Power Regimes: A Strategic Perspective on the Management of Business-to-Business Relationships in Supply Networks

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Abstract

This paper addresses two main research questions. The first is whether or not firms should attempt to manage the multiplicity of relationships in which they are directly and indirectly involved in their supply chains and networks. The second question, which assumes a positive answer to the first, is how and to what end should firms manage these multiple buyer-supplier relationships? Answers to these questions are proposed on the basis of a novel analytical framework for mapping and explaining the power dynamics of buyer-supplier relationships. The key original contribution made by this framework is that it looks beyond individual exchange dyads to consider interactions within an extended network of business relationships, which is referred to as a *power regime*. The utility of the power regimes framework is tested with case material from the aerospace industry. This case provides substantial evidence to support the proposition that power regimes are often composed of a number of interlocking, but discrete, management *sub-regimes*. The paper concludes that firms seeking to manage relationships with their customers and suppliers need to understand where the boundaries between these sub-regimes lie, because the possibility of managing a relationship that crosses a boundary is limited, at least in the short-term. This does not preclude the possibility, of course, that a sub-regime boundary might be moved over time by a firm's efforts to reconfigure the power structure of particular exchange dyads.

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Abbreviated title: Power Regimes

Key words: Power regime, management sub-regime, supply chain, network.

Introduction

The principle aim of this paper is to cast new light on what have historically been and almost certainly still remain the two central research questions in the discipline of business-to-business relationship management. The first question is whether or not firms should attempt to manage the multiplicity of relationships in which they are directly and indirectly involved in their supply chains and networks. The second question, which assumes a positive answer to the first, is how and to what end should firms manage these multiple buyer-supplier relationships? The paper considers these questions in two interrelated sections.

In the introductory section of the paper we critically analyse a range of the literature dealing with the management of inter-organisational relationships in supply chains and networks. This literature is organised into two distinctive perspectives on our central research questions. The first perspective is that put forward by writers falling under the auspices of the Industrial Marketing and Purchasing (IMP) group. The central contention of writers operating from this perspective is that the firm cannot consciously and rationally manage all or even a small part of a supply network of which it is a part, because firms and their relationships with others are simply too complex and dynamic. Instead, all that a firm is able to do is incrementally adapt to changes that come about within the network (see for example Brennan and Turnbull, 1995; Hakansson and Snehota, 1995). In short, writers within this school argue that firms cannot and therefore should not attempt to manage their own operations or their supply network relationships in a planned and deliberate manner.

The second perspective is that put forward by writers operating under the broad banner of supply chain management. This perspective takes a diametrically opposed view to the first in that the firm is assumed to have at least some potential to manage the relationships in its supply network. The supply chain management perspective finds its roots in the fields of operations management and logistics (see, for example, Houlihan, 1984; Christopher, 1992), and as such writers in this school are primarily concerned with how firms should manage their relationships with suppliers and

customers in order to achieve gains in operational efficiency. The main thrust of this perspective is that firms should work together in a closer and more coordinated fashion to achieve these efficiency gains. This concept of integrated supply chain management (ISCM) has two main guises in the literature. The more traditional form of ISCM is one in which the firm acts unilaterally to manage its relationships with customers and suppliers through behaviours that have been called 'cascade' and 'intervention' (Lamming, 1996). Beyond this traditional view writers such as Lamming (1993, 1996) and Womack and Jones (1996) have proposed what they have argued is a more advanced form of ISCM based on 'lean thinking'. This thinking implies bilateral or even multilateral relationship management.

While we support the view that firms are able to undertake meaningful managerial action in respect of their supply network relationships, the second perspective does suffer from one important philosophical weakness that this paper attempts to address. The problem is that these writers do not consider the real commercial interests of buyers and suppliers as define by their relative power positions in the context of specific transactions. Consequently, this literature is unable to explain effectively why ISCM, be it unilateral or bilateral/multilateral, is not always successful. It is frequently argued that ISCM failures are essentially a function of insufficient managerial effort or cultural barriers (see, for example, Macbeth, 1996; Rich, 1996). We would contend, however, that the lack of inter-organisational coordination required to support a programme of ISCM often has more to do with the fundamental conflicts of interests that exist between buyers and suppliers and the power of particular firms in a supply network to obstruct or subvert the process of relationship management (see Watson and Sanderson, 1997; Cox, Sanderson and Watson, 2000 for earlier expositions of these themes). We need therefore to understand the nature of exchange power and its impact on relationship management choices.

