

# **The Legitimation of Power in Business to Business Relationships**

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## **Abstract**

Comment on the existence and perceived consequences within networks of what are often labelled ‘asymmetrical relationships’ has been made by many different bodies. For example, there are academic studies; comments in the business press; Government investigations; and, court cases where the evidence would seem to suggest that one party dominates or exercises power over the other. Yet even though the subservient members of the network may, from time to time, have been ‘forced’ by another party to undertake actions that they have perceived as being to their disadvantage, it is also a matter of comment that many such asymmetrical relationships are long-standing and that the parties involved all seem reasonably successful. There is thus an apparent contradiction between the presumed negative effects of being dominated and the on-going nature of such interactions. This paper will use the concept of the legitimacy to understand why such disadvantageous situations continue to exist within networks and to appreciate the circumstances under which the legitimacy of a dominant organization’s position might be challenged.

**Keywords:** power, relationships, legitimacy.

## **Introduction**

It is difficult not to agree with the suggestion that the study of ‘power’ is “a bottomless swamp” (Dahl, 1957). Indeed the topic of ‘power’ is the subject of study by scholars from several different academic backgrounds. Typically such scholars, while each providing some new insights, also vigorously criticise the opinions of colleagues from the same academic background [e.g. Beetham’s comments (1991, pp.6-14) on Weber’s interpretation of ‘legitimacy’] and are often dismissive of the arguments of those who approach the topic from within other disciplines. Yet if ‘power’ is a party’s ability to produce intended effects upon the world around them and to realise their purposes within it, whatever these purposes happen to be (Beetham, 1991, p.43), then it is difficult to ignore it as it is ‘visible’ in the behaviours of individuals and organizations. Indeed as Etzioni commented: “power is so pervasive in the economy that socio-economics assumes that for all intents and purposes *there are no transactions among equals*<sup>1</sup>.” (1988, pp.213-214) Thus the pervasiveness of power means that, resistant though it has been to satisfactory

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<sup>1</sup> Italics in original.

analysis, it cannot be ignored and by approaching the topic through discussion of the concept of 'legitimacy' it is hoped that some useful, if small insights, might be obtained.

### **Existence of asymmetrical relationships.**

Many different bodies have commented on the existence and perceived consequences within networks of what are often labelled 'asymmetrical relationships'. For example, there are academic studies (e.g. Kumar, Scheer and Steenkamp, 1995; Gassenheimer, Houston and Davis, 1998; and, Scheer, Kumar and Steenkamp, 2003) that consider situations where it seems that one party exercises influence over an exchange partner's behaviour in a manner which might appear inequitable. Comments in the business press similarly assert that power is, on occasion, used by dominant firms to the disadvantage of their partners (e.g. *Daily Mail*, 2006, p.19) and some Government investigations echo this view (e.g. *Financial Times*, 2007, p.15). Finally, from time to time, there are court cases where the evidence would seem to support the view that one party dominated the other (e.g. Baird Textile Holdings Limited and Marks & Spencer, 2000).

Within networks there are cases where one party appears to be the most powerful organization and looks as if it has the capability of imposing some aspects of its will on others within the network. Yet many 'asymmetrical power relationships' appear to be stable and long-lasting and why this is the case requires explanation. It will be suggested below that the concept of 'legitimacy' may provide insights into why such relationships are accepted by the less powerful organizations. In formal terms an attempt will be made to understand why a particular 'power and prestige ordering' exists and is accepted by the subservient party or parties. The phrase 'the power and prestige ordering of  $o$  and  $p$ ' being the positional ordering of  $o$  and  $p$  in terms of observable behaviours. So if the position  $o$  is higher than position  $p$  in the power and prestige order of  $o$  and  $p$  it means that  $o$  is more likely to influence  $p$  than  $o$  to be influenced by  $p$  (Berger et al., 1997).

