

Does power matter? The role of power in supplier relationship management

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Abstract

Purpose of the paper and literature addressed:

The study focuses on power relations between buyers and suppliers and discusses the role of power relations in the firm's supplier relationship management (SRM). The nature of the buyer-supplier relationship and the ways how these relationships are handled vary due to the different influencing factors. In several studies it is argued that power balance and power relation between buyer and supplier influence strongly to the nature of the relationship and moreover, to the supply strategies used. Thus, the study aims to analyze how power influences supplier relationship management.

Research method:

The possible influence of power on firm's supplier relationship management is empirically analyzed by using a case study with three cases and 23 interviews. The case companies are Finnish companies representing different size companies from three different industries. Thus, the role of power in the firm's supplier relationship management is discussed in three different empirical contexts. Moreover, the case companies are having different kind of power relations towards their suppliers which offers various viewpoints to the research topic.

Research findings:

Two of the cases are on high level concerning the maturity of the supply management. The power positions of case companies when compared to their suppliers are mainly dominant. All cases have some critical supplier relationships which require special attention, however, SRM as a conscious process is not fully implemented in any case company. Two cases use power as an influencing factor in their business negotiations where possible. One case company seeks equal partners as it requires that their suppliers are powerful and can provide the best competences and create value. The main finding is that supplier relationship management differs in different power situations. When the power relation between the buyer and supplier is in balance there is a good basis for a collaborative relationship and for the adoption of strategies based on collaboration. Balanced power does not inhibit but rather encourages the use of a collaborative strategy, whereas inequality in terms of power and imbalance in the relation may prevent it. If the buyer firm is more powerful than the supplier, the buyer may not be willing to adopt a strategy based on collaboration and may prefer to sustain its power position.

Main contribution:

The literature review revealed that there is a research gap in studies of power and SRM because the relation between those has not been discussed extensively enough. Therefore, this study contributes by discussing the role of power relation in supplier relationship management and by analyzing how SRM and supply strategies are affected by power.

Keywords: supplier relationships, supplier relationship management, power, power relation

INTRODUCTION

One of the key strategic decisions in firms concerns their relationships with other organizations. Relations with different stakeholders, owners, customers, suppliers and competitors, represent different relationship categories. Supplier relations form one important category in firms' relationships and the responsibility to manage and handle these relations lays in the hands of firm's supply management. Supply management is argued to perform three different roles within the organization: cost optimization, asset utilization and value creation (Axelsson et al., 2005). The cost optimization role aims to influence the competitive advantage by cutting down costs. The asset utilization role can be seen as a developmental role that aims to match the company's R&D and innovations with the technologies and innovations of supplier networks. The value creation role acts as a structuring role aiming at the optimal balance in terms of dependence and independence on suppliers. All these roles represent significant strategic impact on firm's business and have a focus on supplier relationships.

Companies implement their relationships in many different ways depending on the nature of the relationship. In the supply situation the company has to decide whether the relationship with the supplier will be collaborative in nature or, conversely, purely an arm's length relationship or something between those (see Cox, 1996; Parker and Hartley, 1997). The nature of the buyer-supplier relationship and the ways how these relationships are handled vary due to the different influencing factors. Relationships between buyers and suppliers cannot always be collaborative in nature, in fact, the most common form of relationships are non-collaborative relationships.

In several studies it is argued that power balance and power relation between buyer and supplier influence strongly to the nature of the relationship (see Batt and Purchase, 2004; Cox, 2007; Cox et al., 2003; McDonald, 1999; van Weele and Rozemeijer, 1999). However, according to van Weele and Rozemeijer (1999), attempts to forge partnership relationships often fail due to a lack of understanding of the power positions of the parties involved. McDonald (1999) has argued that power within relationships can provide a serious obstacle to effective partnerships. Moreover, Hingley (2005) has found that the significance and role of power have been overlooked in investigations of relationships. Given that power influences on the nature of the buyer-supplier relationship, the firms' supply management also has to have divergent strategies and actions when handling these relationships (e.g., Svahn and Westerlund, 2009). The strategic supply management can be divided to external and internal interface (Day and Lichtenstein, 2006; Narasimhan and Das, 2001). Internal interface consists of internally focused activities involving integration and alignment of supply management with the goals of a firm. External interface involves externally focused activities directed towards supply markets where supplier relationship management (SRM) is the process and function that defines how the company interacts with its suppliers.

The literature review reveals that there is a research gap in studies of power and SRM because the relation between those has not been discussed extensively enough. The role of power is well examined in the marketing and strategic management literature but not from the perspective of a buying company. The study provides empirical evidence as a form of a multiple case study to the theoretical discussion concerning the role of power in supplier relationships and strengthens previous views about the issue. The aim of this study is to analyze the role of power in supplier relationship management. The study focuses on power relations between buyers and suppliers and discusses the role of power relations in the firm's

supplier relationship management. Thus, the following research question is addressed: *How power influences supplier relationship management?* The possible influence of power on firm's supplier relationship management is empirically analyzed by using a case study with three cases. The case companies are Finnish companies representing different size companies from three different industries (food, retailing and forest industry). Therefore, in the empirical study the role of power in the firm's supplier relationship management is discussed in three totally different contexts. Moreover, the case companies are having different kind of power relations towards their supplier companies which offers various viewpoints to the research topic.