To this end, the second section of the paper presents a novel analytical framework for mapping and explaining the power dynamics of buyer-supplier relationships in the context of supply chains and networks. The basic unit of analysis used in our methodology is the dyadic power relationship that exists between specific buyers and

suppliers. Our methodology is constructed therefore around four basic types of buyer-supplier power structure – buyer dominance, supplier dominance, buyer-supplier interdependence (high mutual dependence), and buyer-supplier independence (low mutual dependence). These categories, which are derived from the pioneering work on power and resource dependence by Emerson (1962) and Pfeffer and Salancik (1978), have begun to appear with increasing regularity in recent years in the supply management and relationship marketing literatures (see, for example, Bensaou, 1999; Blenkhorn and Mackenzie, 1994; Gelderman and van Weele, 2000: Provan and Gassenheimer, 1994). This literature recognises that although power advantages might often not be *explicitly* exploited in buyer-supplier interactions, the very existence of a power imbalance conditions buyer and supplier behaviour. Power does not become less important to an understanding of buyer-supplier relationships simply because it is not exercised.

The key original contribution made by this methodology, however, is that it looks beyond individual exchange dyads to consider interactions within an extended network of business relationships, which we refer to as a *power regime*. We use this methodology to predict those circumstances in which a firm would be able, if it chose, to manage its direct and indirect relationships with customers and suppliers. For example, a series of dyadic relationships in which the buyer is dominant would allow the customer to unilaterally co-ordinate the actions of all of those firms operating upstream in the supply chain (cascade or intervention). Similarly, a series of dyadic relationships in which the supplier is dominant would allow the end supplier to co-ordinate the actions of firms operating downstream in the supply chain. Finally, a series of interdependent relationships would enable a programme of ISCM based on bilateral, two-way management (the lean thinking ideal).

We also highlight those circumstances in which a firm would not be able (and therefore should not attempt) to manage its relationships. For example, where a buyer has a dependent or an independent relationship with a supplier it is unlikely that it would be able to manage that relationship either unilaterally or bilaterally. In each case, the supplier simply has insufficient incentives to enter into a co-ordinated

relationship in which the buyer has full or even shared control. Where the buyer is dependent the relationship is likely to be managed, if at all, by the supplier in its own interests. Where an independent relationship exists the buyer is unlikely to have sufficient commonality of interest with the supplier to ensure that a stable and co-operative interaction can be established. The existence of these circumstances disrupts the buyer's capacity to manage its upstream relationships. The same of course would be true for a supplier that has a dependent or an independent relationship with its customer. These insights lead us to conclude that power regimes are often composed of a number of interlocking, but discrete, management *sub-regimes* (see also Watson, 2001). We argue that firms seeking to manage relationships with their customers and suppliers need to understand where the boundaries between these sub-regimes lie, because the possibility of managing a relationship that crosses a boundary is limited.

In the third section of the paper we test the robustness of the theoretical propositions generated by our power regimes framework. This section maps and analyses the power regime dynamics in a case study supply network drawn from the UK motor insurance industry. This case provides substantial evidence to support the proposition that firms are often able to manage only a discrete part of their supply network. The paper concludes with a brief discussion of the managerial implications of our explanatory framework.

Research Methodology

This paper combines the deductive process of building a new theoretical framework, focusing on the concept of the power regime, with the inductive process of empirical testing. The power regime framework was developed both by the identification of important gaps in the existing supply chain/network management literature and by drawing on the insights offered by other relevant literatures. These are discussed below. The empirical testing of the framework outlined here is primarily based on qualitative case-study evidence. This data was gathered by means of semi-structured interviews with sixteen companies in the selected aerospace supply network. The

primary data was supplemented with further qualitative evidence drawn from secondary sources such as specialist industry reports and company literature.

Gaps in the Existing Literature

As Lamming et al (2000) suggest, the existing literature that conceptualises relationship management in supply chains and networks can usefully be divided into two distinctive perspectives. The first is the literature generated by the Industrial Marketing and Purchasing (IMP) group, which deals with buyer-supplier relationships in the context of industrial networks. The second perspective, to which Lamming and his colleagues belong, is that put forward by writers operating under the broad banner of supply chain management. We will now briefly consider the main characteristics of each of these perspectives and highlight some of their most important descriptive and explanatory gaps.

The IMP Perspective

The central contention of writers operating from this perspective is that, under most circumstances, the firm cannot deliberately and rationally manage all or even a small part of a supply network of which it is a part. Instead, all that the firm is able to do is to cope or to incrementally adapt to changes that come about within the network (see, for example, Hakansson and Snehota, 1995; Brennan and Turnbull, 1998). In short, writers within this school argue that firms cannot and therefore should not attempt to manage their own operations or their supply network relationships in a planned and deliberate manner.