### **The 'familiar' world**

Given the complex nature of modern life, it has been observed (e.g. Luhman, 1975) that whether we are acting on our own behalf or as members of organizations, we of necessity reduce this complexity to a small number of relatively simple problems. If we fail to do this then we can become unable to make sensible decisions and can become subject to substantial uncertainty about significant issues which will result in considerable psychological stress. As a consequence many daily interactions are made on the basis of an unquestioned confidence about "a world whose denizens behave characteristically, and, for the most part, as we expect them to behave." (Smith, 1995, p.395) and usually "the actual life that people live together with each other proceeds unproblematically, or at least in a way which is treated as unproblematical." (Luhmann, 1975, p.153). For example, with regard to trust, the greater part of people's lives does not involve conscious trust and they exist in an assured state of "lack of conscious trust" (Blois, 1999, p.201) and "live from day to day in this intermediate zone without specific problems of trust or distrust." (Luhman,

1975, p.21). It is though important to recognize that there is not complete stability over time within this intermediate zone and discrepancies may arise between a party's desired situation and actual events. Yet, even when confronted with behaviour that is not entirely trustworthy, a party may continue in a confident state of "lack of conscious trust". However, too frequent or too egregious lapses of trustworthiness by a person or organization may lead the trusting party to cross a threshold in its relationship with that person or organization.

What therefore is interesting is, first how a party comes to accept that its role in this "intermediate zone" is acceptable? With regard to an organization's acceptance of another's power over it, this question is a matter of determining the legitimacy of that power. The second issue is what might cause a party to question whether or not they are wise to accept their role in the intermediate zone? This requires the identification of the thresholds which, when crossed, lead to a situation being no longer being regarded legitimate.

## Legitimacy

Legitimacy is a phenomenon which justifies acts in specific, concrete situations in terms of the norms, values, beliefs, practices and procedures of a society (Zelditch, 2001). Amongst scholars who have discussed legitimacy there is agreement that it is "fundamentally a problem in the social construction of reality." (Berger et al., 1998, p.380) and it therefore requires consensus because, as Stinchcombe (1968) pointed out, for *o* to have the legitimate 'right' to control *p* presumes that other parties that observe the exchange between *o* and *p* collectively support *o*'s position. Indeed Zelditch asserts that: "The assumption that consensus is a necessary condition of legitimacy has been fundamental to all theories of legitimacy, whether or not they are 'consensus' theories." (Zelditch, 2001, p.9). Indeed legitimation is a process which justifies the accepted behaviours within a group. The use of the word 'justified' is important because it is necessary to distinguish between the *belief* in a situation's legitimacy and its *justification* of a situation or state in terms of a society's, or a subset of society such as a business network, beliefs (Beetham, 1991, p.11). This view is similar to that expressed by Berger et al. who comment that legitimacy depends on "individual actors' personal approval of it – that is its *propriety*<sup>1</sup>." (1998, p.380)

It would therefore seem to be important to seek to understand what underpins the acceptance of the norms, values, beliefs, practices and procedures of a pre-given structure. Unfortunately, while in specific situations social scientists believe they can determine this, in general terms, it seems that they often end up 'chasing their tails'. For example, Beetham typifies this problem when he states "power is legitimate to the extent that the rules of power can be justified in terms of beliefs shared by both dominant and subordinate." (1991, p.17) but then fails to establish where these shared beliefs come from. However, his view perhaps suggests a way forward and this is to accept that in any society or recognized sub-group of society value systems exist that define what members consider to be acceptable conduct (Etzioni, 1988, pp.202-213). These can range from the general to the quite specific. Thus British managers understand that they operate in a market economy and that certain behaviours are therefore the norm. These behaviours would include: the recognition: that a

company's success will ultimately be judged in financial terms; of the possibility of a take-over bid; of the possibility of financial losses should a customer go bankrupt; of the need to meet tax liabilities; etc. Nevertheless, except where they operate in a major financial institution, a manager would recognize that if the firm does ever face financial difficulties government assistance is extremely unlikely to be made available.