SUPPLIER RELATIONSHIP MANAGEMENT

According to Croxton et al. (2001), SRM is a mirror image of customer relationship management (CRM). SRM aims to put into practice the principles of CRM from the perspective of the buying company. In the marketing literature it has been clearly pointed out that maintaining the existing long-term customer relations is more profitable than to seek new customers (e.g., Kalwani and Narayandas, 1995). Moreover, it has been stated that customers are not alike in terms of profitability (e.g., Storbacka, 1997; van Raaij et al., 2003). The function of CRM is to identify strategically important customers, maintain and enhance good business relations with them, and increase firm competitiveness by exploiting the synergy of mutual business activities. Respectively, supplier selection, categorization and management of existing supplier relations should follow the strategic goals of the firm.

When supply management has a strategic role in the firm's business, they have a higher level of cooperation with their suppliers (Carr and Smeltzer, 1999). Moreover, a long-term perspective increases the intensity of coordination in supplier relationships (De Toni and Nassimbeni, 1999). When the collaboration and interaction with suppliers increases, the firm's ability to respond to the changing requirements of end customers will also grow, and the flexibility of the supply chain can be improved. This can have a positive impact on the firm's financial performance (Carr and Pearson, 1999). Effective SRM takes a long-term view on mutual business activities, establishes joint goals with suppliers, and maintains a win-win approach in business negotiations (Croxton et al., 2001; Wilson, 1996). However, it has been argued that defining the types of the existing supplier relationships is the most difficult barrier to overcome in linking supply management to the corporate level strategy (Watts et al., 1995). Therefore, the effective management of suppliers requires firms to define which type of relationship they ought to adopt and under what circumstances (Cox, 1996). Defining the different types of supplier relations forms the basis of the supplier relationship management system.

The nature of the supplier relationship can vary from an arm's length relationship to a collaborative partnership. Cox et al. (2003, p. 5) define an arm's length relationship to consist of "interaction that merely consists of a level of contact necessary to exchange commercial details regarding placement, order fulfilment and payment." Ellram (1991, p. 2), on the other hand, defines a partnership as "an agreement between a buyer and a supplier that involves a commitment over an extended time period, and includes the sharing of information along with a sharing of the risks and rewards of the relationship". However, the nature of the relationship is not restricted only to the extreme ends of the relationship continuum, but the relationship can be located somewhere between. For example, Cox (1996) has illustrated the different forms of supplier relationships by using a continuum with 5 stages ranging from arm's length relationships to strategic alliances. Trent (2007), on the other hand, has

categorized relationships into four levels which are counterproductive, competitive, cooperative, and collaborative.

The features of different kind of relationships between buyers and suppliers are widely examined and divergent theoretical views have been applied. According to relational view (see Dyer and Singh, 1998) relation-specific assets, knowledge-sharing routines, complementary resources and capabilities and effective governance are potential sources of competitive advantage. The interaction approach (Industrial Marketing and Purchasing group) has emphasized networking and interaction between firms suggesting that firms do not have strategic autonomy, and therefore, firms must act with others (Baraldi et al., 2007; Gadde and Håkansson, 1994; Gadde and Snehota, 2000). According to the interaction approach, firms have only limited number of ongoing business relationships and strategic actions are efforts of firms which aim at influence their positions in supply networks (Gadde et al., 2003). The proponents of the value creation view argue that every supply relationship strives for value creation opportunities (Ehret, 2004; Möller and Törrönen, 2003). Buyer firms focusing on value creation together with their suppliers (i.e. value co-creation) may have opportunities to gain new ways to obtain competitive advantage (Zhang and Chen, 2008). Furthermore, value creation through entire supply network has gained attention in relationship studies and led to the development of the value net as a value creation model. A value net, which is formed around the customers, captures their preferences and transmits the customer knowledge to other value net participants (Bovet and Martha, 2000). Value creation through collaboration and networking has become new objective of relationship management.

POWER IN BUYER-SUPPLIER RELATIONSHIPS

Power is an essential characteristic of a social organization, and an inevitable instrument for inter-organizational coordination (Achrol, 1997). The issue of power is present in every business relationship. Only the level and balance of power between the parties differs. This causes remarkable challenges for the management of business relationships and is a significant factor both from the perspectives of buyer and supplier.

The definition of power

The concept of power can be understood and defined in many ways depending on the context. Stannack (1996) distinguishes between physical and social power, the former referring to the ability to move tangible objects and the latter to intangible matters. The focus in this study is on social power. There is also a difference between total and relative power. Total power refers to the average of the parties' dependence upon one another, in other words it results from full interdependence, and relative power to the difference between the two parties' dependence, in other words it is the result of interdependence asymmetry (Caniëls and Gelderman, 2005; Stannack, 1996). Again, the focus in this study is on relative power. Etgar (1976) further distinguishes between economic and non-economic power, whereas Hunt and Nevin (1974) and Gelderman, Semeijn and De Zoete (2008) discuss the difference between coercive and noncoercive influence strategies. According to Gelderman et al. (2008), coercive strategies motivate compliance on the basis of source-controlled rewards and punishments, and are believed to have a negative impact on distribution channels, for example. The non-coercive strategies, on the other hand, aim at changing the attitude of the other party, and they have been found to have a positive impact instead (Gelderman et al., 2008).