This conception of management as coping flows primarily from the particular way in which writers within the IMP group define a supply network. From the IMP perspective, a supply network is always defined as being an open system, which suggests that it has no meaningful boundary (Cova et al, 1998). An often cited definition in this vein is that a network is ‘a model or metaphor which describes a number, usually a large number, of entities which are connected’ (Easton, 1992). As this fairly vague definition suggests, the primary objective of researchers within the IMP group is to capture the richness and complexity of the market environment within

which firms operate. Given this agenda, it is hardly surprising that the rational management and planning of supply network relationships is seen as something of an impossibility. As Ford (1997, p. 559) comments, 'the inherent complexity of inter-company relationships and networks means that it is unrealistic to imagine that they can be wholly "designed" by any one party'.

Flowing from this conclusion, writers within the IMP group suggest that where firms do try to manage their supply network relationships they are forced to adopt an 'emergent' or incremental style of decision-making (Hakansson and Snehota, 1990; Ford, 1997). This means that decisions are based on an on-going analysis of the firm's experiences in supply network relationships rather than on explicit planning. While the IMP perspective on supply networks undoubtedly has some descriptive utility, we contend that it places an overly conservative construction on the managerial capacity of many firms in relation to their customers and suppliers. At one level firms do indeed exist in highly complex open systems, but this does not completely exclude the possibility that within this complexity there are groups of relationships within which the firm can exert a significant measure of planned managerial control. Indeed, we only need to look to the multi-tiered network sourcing arrangements operating in many areas of Japanese industry during the post war period for evidence to support this possibility (Lamming, 1993). Our concern in this paper is to understand the circumstances in which such effective management of supply network relationships becomes possible.

The Supply Chain Management Perspective

As we noted earlier, the supply chain management perspective takes a diametrically opposed view to the IMP group on the question of whether the firm can, and therefore should, manage its relationships with others in its supply network. Writers operating within this perspective have a principled belief in both the possibility and the desirability of such management control. As Johnsen et al (2000) note, 'these researchers often tend to regard a network as some form of extended enterprise', which refers to a group of firms, discrete from their wider environment, that operate in a more or less co-ordinated fashion. Implicit in such a concept is the idea that firms

can plan and manage the development of their relationships with others in the extended enterprise.

The supply chain management perspective finds its roots the fields of operations management and logistics (see, for example, Houlihan, 1984; Christopher, 1992), and as such writers in this school are primarily concerned with how firms should manage their relationships with suppliers and customers in order to achieve gains in operational efficiency. More recently, some contributors to this literature have also started to make claims for improved supply chain management as a potential basis for sustainable competitive advantage (see, for example, Hall, 1999; Lincoln et al, 1998; Tan et al, 1999).

The main thrust of this perspective is that the firm should work together with those in its supply chain in a closer and more co-ordinated fashion to achieve efficiency gains and, potentially, a sustainable competitive advantage. This concept of integrated supply chain management (ISCM) has two main guises in the literature. The more traditional form of ISCM is one in which the firm acts unilaterally to manage its relationships with customers and suppliers through behaviours that have been called ‘cascade’ and ‘intervention’ (Lamming, 1996). Beyond this traditional view writers such as Lamming (1993, 1996) and Womack and Jones (1996) have proposed what they argue is a more advanced form of ISCM based on ‘lean thinking’. This thinking implies bilateral or even multilateral relationship management, in which each of the parties to a supply network relationship shares responsibility for the maintenance and development of that relationship. More recently, Johnsen et al (2000) have developed these ideas further by introducing the concept of a ‘supply network convenor’. This concept refers to a focal firm within a network that is able to co-ordinate network factors (resources, actors and activities) in order to ensure the success of bilateral/multilateral relationship management for mutual benefit.

While we do support the fundamental basis of the supply chain management perspective, namely that firms are often able to manage their supply network relationships, there is much here with which we take issue. The core problem with