It seems therefore that the only way forward is to seek to analyse the situation as it currently is<sup>2</sup> – which may give some leads as to how it evolved to its current state – and to thus identify factors which might change the situation. In the context of this paper this would first mean, on the basis of the definition of the term 'legitimacy' given above plus observation of a situation, accepting that legitimacy exists. Then to seek to both understand the basis for this legitimacy and also to determine what changes in the situation could occur before the legitimacy of the situation would be questioned.

### The 'foundations' of legitimacy

Berger et al. argue that the concept of 'Status characteristics' (1998, p.381) underpins the concept of legitimacy. Where two parties *o* and *p* interact each ascribes status characteristics to the other. Status characteristics can be 'specific', i.e. related to clearly defined situations, or 'diffuse', i.e. related to generalities. In the case of a business-to-business situation a specific status characteristic might be an organization's technological expertise while a diffuse status characteristic could be the size of the organization.

In the case of a business-to-business interaction between *o* and *p*, the specific status characteristics that *p* attributes to *o* are determined by *p*'s perception of the following:

a/ The strength of *o*'s links to *p*'s desired outcome. If *o* is one of *p*'s major customers then *p*'s ability to achieve its objectives will be strongly linked to *o*'s behaviour. (This link may still be strong even if *o* is not yet an actual customer but only a potential customer.) As Beetham commented: "The awareness of their impotence outside the relationship can itself be sufficient to keep the dependent party submissive to the wishes of the superior, without any threats needing to be made." (1991, p.45)

b/ How effectively, from *p*'s point of view, *o* responds when new situations arise. For example, does *o* demonstrate a capability of responding to new challenges in its markets in a manner which takes account of its impact on its suppliers such as *p*?

c/ The extent to which *o*'s capabilities are seen as distinctive. Does *o* manage its interactions with its suppliers in a way which distinguishes it, in a positive manner, from its competitors?

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<sup>2</sup> This is essentially the approach adopted by philosophers such as Rousseau; Locke and Hobbes who developed concepts of the legitimacy of power and its acceptance by individuals to explain the structure of society as they observed it.

Diffuse status characteristics attributed to  $o$  by  $p$  in the B2B context would include the extent to which  $p$  believes that the collective expectation is, where  $o$  is a large customer, that it will dominate  $p$ . Several writers (e.g. Berger et al., 1998 and Zelditch & Walker, 1984) point out that a situation can only be considered legitimate if it does not contradict the socially validated beliefs held the groups within which  $o$  and  $p$  operate. Thus if, within the business community, what “everybody knows to be true” (Berger et al. 1998, p.382) is that large customers do exercise power over their suppliers then this contributes to the legitimacy of the situation. This is the case even if the suppliers feel aggrieved and disadvantaged by some of their customer’s actions. A further justification for the legitimacy of a customer’s power over its suppliers could be that it benefits the community as a whole (Beetham, 1991, pp.59-60). For example, this argument is sometimes used in the UK to justify the dominance of large retailers because it is asserted that they provide consumers with a wide choice at very competitive prices (*The Economist*, 2007, p.38).

Nevertheless, from  $p$ ’s point of view, where  $o$  holds power over  $p$  a status characteristic only confers legitimacy to this power and prestige ordering when  $p$ ’s expectation is that, with regard to the business that they are together engaged in,  $o$ ’s behaviour will enable  $p$  to achieve its objectives (Berger et al., 1998, p.385).

#### The breakdown of legitimacy

There are three categories of circumstances which will cause  $p$  to re-examine the legitimacy of its power and prestige structure with regard to  $o$ . The first is where  $p$ ’s evaluation is that the status characteristics that it has attributed to  $o$  are no longer valid. For example, that  $o$ ’s contribution to its ( $p$ ’s) achievement of its objectives is no longer significant. In a business-to-business situation this could occur if  $o$  starts to fail in its own markets and as a consequence is either unable to offer  $p$  significant business and/or demands new and unacceptable terms and conditions from  $p$ . A second example would be where  $p$  develops a unique new capability which enables it to offer its customers the possibility of differentiating themselves in their markets. Such a development might even invert the power and prestige structure and make  $p$  the dominant partner. A third example would be where  $p$  gains substantial new business from other customers thus reducing its dependence on  $o$ .