Distinctions have also been made between structural and behavioural power, power sources and uses, and the macro and micro perspectives (see Table 1). For example, Cendon and Jarvenpaa (2001) distinguish between structural and behavioural power. The former takes a macro perspective (i.e. organizational structures), whereas the latter focuses on individual actions and the micro perspective. The behavioural (i.e. the micro) perspective focuses on the exercise of power whereas the structural perspective focuses on its sources, which are the factors that enable one party to acquire power and possess it (Cendon and Jarvenpaa, 2001). The structural (i.e. the macro) perspective is adopted in this study and the definition provided by Cendon and Jarvenpaa (2001) is shared. According to Cendon and Jarvenpaa (2001), from the structural perspective power is derived not from the actions of people but from organizational structures, which include resources, interconnections among actors and organizational positions.

Table 1. Distinctions on power

| Distinctions on power | Source |
|--------------------------------------|---|
| Macro and micro perspective on power | Cendon and Jarvenpaa (2001) |
| Sources and uses of power | Cendon and Jarvenpaa (2001) |
| Total and relative power | Caniëls and Gelderman (2005) Stannack (1996) |
| Structural and behavioural power | Cendon and Jarvenpaa (2001) |
| Physical and social power | Stannack (1996) |
| Economic and non-economic power | Etgar (1976) |
| Coercive and noncoercive influence | Gelderman, Semeijn and De Zoete (2008) Hunt and Nevin (1974) |

In previous studies, power has been defined as *the ability to manage the perceptions of the other party* (French and Raven, 1959), *the ability of an actor to impose its will on others* (Blau, 1964), *the ability to evoke* (Gaski, 1984), *the ability to influence* (Mohr, Fisher and Nevin, 1996), *the ability of a firm to affect decision-making and/or behaviour* (Wilkinson, 1996), and *the ability to control one's own or another entity's range of intended or actual actions* (Stannack, 1996). In the research made in the field of purchasing and supply management, Stannack (1996, p. 51) further defines supply chain management power as *the capacity to optimize the behaviour of suppliers and subcontractors in accordance with desired performance objectives*, and purchasing power as *the capacity to achieve a successful negotiated contractual outcome on behalf of an organization*. Power as analyzed in this study refers not only to the ability to achieve certain outcomes from negotiations, and thus the former definition is more appropriate and is adopted in part. Given all of the above-mentioned definitions and the research approach adopted, power is defined here as *the ability to influence the decision-making and actions of the other party*. Despite reference to the actions of another party however, the actions of people or organizations are not considered sources of power. The power is viewed to stem from organizational structures and could thereby be called structural power due to its sources.

The definition of power adopted is thus based on earlier definitions put forward by French and Raven (1959) representing the network perspective, Blau (1964) representing the so-called classic line, Gaski (1984) and Mohr et al. (1996) adopting the viewpoint of marketing, Wilkinson (1996) representing the perspective of distribution channel, and Stannack (1996) representing purchasing and supply management. It also reflects the assumptions in Cendon and Jarvenpaa (2001), who take a structural perspective. Moreover, French and Raven (1959) and Gaski (1984) belong to the camp addressing the fundamental question of "where power

comes from”, which is applicable here. All these definitions are relevant given the scope of the study, and the definition that was adopted derived from them.

Power relation between buyer and supplier

It is assumed in this study that the different power sources of buyers and suppliers define their power positions in relation to other companies. According to Wilkinson and Young (2002), a firm’s position refers to its role and how it is linked directly and indirectly to the other firms involved. Anderson et al. (1998) found that position locates the firm in the relationship system relative to other firm, and that role refers to what the firm does in relation to other firms. Gadde et al. (2003) further suggest that the potential to influence others is a function of the company’s position, and is defined in terms of the characteristics of its relationships. Johanson and Mattsson (1992) state that the relationships between firms define their positions, and the firm’s position depends on the nature of its direct and indirect relationships with the other firms: thus the concept of position facilitates understanding of how an individual firm is related to, or rather embedded in the environment.