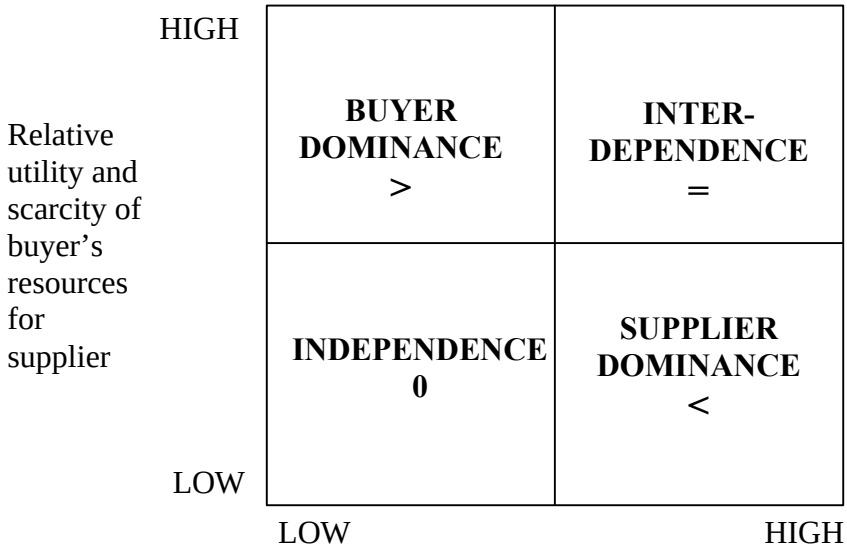
most of this literature is that it does not consider the real commercial interests of buyers and suppliers as defined by their relative power positions in the context of specific transactions. Consequently, these writers are unable to properly explain why ISCM initiatives often fail. It has been argued that ISCM failures are primarily a function of insufficient managerial effort or cultural barriers (see, for example Macbeth and Ferguson, 1994). These explanations are predicated on the idea that firms are simply failing to recognise that closer and more co-ordinated supply network relationships are self-evidently in their best interests. We would contend, however, that the lack of inter-organisational co-ordination required to support a programme of ISCM often has more to do with the fundamental conflicts of interest that exist between buyers and suppliers and the power of particular firms in a supply network to obstruct or subvert the process of relationship management. The point is that in certain circumstances a closer and more co-ordinated relationship with a customer or a supplier is not in a firm's best commercial interests. We need therefore to understand the nature of exchange power and its impact on relationship management choices. The analytical framework presented briefly in the next section is designed to meet these objectives (this framework is discussed in greater detail in Cox, Sanderson & Watson, 2000; and Cox et al, 2001; an in an earlier version, in Watson and Sanderson, 1997).

The Power Regime Framework

The analytical framework detailed here is informed by a recognition that although power advantages might often not be *explicitly* exploited in buyer-supplier interactions, the very existence of a power imbalance conditions buyer and supplier behaviour. We contend that power does not become any less important to an understanding of buyer-supplier relationships simply because it is not exercised. The basic unit of analysis used in our framework is the dyadic power relationship that exists between specific buyers and suppliers. The framework is constructed around four basic types of buyer-supplier power structure – buyer dominance, supplier dominance, buyer-supplier interdependence (high mutual dependence), and buyer-supplier independence (low mutual dependence). These categories are shown in

Figure 1 in conjunction with the shorthand symbols that we have devised for each power structure.

Fig. 1: The Exchange Power Matrix



Source: Adapted from Cox, Sanderson and Watson (2000

The intellectual antecedents of our four-fold categorisation can be found in the pioneering work on power and resource dependence by Emerson (1962) and in the work by Pfeffer and Salancik (1978), which applies Emerson's thinking in the context of inter-organisational power relations. The fundamental premise of both of these works is that the power of one actor or organisation over another is determined by the extent to which that actor or organisation is dependent on the other for particular resources. It is further argued that the level of such dependency is determined by the relative *utility* and the relative *scarcity* of the resources brought by each of the parties to an exchange relationship. While the meaning of these two concepts cannot be explored in great detail here, it is sufficient to know that the utility of a resource refers to its commercial and operational importance for the firm, and the scarcity of a resource refers to the extent to which an equivalent resource can be found elsewhere. Resource scarcity is in turn impacted by factors such as property rights, economies of

scale, information impactedness, causal ambiguity, branding, search and switching costs for the buyer, and network good effects (Rumelt, 1987; Molho, 1997).

In the context of a buyer-supplier exchange relationship we assume that the key resources brought by a buyer are its expenditure, which can be assessed in terms of its volume, regularity and predictability, and its reputation in the market place. Conversely, the key resources brought by a supplier to an exchange relationship are in the form of its product/service offering and in the knowledge and organisational processes that underpin that product/service. Thus, as Figure 1 shows, a buyer would have power over a supplier if two conditions held true. Firstly, the buyer offers the supplier resources (expenditure and reputation) that are relatively scarce and that the supplier regards as relatively important. Secondly, the supplier's resources (product/service, knowledge and processes) are relatively commonplace and are of relatively low importance for the buyer. Of course, if the exact opposite is true in terms of resource utility and scarcity then the supplier must have power over the buyer. The two remaining quadrants in Figure 1 represent those exchange circumstances in which the power attributes of buyer and supplier are in balance. The buyer and supplier are said to be interdependent if the relative importance and uniqueness of the resources offered by each party are high. Conversely, a situation of buyer-supplier independence exists where the relative importance and uniqueness of the resources offered by each party are low. This final quadrant represents the classical market ideal, with many easily interchangeable buyers and suppliers.