The second circumstance is where the collective view of society is that  $o$ ’s dominance is no longer acceptable. Thus, the campaigns by various business and consumer groups to persuade the British government to ‘control’ the behaviour of the largest supermarket chains have certainly not, on these groups’ own admission, been successful (*The Economist*, 2007, p.38). Yet these campaigns have had some impact on the behaviour of the supermarket chains and would appear to have forced limited Government reaction towards the supermarkets’ behaviour (*The Independent*, 2007, p.6). Indeed the media reaction to the Competition Commission’s latest proposals (*The Independent*, 2008, p.4) to curb supermarket buying power would indicate that the pressure groups have at least been successful in making the media aware of their views.

The third circumstance is where  $o$  breaches the limits set on its behaviour by the rules which determine the acceptance of their power. “These rules may largely be

conventional” (Beetham, 1991, p.36) but where *o* breaches them then, whether or not its action impacts on specific status characteristics, then *p* may question the legitimacy of *o*’s dominant role. Thus when Marks & Spencer (hereafter M&S) discarded Baird (one of its major suppliers) this was seen to contravene the implied contract under which M&S’s suppliers accepted its dominance in return for a steady supply of orders. Indeed M&S’s behaviour led others of its suppliers to question the legitimacy of its dominance (Blois, 2003).

Although, because it makes conduct unpredictable and offenders’ untrustworthy, an unexpected act may damage a relationship (Mills, 1940), it is important to recognize that the impact of such an act is not always to disrupt the exchange. The reason for this is that, as people and organizations operate within intermediate zones with defined thresholds, it is only when an action crosses these thresholds that the party involved will react to significant degree. Luhman argues that thresholds are used to simplify the world within which parties have to operate. He states that a threshold “denotes an artificial discontinuity which levels out the area of experience before and after the threshold, and thus makes for simplification” (1975, p.73). Indeed, it may be difficult to determine another party’s trustworthiness as the result of a single act. Instead the decision as to whether or not to trust that party is converted into one of whether or not the other party’s overall behaviour has crossed a threshold of trust. A useful analogy is the comparison of CUSUM quality control charts with standard quality control charts. Any individual quality error may be so small that it falls within the standard quality control limits but, under the CUSUM approach, if it is the last of a series of even small errors then it may push the quality assessment over the threshold and thus disqualify the source of supply<sup>3</sup>. Clearly though, even under the CUSUM approach, one very serious error may push the party across the threshold.

In the context of B2B exchanges, *p* may accept the legitimacy of a one-off, unfair demand from *o*. Yet a series of new but small demands may push it over the threshold of acceptance. Or, if these demands become public knowledge, it may be that the public consensus views these demands, if repeated, as unreasonable. Berger et al. suggested that: “Perhaps the new information most likely to affect legitimation is the explicit evaluation of actors’ problem-solving performances as task successes or task failures.” (1998, p.394). So a large one-off or a series of small but successive negative incidents may lead *p* and/or the business community to question both the legitimacy of *o*’s power and prestige status relative to *p*. (Ridgeway & Diekma, 1989).

### **An example**

A well documented example (see: Baird Textile Holdings Limited and Marks & Spencer, 2000) of an asymmetrical relationship was that of M&S with its main clothing suppliers. In the early 1990s there were four major suppliers of clothing to M&S, namely: Baird; Courtaulds; Coats-Viyella; and, Dewhirst. Each of these companies had been M&S suppliers for lengthy periods of time and M&S’s purchases from these four suppliers rose from £867.2m to £1,235m in the period 1990 to 1998.

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<sup>3</sup> In a CUSUM control chart the plotted points contain information from all the previous observations whereas in a standard quality control chart each point represents the data from one time period only.