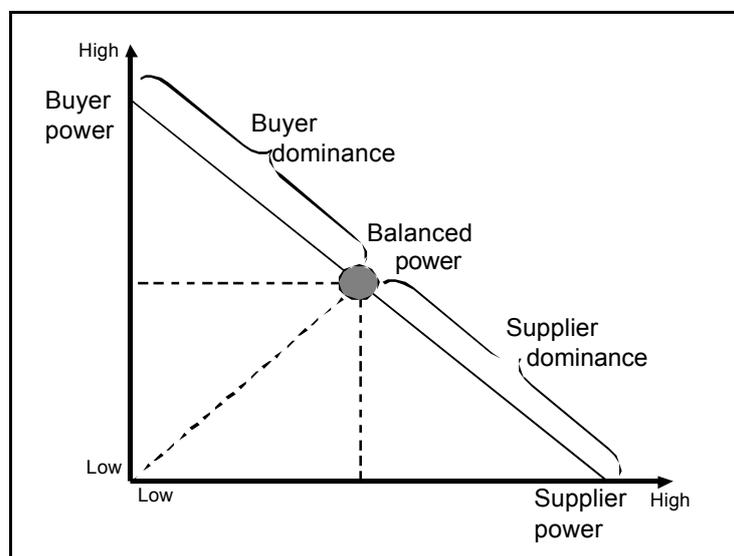


Figure 1. Power relation between buyer and supplier

It is assumed that the power position of a firm is one determinant to be acknowledged in defining the concept of power relation between buyer and supplier. Power position refers to the firm’s position, for example, in the network, whereas a power relation exists between the power positions of two firms. It results from the power situation or balance between the power positions of buyer and supplier. As stated earlier, power in this study refers to relative power, and the power of the firm is analyzed relative to the other party’s power. Therefore, as Figure 1 shows the sum of supplier power and buyer power is always set, and only the power balance between them shifts. This is referred to as the power relation in this study and it is viewed as the relation between a buyer and a supplier. The aim of this study is to analyze the role of this power relation in the firm’s supplier relationship management, and next this issue is discussed through three empirical cases.

METHODOLOGY

In this study a case study strategy is adopted and the empirical evidence was collected through semi-structural interviews. Yin (2003) defines a case study as an empirical inquiry

that investigates a contemporary phenomenon within its real-life context, when the boundaries between the phenomenon and the context are not evident and multiple sources of evidence are used. The different aspects of the case are understood in relation to one another as a coherent whole or configuration, rather than as modular assemblages of variables (Dubois and Araujo, 2007). According to Eisenhardt (1989, p. 534), “a case study is a research strategy which focuses on understanding the dynamics present within single settings.”

According to Miles and Huberman (1994), flexibility, richness, holism, causality assessment, the possibility of locating meanings and the natural setting are some of the advantages of qualitative research. The case study method was chosen here in order to exploit these advantages, and because of the nature of the research topic. Given the purpose of the study to achieve a deeper understanding of the role of power in supplier relationship management, it was considered the most appropriate option. Moreover, the fact that a case study combined with interviewing allows more in-depth discussion in which why and how questions can be asked and the fundamental reasons behind and the background nature of the issues can be explained further justified the choice of method. The case design made it possible to gather rich empirical data and thereby to gain a deep understanding of the phenomenon.

Data collection

Three case companies were selected under scrutiny. These selected case companies have been involved in various research projects conducted by the LUT supply management researchers. The researchers had existing connections to the companies and good knowledge regarding the state of the supply management in these companies. Furthermore, the aim of this study was to examine cases from different industries and different sizes to find out if any similarities regarding the context of power and SRM exist. As the size of the firm is generally regarded as a source of power it was essential to select multiple cases.

According to Yin (2003) applying multiple case study provides a holistic view about the phenomenon and possibility to the replication. In multiple case study analytic conclusions independently arising from different cases are more powerful than those coming from a single case alone. It is clear that the contexts of the separate cases differ to some extent and if under these varied circumstances common conclusions can be achieved, the generalizability of the findings compared to a single case study can be expanded (Yin, 2003).

Moreover, Yin (2003) suggests that multiple sources of evidence should be used to establish construct validity and reliability of the study. According to Dubois and Araujo (2007), the use of multiple respondents makes it possible to capture a variety of perceptions and meanings, which is vital to the understanding of complex business relationships. Furthermore, having numerous and highly knowledgeable informants who view the focal phenomena from diverse perspectives should limit interview bias (Eisenhardt and Graebner, 2007). Therefore, the study analyzes the role of power in supplier relationship management by utilizing three separate cases from different industries. Moreover, several research informants from selected three case companies (Case company A, Case company B, Case company C) and data from different sources (data triangulation) were used in this study.

According to Eisenhardt and Graebner (2007), the interview is a highly efficient way of gathering rich, empirical data. The research informants were selected and interviewed on the basis of their active involvement in buyer-supplier relationships and supply management. The

interviewees represented, for example, purchasing directors, supply managers and CEO's. In this case 23 interviews were conducted with the case companies' personnel. 9 interviews were conducted in the Case company A, 6 interviews in the Case company B and 8 interviews in the Case company C. The saturation point was used in determining the sufficiency of interviews. This is characteristic of case studies, and as Eisenhardt (1989) states, data saturation occurs when corroborating the existing interview data with more interviews would not bring any new information relevant to the research questions.

The interview questions, which were based on the literature review and existing theory, covered the following: the roles of the firms, their resources, capabilities and competences, their power positions and power relations, the sources of these power relationships, the supply management, supply organization and the supply strategies of the firms. The interview questions were validated in a review process involving several researchers who checked and modified the questions. They were then tested on a few key informants in the case companies, and the ones in which problems arose were modified. If possible, the wording and the order of the questions remained unchanged for all respondents. The interviewees were nevertheless allowed to talk freely, and the questions were adjusted accordingly with due consideration to the informant's role and position in the company.