It must be emphasised, however, that although an understanding of dyadic power structures is at the heart of our analytical framework, it is not here that we make our most original contribution. Indeed, a number of articles exploring the relative power balance in buyer-supplier interactions have appeared in recent years in the supply management and relationship marketing literatures (see, for example, Bensaou, 1999; Blenkhorn and Mackenzie, 1994; Gelderman and van Weele, 2000; Provan and Gassenheimer, 1994; Ramsay, 1994). The failing of these articles is that they do not place the individual buyer-supplier interaction in the context of the wider supply network. This means that they present, at best, a partial understanding of the external

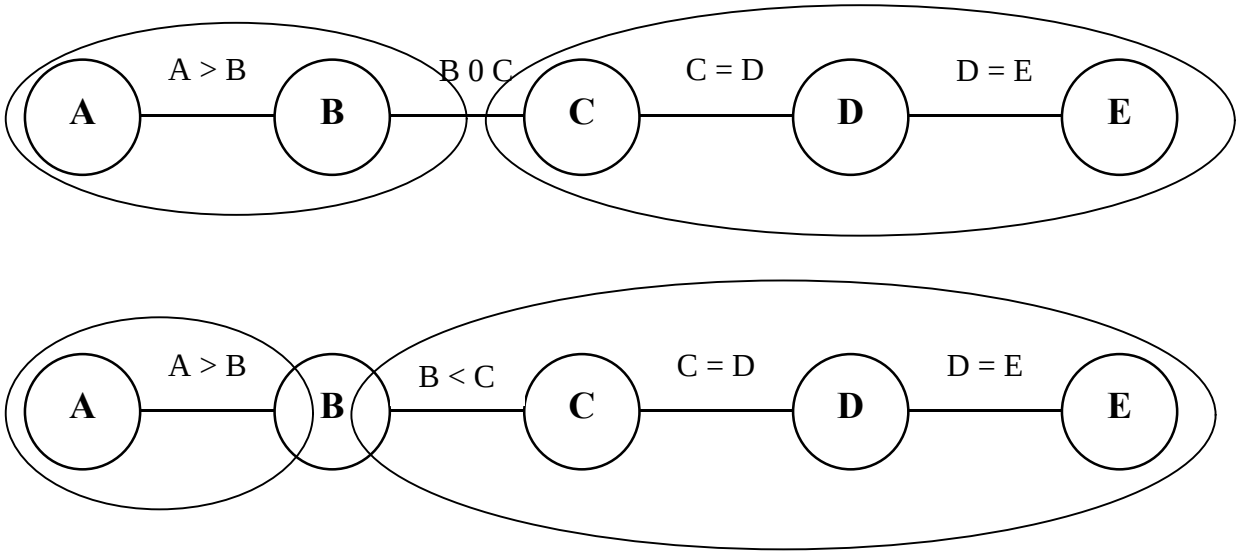
management challenges facing the firm. The key original contribution made by the power regime framework, therefore, is that it provides a more complete understanding of such challenges by linking together individual exchange dyads in an extended network. We contend that this enables us to understand, and therefore to predict, the extent to which a firm would be able, if it chose, to manage its direct and indirect relationships with customers and suppliers.

For example, a power regime based on synchronised buyer dominance (A>B>C>D>E) would allow the end customer (A) to unilaterally co-ordinate the actions of all of those firms operating upstream in the supply chain. This would represent a supply chain management strategy based on what Lamming (1996) calls cascade or intervention. In this case, the dependence of each supplier on its customer would dictate that Cupertino with customer-inspired supply management initiatives is in the supplier's best interests, although these initiatives ultimately bring most benefit to the end customer. Conversely, a power regime consisting of a series of interdependent relationships (A=B=C=D=E) would enable a programme of supply chain co-ordination based on bilateral management. In this case, however, the programme would be run for the mutual benefit of each participant, the lean thinking ideal.

We can also identify those circumstances in which a firm would not be able, and therefore should not attempt, to manage its relationships. For example, where a buyer has a dependent or an independent relationship with a supplier it is highly unlikely that it will be able to manage that relationship, either unilaterally or bilaterally. In each case, the supplier simply has insufficient incentives to enter into a co-ordinated relationship. Where the buyer is dependent the relationship is likely to be managed, if at all, by the supplier in its own interests. Where an independent relationship exists the buyer is unlikely to have sufficient commonality of interest with the supplier to ensure that a stable and co-operative interaction can be established. Each party to the exchange simply has too little dependence on the other to suggest that they would be likely to invest the considerable time and resources needed to achieve greater co-ordination. This leads us to propose that power regimes might sometimes be

composed of a number of interlocking but discrete management sub-regimes, demarcated by independent or dependent relationships.

