies (expertise, legitimate and reward power bases) may enable them to come to terms with non coercive bases of power, but the situation is very different when it comes to coercive power when distributors will use their punitive capabilities. In
such cases, suppliers will develop strategies based on avoidance, confrontation and attempts to cooperate as a counter-power. Filser and Paché (2008) refer to Galbraith (1956) according to whom, all extreme economic power will fail as a countervailing power will be developed by those who are submitted to that power. This is also Luhman’s view for he comments that “… in organizations power creates countervailing power.” (Luhman, 1979, p.179) He adds that, when the complexity of two parties’ possible relationships increases, the dominant party’s ability to absorb or contain the extra complexity is limited by the responses that it can evoke from the subordinate and thus “each increase in complexity alters the power relationship in favour of the subordinate, …” (1979, p.179)

A Key Account General Manager, supplying packaging to a major FMCG Group, explained that this Group’s purchases represented about 10% of their global sales (the equivalent of one major plant’s output). Because of this, they were thinking of changing their strategy as they were concerned that the Group might use its coercive power. If for example, the Group asked for a decrease in prices this would be difficult to resist. The supplier felt that, if they reduced the amount they supplied to the Group, they would be less sensitive to any punitive actions. When considering whether to implement this decision they had to balance the expectation that a reduction in the amount they supplied to the Group would diminish the possibility that the Group could use its coercive power against the loss in their countervailing power which this reduction would produce.

Key Suppliers focus their strategies to try, by creating some form of countervailing power, to prevent their strategic customers from using their coercive power. They often do this by offering patented innovations to their customers and thus, create high exit costs for their customers. This may explain why in their recent research, Caniels and Gelderman (2007), whose study of the power-dependence concept in buyer-supplier relationships, which is based on Kraljic’s (1983) categorization which divided purchased products into four classes: strategic, bottleneck, non-critical and leverage items, found that in Kraljic’s strategic categorization buyers were dominated by the supplier, whereas previous studies showed some power symmetry.

One of Caniels and Gelderman’s previous hypotheses, based on purchasing literature, was to predict a balance of power in this category because of the high interdependence between customer and supplier. This scenario is based on other literature findings that customer-supplier relationships are satisfactory when founded on trust and commitment (e.g. Morgan and Hunt, 1994). Caniels and Gelderman in addition assert that, from the buyer’s perspective, the supplier dominates the relationship in the strategic quadrant. They explain this result by the fact once a buyer has entered a partnership this ensures a disproportionate increase in the dependence of the buyer on the supplying partner, as the supplier tries to lock the buyer in.

When is power used? Luhman (1979, p.121) proposes that power will be used when a powerful party is confronted by possible situations or developments which, from its point of view, it deems to be undesirable and which it believes can be avoided through the exercise of its power. This view fits in with Lukes’ (2005) opinion that power is about securing the compliance of another.

If one accepts the view that a firm’s aim is value maximization (Roberts, 2004) then a firm would be expected to seek to use its power when it sees another’s actions as impacting adversely on this aim or if it sees a way of using the other organization’s capabilities to increase its value. It is generally agreed that relationship management “concerns itself with long-term value exchanges” (Sheth and Shah, 2003, p.628) between a supplier and its customers. A critical element of the concept being that, as buyers and suppliers move towards a relational form of interaction, both benefit. Thus the focus for each party “is supposed to shift away from attempting to appropriate value (at the possible cost of reducing the total value created) and towards creating value, with the presumption that the extra value will be shared
appropriately” (Roberts, 2004, p.197). Indeed it is claimed that, where a relationship exists between two organizations then, because of the existence of mutual trust and commitment (Morgan and Hunt, 1994), they will be able to work together in a cooperative manner to create additional value and also to eliminate costs. Yet in practice conflict may arise between buyer and supplier about the split of such additional value between them and a Key Account may use its coercive power to maximise its share. Gaski (1984) uses Raven and Kruglanski’s definition to define conflict as a “tension between two or more social entities (individuals, groups, or larger organizations) which arises from incompatibility of actual or desired responses” (1970, p.70). The suppliers’ efforts to keep a larger share of the additional created value being balance against their assessment of the risk of the buyer switching to another supplier.

Some Key Accounts use their coercive power at an early stage, when they negotiate framework contracts, i.e. when they contractually define the relationship. At that point of time, they may expect to be granted all of the value created by the supplier. This is something, which is quite common within the packaging industry when suppliers offer to work on cost optimisation or packing lines productivity. The only way in which the supplier can retain some of the additional value is to increase prices and this act risks the Key Account responding by inviting a competitive bid.