Data analysis

All the interviews were audio-recorded, and notes were taken during them. The recordings were transcribed literally. The resulting qualitative data was read several times and notes were taken and pre-coding was done. Reading and re-reading the data helped to familiarize the researchers with it and started the process of structuring and organizing the data into meaningful units. This process heightens the researcher's awareness of the patterns, themes and categories of meaning embedded in the data (see Shaw, 1999). After reading the data thoughtfully, the data was colour-coded based on the interview themes which secured the chain of evidence. The authors of this study did the coding manually, and it was checked several times afterwards. Codes were used to bring order, structure and meaning to the raw data (see Shaw, 1999; Strauss and Corbin, 1998). The coding provided a basis for the classification of the data, which was categorized by themes. According to Dey (1993), categorization causes the data to lose its original shape following its division into relevant blocks for analysis. Nevertheless, it facilitates more effective comparison. As Strauss and Corbin (1998) state, comparison has an important role in data analysis because it allows identification of variations in the patterns found. This process also represents a method of data reduction and provides an initial level of analysis (Miles and Huberman, 1994; Tesch, 1992).

The coded and categorized data was subjected to qualitative content analysis. According to Tesch (1992), the units in content analysis may be words, sentences, paragraphs or themes. In this study they were sentences: a word was considered too narrow because the aim was to analyze the meanings qualitatively rather than to separate words from larger entities. Paragraphs also formed units of analysis because sometimes the meanings and the interviewee's key thoughts required more than one sentence to be fully understood. As Miles and Huberman (1994) and Griggs (1987) suggest, data reduction, data display, and conclusion drawing and verification were used as data-analysis techniques. According to Yin (2003), the reliability of a study can be increased through the use of a case study protocol, developing a database and ensuring the chain of evidence and this advice was followed. The data-analysis phase produced several summaries, mind maps, matrices and memos. Finally,

all the data was considered in the light of the theoretical insights and interfaces were sought. This involved going back to the literature review and collecting complementary material in order to find support for the empirical results or to explain them. Tables and summaries were used in comparing the empirical data with the theoretical findings.

DESCRIPTIONS OF THE CASE COMPANIES

The three case companies of this study represent different size of companies from different industries (see Table 2). The represented industries are food industry, retailing industry and forest industry. Because the companies are operating in different industries and in different kind of roles, their most important resources and capabilities also differ. For example, the Case company A's manufacturing resources and capabilities as well as recipes are highly critical for the company. The Case company B, on the other hand, does not have manufacturing resources at all but its knowledge about the selection and customer preferences as well as the control it has over the distribution channel are seen to be the most important ones for it. The Case company C is a global actor on a market where fierce competition forces the company to the tight cost management and good customer relations.

Table 2. Case company information

| | Case company A | Case company B | Case company C |
|---|--|--|--|
| Industry | Food industry | Retailing industry | Forest industry |
| Role | Manufacturer of food products | Retailer | Manufacturer of pulp and paper |
| Important resources and capabilities | Manufacturing resources and capabilities Knowledge about ready-prepared food Marketing capabilities Brand Market knowledge Product development Recipes | Knowledge about selection and customer preferences Knowledge about purchase and market prices Control of the distribution channel Marketing capabilities Human resources | Manufacturing resources and capabilities Knowledge about process industry Product development Low cost production Customer relationship management |
| The level of supply management | Medium | High | High |

Table 2 shows the information about the case companies but it also shows the evaluation of the level of supply management in each case company. Here the term level of supply management refers not only to the level of purchasing and supply management as used in previous studies for example by Carr and Smeltzer (1997 and 1999a), but also to the maturity (e.g., van Weele, 2002; van Weele and Rozemeijer, 1998), status (e.g., Carr and Smeltzer, 1997; Kocabasoglu and Suresh, 2006), importance (e.g., Carter and Narasimhan, 1996; Zsidisin et al., 2003) and strategicness (e.g., Carr and Smeltzer, 1999b; Chen et al., 2004) of the supply management and purchasing function. This means that in this study it is assumed that if the firm and its management have acknowledged the importance of purchasing function, they have better possibilities to obtain the benefits that can be achieved through effective and strategic supply management. The level of supply management is evaluated with the scale of *low*, *medium*, *high*. When the firm has no supply strategy and they have not defined any basis for their supply management and the firm management sees the role of the function only as a supportive one, the level of supply management is defined as "*low*". On the other hand, when the company and its management have acknowledged that purchasing and supply is a very important function in the firm through which competitive advantage can be

achieved and their supply management is based on clear supply strategies, the level of their supply management is determined to be “*high*”. The firm who has acknowledged that benefits may be obtained through supply management but do not have clear supply strategies which to use as a foundation for their supply decisions, is evaluated to be on the “*medium*” level.

Case company A

The Case company A operates in the food industry and it is one of Finland’s leading food manufacturers and a market leader in many of its operational areas. Its main market area is Finland and it is a Finnish company. Its product categories include many kinds of ready-prepared foods and different meat products. The company has a long history and traditions in the field of ready-prepared food products, and therefore it has indispensable knowledge about fresh ready-prepared food. The Case company A also has a very strong and well-known brand in the Finnish food sector. Its role as a market leader in the segment of ready-prepared food is based on its unique recipes and long traditions, its marketing and manufacturing resources and capabilities, and active product development.