Fig 2: Subregimes and the Limits to Supply Chain Management



Source: Adapting from Watson (2001)

As Figure 2 shows, the existence of these dyadic circumstances disrupts the capacity of the end customer (A) to manage its upstream relationships beyond the first tier supplier (B). In the first example, the end customer (A) has power over the first tier supplier (B), B and C are independent of one another, and C is linked to D and E through a series of interdependent relationships. This gives rise to two distinct sub-regimes. In the first, A would be able to undertake unilateral management of its relationship with B, while in the second C, D, and E would be able to manage their relationships with one another on a bilateral basis. The existence of an independent power structure between B and C means, however, that the co-ordinated management of this relationship, and therefore of the chain as a whole, is highly unlikely to occur. Thus, although the end customer might use its dominance over its first tier supplier to launch a 'supply chain management initiative', we contend that such an initiative is likely to founder due to a lack of common interests between the first and second tier suppliers.

In the second example in Figure 2, A again has power over B, and C, D and E are linked by a series of interdependent relationships. This time, however, B is also dependent upon C. Although in this case the B-C power relation differs quite markedly, the nature of the management sub-regimes is fairly similar. Once again the end customer's capacity to co-ordinate the supply chain is limited to its relationship with its first tier supplier. B cannot undertake similar management co-ordination in its relationship with C, because it is dependent upon this supplier. Unlike the previous example, however, it is possible for C to undertake co-ordinated management of its relationship with its customer (B). This implies that B might well be subjected to (potentially contradictory) supply chain management initiatives on both the upstream and downstream sides of its business. This is illustrated by a downstream movement of the border between the two sub-regimes so that it falls on B. We would expect the most likely outcome of this situation to be that the objectives of neither management sub-regime are properly fulfilled, as B tries to reconcile the competing pressures under which it is placed.

The Power Regime for the UK Motor Insurance Claims Market

In this section we briefly present the findings of qualitative case-study research to test the robustness of the theoretical propositions outlined above. We provide a sketch of the power regime currently operating in the UK's motor insurance network (more complete accounts are offered elsewhere in Watson, 2001 and Cox et al, 2001). Insurance markets play a pivotal role within industry. They offer customers peace of mind. All economic activity involves some risk, and insurance companies offer firms and individuals the opportunity – for a premium – to transfer this risk to a third party. The exchange network for motor insurance has within it two quite distinct power subregimes. The first of these – *The Downstream Power Regime* – is focused on revenue generation and links an insurance company directly, or via a series of intermediaries (insurance brokers of one kind or another), to the customer. The second power structure in this network – *The Upstream Power Regime* – deals with the claims side of the business. In the past, many insurance companies reimbursed

claimants in cash when they made a claim. Recently, in an attempt to get a better control of their cost base, insurance companies have preferred to offer like-for-like replacement in the case of lost property or property that has been irreparably damaged, or repair where the damage can be economically rectified. This new focus requires insurance companies to look for ways to manage these supply chains for physical products and services in order to obtain quality and cost improvements. However, in this objective, insurance companies are hampered by the structures of power that characterise the two subregimes. Specifically, in the downstream regime, the insurance company finds it difficult to achieve commercial improvement using an ISCM approach because of its weakness in relation to the customer. The weakness, in turn, makes the insurance company vulnerable to leverage in the upstream part of the chain, making it impossible for insurance companies to work collaboratively with many of their suppliers.

The Downstream Customer Power Regime

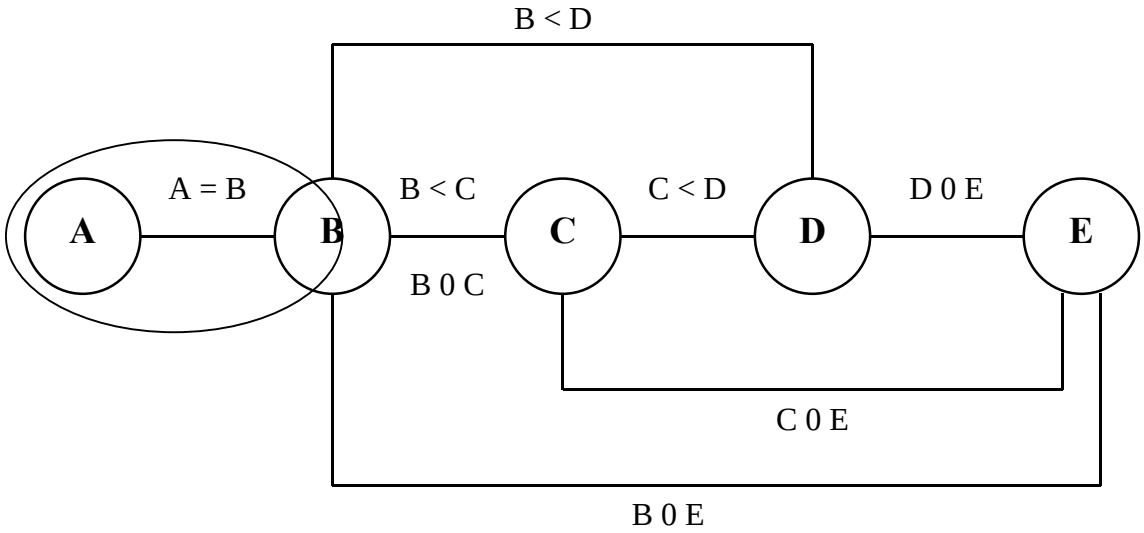
The motor insurance revenue chain is created physically by the needs of the car user (A). Driving can be a hazardous activity. Drivers are required by law, therefore, to transfer the associated risks to a third party (C) so that, in the event of liability, anyone who has been injured can be properly compensated. Drivers also seek to transfer the risk of damage to their vehicle since undertaking vehicle repairs can be an expensive business. In the past, when individuals looked to obtain insurance protection, they typically went through a broker, or intermediary. The job of the broker was to economise on the individual's costs of transaction and, specifically, on their costs of search.