M&S did not place orders with these suppliers on the basis of a legal contract but under 'General Merchandise Terms of Business' and amongst these the more burdensome were that M&S had the right to:

- (a) vary and alter the cost prices, quantities and completion dates of the original orders.
- (b) cancel an order, with only 70% of the cost of the raw materials being reimbursed.
- (c) unilaterally deem merchandise as faulty and return it to the supplier.
- (d) impose a discount on the prices previously agreed with the suppliers.
- (e) appoint fabric manufacturers from whom the clothing suppliers were obliged to purchase their fabric needs.

In addition to the Terms of Business, M&S would from time to time make significant one-off demands. For example, in 1999 it required its four main suppliers to provide it with detailed confidential information about all aspects of their business. This confidential information was at a level of detail and so commercially sensitive that it would not normally be provided by a supplier to its customers.

Elements of M&S's Terms of Business terms were clearly onerous and the acceptance of them by these four major clothing manufacturers would suggest that in some way M&S had power over them. Nevertheless until the late 1990's these suppliers saw M&S's dominance as being legitimate. Consideration of the specific and diffuse status characteristics (see the section above headed "The 'foundations' of legitimacy") which applied in this situation indicate why M&S's power was seen by its suppliers as legitimate.

The specific status characteristics that the suppliers attributed to M&S were:

- a/ The strength of M&S's links to their desired outcomes. In the case of all four suppliers M&S had become their most significant customer - to the extent that the loss of all of M&S's business would have forced them to close a substantial proportion of their manufacturing capacity. More importantly, Financial Analysts evaluated all four as highly successful and profitable companies *because* of their long-term role as M&S suppliers.
- b/ How effectively M&S responded when new situations arise. Throughout the lengthy period of their relationships M&S had taken considerable trouble to help these suppliers to adapt to new and unexpected market demands and technological developments.
- c/ The extent to which M&S's capabilities were seen as distinctive. In the late 1980's and early 1990's M&S was seen as the outstandingly successful UK retailer. Indeed a 1998 study suggested that M&S had a higher standing in the UK than the Church and the Royal Family! As such being known as an approved M&S supplier substantially enhanced a company's reputation and many benefits flowed from this. These included a consistently high share price and a desire by other firms to be associated with them.

The diffuse status characteristics attributed to M&S by the suppliers included the extent to which the collective expectation was that large customers would and did dominate their suppliers. In the 1980's and 1990's the general view of the British public was that it was acceptable for large retailers to be demanding customers – sometimes almost unreasonable customers – as long as the benefits were passed on to the final consumer. This provided further justification for the legitimacy of the power of retailers such as M&S over their suppliers in that it was believed that their use of this power benefited the community as a whole.

Interestingly, when in 1999 at short notice, M&S informed Baird that they would no longer make purchases from them this act led M&S to lose its perceived legitimacy as a powerful customer. This action, which was seen to be a breach of the accepted 'rules' by which M&S managed its relationships with its suppliers, changed the remaining three major suppliers' perception of M&S as a dominant customer and led them to question their own reliance on M&S. Indeed, in September 2000, Coats Viyella gave M&S minimal notice of their intention not to continue as its supplier.

## **Conclusions**

Many B2B relationships, although asymmetric in power terms, last for decades with all members of the network, in spite of intermittent financial difficulties, appearing to remain successful. That is, the parties involved have: stayed in essentially the same business; not become bankrupt; and/or, have not at any time had to dramatically reduce the size of their workforce. Nevertheless, the dominant party in the network may, from time to time, have 'forced' subservient members to undertake actions which they would have preferred not to agree to and indeed may have perceived as being to their disadvantage – at least in the short-term.

This paper has discussed the concept of the legitimacy with the intent of providing an insight into why such asymmetric relationships continue to exist. The discussion has drawn attention to the need, if its dominance is to be accepted as legitimate, for a dominant party to offer the subservient parties some benefits. It has also sought to understand what changes in the behaviour of the members of the network and/or circumstances within which the network operates can lead to the legitimacy of a dominant organization's position being re-appraised.

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