Case company B

The Case company B operates in the retailing industry in Finland and the stores of this retail specialist comprise the most comprehensive store network in Finland. The Finnish grocery retail market is highly centralized, with a few retail specialists that dominate the market with their significant buying volumes. The combined market share of the three biggest grocery retailers in Finland in 2009 was 87.6 per cent (ACNielsen, 2010) and the Case company B is one of them. In fact, it has only one major competitor in Finland, the others being much smaller. Due to its role as a retailing specialist, the Case company B has extensive knowledge about the selection and customer preferences in retailing sector. It also has knowledge about purchase and market prices due to its central role between the end customers and product manufacturers. It also has control over and knowledge about the distribution channel because of its role.

Case company C

The Case company C is a global actor in the forest industry. It has production in 15 countries and its plants are mostly located in Europe, North America and China. Low cost production and good customer relations are the key attributes. Through these the company aims to achieve profitable growth. The company relies on strong vertical integration of raw materials, energy and production. It has a high degree of self-sufficiency in chemical pulp and electrical power and it has own forests to partly guarantee the availability of wood raw material. The company aims to sustainable bio-economy, ecological industry, renewable energy and green nanotechnology. It is a significant producer of bio-energy in Finland.

EMPIRICAL FINDINGS

The aim of this paper is to clarify how power influences supplier relationship management. The issue was approached in the case companies by asking them first what kind of supplier relationships they had and how they were managed. Then, the power positions between buyers and suppliers were mapped by asking the sizes of the suppliers, negotiation power, criticality, volume, replaceability etc. Finally, the influence of power relations between buyers and suppliers to the management of suppliers was identified.

Case company A

A considerable proportion of the Case company A's raw materials come from Finnish suppliers. In fact, one of the characteristics of the Finnish food industry is that Finns prefer domestic rather than foreign products and raw materials: 85 per cent of the raw material used by the Finnish food sector companies is domestic, and the market share of Finnish food products in Finland is 81 per cent (Finnish Food and Drink Industries' Federation, 2008). This causes challenges and affects the supply management of the Case company A. The case company is currently developing its supply strategy and the supply management in general. The level of supply management is determined to be at the medium level (see Table 2) and there are many issues under development.

The Case company A uses categorization of suppliers and products in its supply management. They have defined that, for example, in the case of bottleneck items when there are no substitutive suppliers or the number of substitutive suppliers is low, suppliers may have quite significant power over them. In the case of leverage items when there are several alternative suppliers and substitutes, it is more likely that they have power over the suppliers and the suppliers are more dependent on them. The product and supplier categorization offers tools for the company's supply management and determines their actions related to supplier relationships.

The Case company A has determined that if they are dependent on the supplier and its products, raw materials or services, the strategy of their supplier relationship management is to seek possibilities for collaborative relationship with the supplier in question. For example, if the supplier's ingredients are highly significant for the manufacturing process of the Case company A's products, they are willing to collaborate with the supplier and have joint projects in the product development. Also, if there are only few suppliers of raw materials in question and the Case company A is dependent on the supplier, their supply management aims at collaborative strategies. The supply management of the Case company A has defined that in this kind of situations long-term relationships should be formed and the supply should be secured. However, according to the representative of the Case company A, they have determined that *"a collaborative strategy should be utilized when the supplier has suitable raw material with optimal quality and price."* This shows that the case company sees that the price is quite an important issue and because of its focus on price-related factors, its willingness to utilize a collaborative strategy suffers from these negative effects. Another representative from the Case company A, on the other hand, has stated that *"it is important that our suppliers are able to supply the quality we need with impeccable delivery times"* and that *"price is not a primary issue when making contracts with suppliers offering the materials in question."* This shows that even if price has significant role in supply decisions and in supplier relationship management, there are some situations and suppliers, for example in the bottleneck items, when the Case company A is utilizing supply strategy based on collaboration.

However, the willingness to collaborate is not so evident in the situation where the Case company A has power over its suppliers. The Case company A utilizes competitive strategy and arm's length relationships when it is more dominant than its supplier. This indicates that the case company is willing to use its power and it clearly affects its supplier relationships. It also shows that the company sees the benefits obtained from the use of power sometimes greater than the benefits of possible collaboration. This reveals the narrowness of the view of

the company's supply management and proves that the supply management needs development and the maturity level of its supply management is at the medium level indeed.

Case company B

The Case company B is in a dominant power position in relation to many of its suppliers which influences its supply management and supplier relationships. Its power stems from various sources, namely its market power, its size, its resources and capabilities, and the volume of its purchases. The supply management of the Case company B negotiates the purchasing contracts for its stores and utilizes its buying volume by using centralized purchasing. The company is quite advanced in supply management and as one of its representatives described: *“Strategic supply management determines the background for the supply activities. The goals are set in it and then it is turned into the operative action.”* It has also recognized the value creative role of resources and capabilities and highlighted the importance of supply management by stating that *“we aim at creating value through our strategic supply management.”* Thus, the level of supply management in this case company is determined to be at the high level (see Table 2).