Power as a perceived construct The above discussion has suggested that the existence of power is a matter of perception. In the case of business-to-business relationships this means that the powerfulness of an organization is a matter of perception but it is important to note is that there is no reason why a buyer’s perception of their power relative to one of their suppliers should be congruent with that of the supplier. However, where congruence exists then, even though it may be only a “social construction of reality” (Berger and Luckman, 1966, p.15), because people often act in a manner that creates “what they want to find” (Weick, 1995, p.30) then their perceptions will be confirmed. Indeed as Table 1 sets out there are at least four scenarios. First, Cell 1 (Harmonious) where the view of the two parties is congruent and neither party perceives a power imbalance in their relationship and there is a mutual understanding of the manner in which the exchange will be governed. Second Cell 2 where the buyer believes that it is powerful but the supplier does not perceive that they are the subservient party in the relationship. A possible result of such discrepant perceptions is that the buyer will find the supplier, at least, less responsive to their requirements than they expect them to be. Such a situation could lead to substantial conflict. Another result would be that the supplier would not recognize that the other party is controlling them, illustrating the view that: “is it not the supreme exercise of power to get another or others to have the desires you want them to have” (Lukes, 2005, p.27). Cell 2 is therefore labelled Disastrous/problematic. In Cell 3 the supplier’s perception is that the buyer is powerful but the buyer does not share that perception. In such circumstances the supplier may be more responsive to the buyer’s expressed requirements - even those to which it would prefer not to respond - than it needs to be. This is a Muddled situation. Interestingly if the supplier always responds as if the buyer is powerful this may change the buyer’s self-perception of it powerfulness and the situation will change to that described in Cell 4. Cell 4, labelled Congruent, is where both the supplier’s and the buyer’s perceptions are that the buyer is powerful. Here the buyer, when informing the supplier of its requirements, will expect that the supplier will, at the absolute minimum, seek to deliver to these requirements. As in Cell 3 the supplier will respond to the buyer’s requirements in as positive a manner as it is able.

In Cell 2 there is at least the possibility of discord arising within the exchange relationship because the supplier will not show sufficient deference to the buyer’s demands. In Cell 3 the issue is that the supplier, because it interprets the buyer’s requests as power based demands, may incur unnecessary costs because of its perceived obligation to implement responses to the buyer’s requests.
Table 1 The implications of supplier’s and buyer’s perceptions of the nature of their interactions

<table>
<thead>
<tr>
<th>Supplier’s interpretation of the nature of the interaction</th>
<th>Buyer’s interpretation of the nature of the interaction</th>
<th>Power based</th>
<th>Not power based</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not power based</td>
<td>1. Harmonious. There is a mutual understanding of the manner in which the exchange will be governed and this will confirm both parties’ perception that there is no imbalance of power.</td>
<td>2. Disastrous/problematic. i) The Buyer will find its ‘demands/instructions’ challenged and/or rejected because the Supplier expects to be able to negotiate the terms of the interaction; or, ii) the Supplier will fail to recognize that they are being ‘controlled’.</td>
<td></td>
</tr>
<tr>
<td>Power based</td>
<td>3. Muddled. The Supplier may, by interpreting the Buyer’s requests as ‘demands/instructions’, feel obliged to agree to the Buyer’s requests when the Buyer would have been willing to negotiate.</td>
<td>4. Congruent. The Supplier’s behaviour will confirm the Buyer’s self-perception of its power within the exchange.</td>
<td></td>
</tr>
</tbody>
</table>

Material collected for use in Lacoste’s doctoral thesis provides an example which illustrates the importance of the parties involved being aware of where on this matrix their relationship lies. The Managing Director of an established supplier was, to provide support to his sales staff, visiting a number of its Key Accounts’ Buyers. He found that the talks never started with discussions about prices but typically the Buyers first quizzed him about what he knew of and how he interpreted his competitors’ strategies. The Managing Director interpreted the Buyers’ interest as indication of their desire, starting with his company, to develop more relational links with suppliers. The investigator’s interpretation was, however, that the Buyers’ behaviour was a power based exercise because the Managing Director, if he wanted the Buyers to trust him, had no option but to provide reliable information. Yet, by doing so, the Managing Director was helping the Buyers to ‘manipulate’ all his suppliers including his own firm. This is therefore an example of a Cell 2 situation.

Conclusions. “Power” is a complex concept as it is a concept which depends on the concerned parties’ perception. For instance, a supplier that considers Danone as a leader in dairy products may find that Danone possesses reward power. Whereas, another supplier may consider Danone from a broader perspective as a food producer and may therefore realize, that in this context, Danone is a small player, compared to other global food groups and may therefore have relatively little reward power. Danone, however, will seek to present themselves in relation to their best market and brand positions.

In the academic literature, discussions of supplier-customer relationships have paid relatively little attention to the concept of power even though it is a central feature of such relationships. Indeed, despite the interdependence of such relationships and even in more collaborative approaches, power asymmetry influences these relationships. In particular, dominant buyer power will determine the competitive pressure to which a supplier will be submitted. Whereas the supplier’s strategy will, by creating a competitive gap with a pricing and/or cost strategy and with a quality innovation strategy, focus on seeking to restrain a buyer’s power dominance.
References