Historically, this was not an arrangement that served the customer well. Most policyholders were incompetent. The product that they bought was complex, they had little or no information about it (hence the need for a broker in the first place), and they tended to exhibit a high degree of loyalty toward existing sources of supply. Under these circumstances, it was relatively easy for vendors to gull the policyholder who frequently ended up with the policy that was most profitable for the broker, rather than the one that offered the greatest/cheapest protection. This gave rise to a

downstream power regime that crudely approximated A<B=C, with the power lying with the insurer and the broker (King et al, 1997).

In recent years, however, these practices have started to change. Slow growth in the industry, and new entrants offering direct channels (like telephone and Internet technology) between the insurer and the customer, have promoted hyper-competition in the insurance market (Channon, 1993). Many areas of the insurance industry business (motor insurance included) are now treated as commodities, and it is a feature of such commoditization that the supplier must normally pass value to the customer. The customer's hand has also been strengthened recently because customers now have greater familiarity with the product than they did in the past, which in turn has tended to erode their old loyalties. Today, assuming the customer is reasonably competent, it is possible for him or her to obtain objective and easily comparable quotes, whether from brokers or from the insurance companies. The insurance companies have assisted in this process themselves, of course, with their aggressive promotional campaigns and their drive to find direct channels to market. This process has directly affected the brokers also. The margins of the intermediaries have fallen along with those of the insurance companies. In many instances they have been cut out of the network altogether. This has given rise to a new power structure and one which much more closely resembles A0B=C (where brokers are still used), or A0C (where they are not). These changed power relationships are depicted in Figure 3. This explains why premiums have fallen rapidly and why there has been so much consolidation in the motor insurance industry of late.

Fig. 3: The Power subregimes for the UK Motor Insurance Industry



Source: Adapted from Watson (2001)

KEY:

A = Customer/Policyholder

B = Insurance broker.intermediary

C = Insurance Company

D = Car Repairers

E = Distributors

F = Branded Parts Suppliers

G = Generic Parts Suppliers

All of this has a substantial impact on the capacity of insurance companies to manage the upstream power regime for motor claims. While hypercompetition in the UK insurance markets has not eradicated altogether policyholder vulnerability to adverse selection, it has meant that the scope to practice post-contractual opportunism is constrained. If insurance companies attempt to cheat the customer once he or she puts in a claim, that customer is likely to go elsewhere next time. If insurance companies habitually exhibit moral hazard, they are likely to earn a reputation for it, with the consequence that they lose more than just a few customers. Post-contractually, therefore, the leverage lies with the claimant and this places major constraints on their upstream sourcing options.

The Upstream Supplier Power Regime

Upstream of the insurer, the sourcing of motor repair services (the second power subregime) involves a mixture of intangible and tangible exchanges, as illustrated in Figure 3. Policyholders (A) normally claim a new car for a write-off or have their damaged vehicles taken to a garage (D). This garage or another garage (which may be independently owned or owned directly by an insurance company) will bid for the repair work. Whichever garage is successful in winning the bid, the repairs will be undertaken using car spares, obtained either directly from branded (F) or generic (G) component manufacturers or through a distributor (E).

The problems for the insurance company begin when it attempts to select which garages it will use for a repair. In theory it can opt to source from a wide range of suppliers or just a few preferred suppliers or to insource the process. In practice, however, the policyholder acts like a straightjacket. The policyholder, when selecting his or her insurance company is looking, amongst other things, for convenience. He or she does not want to take the damaged vehicle 40 miles away just because the insurance company has negotiated a good deal with a particular repair shop. The policyholder is price insensitive. Once he or she has paid the insurance company its premium, insurance claims becomes a free good. If the insurance company will not pander to the customer's insistence on convenience, then next time the customer may well look elsewhere for his or her risk management. When, sourcing repair services, therefore, the insurance company may well find itself sourcing from a local monopoly provider. This is absolutely the worst possible position to be in when it comes to initiating an ISCM programme.