The supply management of the Case company B has defined very strictly when they will utilize collaborative partnerships and with whom collaborative relationships will be formed. According to the Case company B *“Our partners should have a turnover that is high enough, they should be market leaders in their business area, and have strategic capabilities and competences that create unique value.”* They have also defined benefits, like the decrease of transaction costs and access to partner's knowledge, which they try to obtain through collaboration. Moreover, they have acknowledged the significance of collaborative relationships, and according to one of their representatives: *“In our relationships we aim at achieving competitive advantage which is in fact the main goal of our collaborative relationships.”*

The Case company B has power over its suppliers in many of its supplier relationships. However, it does not want to utilize its powerful position in all of its supplier relationships but it is willing to collaborate with the most important ones instead. As stated earlier, they have determined quite strictly that they will form collaborative relationships with suppliers who i) have a turnover that is high enough, ii) are market leaders in their business areas, and iii) have strategic capabilities and competences that create value also from the perspective of the Case company B. This means that the Case company B demands that their partners are powerful enough because the mentioned factors are commonly considered as sources of power in buyer-supplier relationships. If the supplier is not attractive enough, the supply strategy is commonly based on short-term arm's length relationship.

As stated by the representative from the case company, *“a relationship that is based on collaboration is the right type with the supplier which we are dependent on. With this kind of suppliers we aim at forming long-term, open relationships in which the goal is a win-win situation.”* However, because the case company is in dominant role when compared to most of its suppliers, these kinds of situations are rare. The important fact, however, is that the Case company B has determined how they would act in a supply situation when they are dependent on the supplier, which moreover indicates the high level of their supply management.

Case company C

The Case company C differs from companies A and B in that it is operating in the global markets when the other case companies mostly operate in the Finnish domestic markets. The Case company C has a global supply strategy based on product categories. The categories are established according to total spend, availability and the size of the supplier. The strategy is matched to the regional and local needs and cross-functional teams are established. By a matrix organization the company aims to connect the benefits of global sourcing with local responsiveness. Moreover, the objective of the global strategy is to ensure the availability and decrease the supply risks. As said in a company C, *“whatever you are buying, the first thing is market understanding, and the second thing is to define the performance you request from a supplier”*. Thus, the level of supply management in this case company is determined to be at the high level (see Table 2).

Global centralization of supply management has led to bigger volumes and stronger negotiation power. Therefore, company C has a clearly dominant role over most of its suppliers. However, one of the main problems of the global strategy is that in some cases the strategy does not take into account the total supplier relationship. It is possible that one global supplier delivers to various product categories all over the world. In that case, the total purchases from one supplier may not be recognized which may distort the negotiation power balance. Furthermore, it is possible that negotiations with the same supplier are performed on several levels. This means that diffusion of supplier information internally to all participants is essential.

The company has categorized suppliers mainly by dividing the suppliers with long contracts into key suppliers. The portfolio approach is used to distinguish the critical suppliers from the non-critical ones and volume suppliers from the regular ones. The sourcing function has adopted the concept of extended supply chain which aims to control the supply chain starting from the product specification and ending to the waste disposal. These issues are dealt with suppliers in workshops. *“By having knowledge and good skills and competences, I think you can create good supplier relation and really challenge the suppliers and get the best from them”* says the representative from the case company.

In relationship management the company is structuring their relationship management profile. The supplier relationships have been divided into partnerships, key suppliers and commodity suppliers. Depending on the position of a supplier, the negotiating parties from the company's side are from the top management level, business development level or operative level. However, critical suppliers are not always globally active suppliers; thus, the categorization also depends on the availability of the product. The volume suppliers are approached as global suppliers. When the company is highly dependent on the supplier, relationship management is more or less risk management. The firm can try to break down the supplier's monopoly position by developing a new actor in the supply market. Company's own position and power has to be recognized and the strategy has to be aligned to change this position more favorable. In supplier relationship management one problem is that many suppliers are so big that they are not interested in the buying company. Another problem is that in some cases the supplier is global but has a decentralized structure. According to one of the company representatives, *“in SRM, we have to be sure that the supplier will provide the right performance. Not too much, not too less but really a fit what we requested.”*

In a mature industry (such as the forest industry) the possibilities to create added value in a form of innovative or unique end product is rare. As stated by the Case company C *“in our industry it can be difficult because the cost is the main driver and the costs are driven by many reasons e.g. the size of paper machine, what type of the pulp we use, the ink, mechanical or chemical pulp, and energy. You can find value from a supplier but you can never make a breakthrough that will give you real competitive advantage”*. In this case, the role of global supply management is to support the company to maximize its income. It creates value through cost savings and through supplier management. Its role is to deliver information from the demands of the end customers to the suppliers and manage the risks arising from the supply market.