The problem with repair shops does not stop here, however. There is also a considerable risk of moral hazard on the part of the repair shop. Insurance companies have recognised this point. They are aware that is not always possible to judge the volume of work that needs to be done to a vehicle before it is roadworthy again, or whether the garage has performed the repairs to an acceptable standard. Accordingly, they will attempt to police repair shops. However, this in itself is an expensive and inexact process.

Localised monopolies and opportunistic motor mechanics are not the only hazards that insurance companies face. The most serious problem facing an insurance company, considering an ISCM programme, exists in relation to motor spares – the greatest single cost associated with the claims exercise. The market for automotive spares is not an easy one from which to source. The difficulty arises in part because of the high levels of asset specificity embedded in the technologies being replaced. Prior to sourcing a new, or even used vehicle, the end user enjoys a wide range of options. There are a large number of brands from which the consumer might select and subject to income constraints, the consumer is free to source from any manufacturer it pleases. Each vehicle, however, makes use of very different technologies. This is true, notwithstanding attempts by automotive assemblers to reduce costs by standardizing some production features across their model range. As a consequence of this component heterogeneity, there are substantial compatibility problems between makes and models. If the suspension of a Ford Escort fails, replacing it with the suspension system of a Ford Mondeo may prove difficult. The chances of replacing it with the suspension system of another manufacturer are practically zero.

The issue of compatibility would not be so critical were it not for a number of additional factors. Formally, EU legislation permits the substitution of OEM components with generically equivalent parts (G). In practice, however, the scope for generic substitution is severely limited. Frequently, the intellectual property for a piece of technology rests with the assembler, sub-assembler or components manufacturer that originally developed it. Even when this is not the case, the growing technological sophistication of a number of sub-assemblies makes technological imitation an unlikely prospect. Furthermore, the policyholders themselves demonstrate a resistance for anything other than like-for-like replacement. If an insurance company wishes to retain its customers' business it must keep this fact in mind. The structure of power that exists between the insurance companies and the OEM parts manufacturers, therefore, is D<F.

The best that the insurer might hope for in relation to the cost of parts would be to find some form of interdependence through direct contacts with generic parts suppliers (D=G). This only occurs if the car repairers are given a large enough share of the insurers' business and are able to consolidate enough spend to raise sufficient interest by generic parts suppliers to encourage some form of joint collaborative interdependence. However, for the reasons already described, this is problematic. The relatively low volumes of the car repairers individually, make it difficult for them to incentivise the generic manufacturers either directly, or indirectly through a distributor network (D-E-G).

Conclusion

The main conclusion that we can draw from the case evidence presented here is that a firm's success in co-ordinating its direct and indirect relationships in an extended supply network depends on more than just cultural alignment and managerial commitment. Rather, the case evidence provides substantial support for our theoretical proposition that the success or failure of a supply chain management initiative is primarily a function of the complex pattern of exchange power that underpins supply network relationships. It is the nature of exchange power that defines the real commercial interests of buyers and suppliers and determines whether they can and therefore should try to manage their direct and indirect relationships with others in their supply network. This conclusion does not imply, however, that many buyer-supplier interactions are fundamentally about the *explicit* use of power advantages. Rather, as we stated earlier, the very existence of a power imbalance conditions buyer and supplier behaviour. Power does not become any less important to an understanding of buyer-supplier relationships simply because it is not openly exercised.

The case evidence also supports our proposition that power regimes might be expected to be composed of a number of interlocking but discrete management sub-regimes, demarcated by dependent or independent relationships. The implications of this evidence for management practice are clear. Firms seeking to manage relationships with their customers and suppliers need to understand where the

boundaries between these sub-regimes lie. This understanding is crucial to ensure that scarce management resources are not wasted in pursuit of relationship management initiatives for which there is, currently at least, no commercial logic. That is not to say, of course, that such an initiative might not be successful in the future. The structure of power between a buyer and a supplier is very rarely fixed in stone. This implies that the firm might be better to direct its managerial effort towards a reconfiguration of the structure of power in particular exchange dyads so that relationship management becomes a realistic possibility.

We are, of course, fully aware of the dangers of generalisation based on the single case discussed here. This potential problem is addressed, however, by the fact that these conclusions are also given substantial support by evidence from six other cases (for a discussion see Cox et al, 2001). These cases map and analyse power regimes from a range of supply networks, including industrial electricity, forecourt retailing and motor insurance. It was not possible, however, to include these other cases within the confines of this paper.

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