CONCLUSIONS AND DISCUSSION

The study discussed the role of power relations in the firm's supplier relationship management. The results show that the power relation between a buyer and a supplier affects the supplier relationship management by influencing on the nature of the relationship. The findings supported the notions of McDonald (1999), van Weele and Rozemeijer (1999), Cox et al. (2003) and Cox (2007) who argue that power has an effect on the nature of relationships. The literature review revealed that there is a research gap in studies of power and SRM because the relation between those has not been discussed extensively enough. Therefore, this study contributed to the literature on supply management by discussing the role of power relation in supplier relationship management and by analyzing how SRM and supply strategies are affected by power.

The role of power relation in supplier relationship management was empirically discussed by analyzing three Finnish case companies from three different industries. The case companies represented the food industry, retailing industry and forest industry. Companies were having different kinds of relationships with their suppliers and they also differed when the maturity levels of their supply management were compared. The level of supply management can be considered to be high in Companies B and C where formal procedures concerning supply management are described and strategy is formed. However, the understanding and future vision of the role of supply management seems to be best understood in Company B. Company C has paid attention to supply management and established a global strategy, but because of the nature of the products true value creative relationship can be difficult to build. Therefore, it can be said that all three cases are in different levels concerning the maturity of the supply management strategy. Company A is currently developing its supply strategy whereas the Case company C has established and implemented global supply strategy recently. Company B applies its well defined supply strategy successfully.

The power positions of the case companies when compared to their suppliers are mainly dominant. SRM as a conscious process is not fully implemented in any company. Company C acknowledges its necessity and is on its way to build a structural process for it. Company B has experience and future vision on how to build and maintain successful business relations with its suppliers. It has no formal process for SRM but has put its principles in practice. Case companies A and C use power as an influencing factor in their business negotiations where possible. Their power is formed in terms of bigger size, volume of purchases and their role and positions in their supply networks. Company B seeks equal partners as it requires that their suppliers are powerful and vital and can provide the best competences and create value to the end customers. Table 3 collects the main findings from the cases.

Table 3. Main findings from the cases

| | Case company A | Case company B | Case company C |
|--|--|-----------------------------------|---|
| Supply strategy | Developing | Existing | Global centralization |
| Power position in relation to suppliers | Mostly dominant | Dominant | Dominant |
| Product categorization | Portfolio model | Portfolio model | Portfolio model |
| Current state of SRM | Developing Based on product criticality | Practice | Developing Partners/ Key /Commodity suppliers |
| Supplier selection criteria | Price, location | Quality, capacity | Price, total cost |
| Use of power | Yes, when dominating | No, seeks equal business partners | Yes, when dominating |

The results of the study show that the level of supply management in the firm has an influence on its willingness to utilize its more powerful position. For example, the Case company B has noticed that they can use collaborative strategies in their supplier relationships even if the supplier in question is less powerful than them. Company B does not utilize its powerful position in every supplier relationship but it is forming collaborative relations as well. This means that they have acknowledged that it is not necessary to use power in every supply situation. The opposite example is the Case company A who tends to use its power in every possible situation. If they notice that they have power over the supplier, they are willing to use power and not to form collaborative relationships. These two opposite examples reflect also the maturity level of the companies supply management. The Case company B, who is determined to have a high level of supply management, has recognized that different and significant benefits can be obtained through collaboration and these benefits may be more important ones in the long-term than the benefits gained from the use of power. The Case company A, on the other hand, who is at the medium level in their supply management and is currently developing their supply activities, organization and strategies, is focusing on short-term issues and for example to the benefits of power and lower price.

The results also show that the type of product being purchased also affects to the willingness to utilize power. If the supply risk is high, there are only few suppliers in question and the item is important for the company, the company is very willing to form collaborative relationships. This was evident especially in the Case company B and Case company C who were more willing to collaborate than to use their power in the situations where the supply needed to be secured.

It could be argued that supply management uses divergent supply strategies and their supplier relationship management differs in different power situations. When the power relation between the buyer and supplier is in balance there is a good basis for a collaborative relationship and for the adoption of strategies based on collaboration. Balanced power relation does not inhibit but rather encourages the use of a collaborative strategy, whereas inequality in terms of power and imbalance in the relation may prevent it. The more powerful party may not be willing to adopt a strategy based on collaboration and may prefer to sustain its power position. Given the various levels of power relations, the strategies can vary from intensive collaboration to pure competitive strategies with arm's length relationships.

The study showed that managers should acknowledge the effects of power on the nature of their relationships and on the depth of collaboration. This enhances their ability to determine their positions in relation to other companies and to develop relationships offering opportunities for deeper collaboration. If collaboration is lacking, it may be due to power imbalance between the organizations, and it is important to acknowledge this. Collaboration requires certain conditions, and power imbalance partially prevents collaboration. This gives a viewpoint not only for the supply management of a buyer firm but also to the supplier side by showing why buyers may act in certain ways in certain supply situations.

The paper is limited to internal perspective of a buying company on power and SRM as it is difficult to examine the perspectives of both sides. The key informants are reluctant to reveal the names of their suppliers and give access to them. However, in the future studies examination of the both perspectives could be possible and highly recommended. Furthermore, in the future research it would be interesting to examine how to narrow the gap between dominance and cooperation and what kind of capabilities is required in this. As the Case B shows high level of supply management and implemented SRM can contribute as balancing factors.

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