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The legitimacy of power in business-to-business relationships

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Abstract. *Comment on the existence and perceived consequences within business-to-business relationships of 'asymmetrical relationships' has been made by many bodies. For example, there are: academic studies; comments in the press; government investigations; and court cases where the evidence suggests that one party dominates or exercises power over the other. Yet even though the subservient members of the network may have been 'forced' by another party to undertake some actions that they have perceived as being to their disadvantage, it is also the case that many such asymmetrical relationships are long-standing and that the parties involved seem successful. There is thus an apparent contradiction between the presumed negative effects of being dominated and the ongoing nature of such interactions. This paper will consider how the concept of legitimacy can explain why such disadvantageous situations continue to exist within business-to-business relationships.* ***Key Words*** ● *asymmetry* ● *legitimacy* ● *power* ● *relationships* ● *suppliers*

Introduction

It is difficult not to agree with the suggestion that the study of 'power' is 'a bottomless swamp' (Dahl, 1957) and the topic of 'power' is the subject of study by scholars from several different academic backgrounds. This is not surprising for, 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*' (1988: 213–4, emphasis in original). Within marketing, scholars have used the concept of power as part of their exploration of marketing issues. In particular, many studies of marketing channels have incorporated power issues in their analyses.

Most studies which incorporate the concept of 'power' either seek to determine the bases on which power operates or use the results of other's attempts to determine the bases of power. In doing so these studies assume that the use of power

is legitimate. That is, an organization has the right, no matter what the basis of its power, to use it. Yet it is clearly not true that, because an organization has the potential to exercise power over another, it is always legitimate for it to use it. For example, the Mafia possesses power but most people do not believe that the Mafia's power is legitimate. Thus, understanding that, say, a retailer's power over one of its suppliers is based upon 'expert power' is of interest, yet the essential question remains whether or not it is legitimate for the retailer to use this expert power.

The legitimacy of power is the issue that this paper addresses. 'Legitimacy' being defined as 'a generalized perception or assumption that the actions of an entity are desirable, proper or appropriate within some socially constructed system of norms, values, beliefs and definitions' (Suchman, 1995: 574). Its importance in the context of marketing is that understanding whether or not a dominant party's power is legitimate will determine 'the atmosphere' (IMP Group, 1982: 8) of a business-to-business relationship and the types of responses to its use of power that will be possible, acceptable and effective.

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 et al., 1995; Gassenheimer et al., 1998; Scheer et al., 2003) that consider situations where it seems that the customer exercises power 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. Brummer, 2006: 19) and some government investigations echo this view (e.g. Thomas, 2007: 15; Competition Commission, 2000, 2009). 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 Ltd vs M & S plc, 2000).

Thus there are many cases of business-to-business relationships where one party appears to be the more powerful organization and would seem to have the capability of imposing some aspects of its will on other parties. Yet 'asymmetrical power relationships' often 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' provides one perspective[1] from which such situations can be viewed and 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 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., 1998). Although it is possible for either the supplier or the customer to be dominant in

a business-to-business relationship, this paper will adopt a perspective where the supplier is the subservient party.

The 'familiar' world

Given the complex nature of modern life, it has been observed (e.g. Husserl, 1970; Luhmann, 1975) that humans, whether they are acting on their own behalf or as members of organizations, of necessity reduce this complexity to a small number of relatively simple problems. If they fail to do this then they can become unable to make prudent decisions and can become subject to substantial uncertainty about significant issues which will result in considerable psychological stress. As a consequence most 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 then to behave' (Smith, 1995: 395); usually, 'the actual life that people live together with each other proceeds unproblematically, or at least in a way which is treated as unproblematical [sic]' (Luhmann, 1975: 153). Thus, the greater part of people's lives does not involve conscious assessment of their power relative to others and they operate in an 'intermediate zone' (Luhmann, 1975: 21) which accepts their position in the existing power and prestige ordering. It is though important to recognize that there is not complete stability over time within this intermediate zone and that discrepancies may arise between a party's desired situation and actual events. Even so, when confronted with unexpected behaviour by a dominant partner, a party may continue to accept the existing power and prestige ordering. Yet too frequent or too egregious breaches of accepted behaviour by the dominant party may lead the subservient party to cross a threshold in its relationship with that organization, leading it to a position where, while not necessarily actively challenging the status quo, the power situation is no longer unquestioningly accepted.

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 whether or not this dominance is legitimate. The second issue is what might cause a party to question whether or not they are wise to continue 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 regarded legitimate.

Legitimacy

As was suggested above, when discussing the concept of legitimacy there is a need to recognize the important distinction between the basis of organization *O*'s power over another organization *P* and the legitimacy of *O*'s use of that power. There are many cases where *O* exercises power over *P* where not only *P*, but other parties too, do not regard *O*'s use of power as legitimate. Indeed, it may be that even *O*

recognizes that its use of power is not legitimate but is simply 'trying it on'. Yet the distinction between the existence of power and the legitimacy of its use, if made at all, is seldom clearly maintained. For example, French and Raven (1959) consider legitimacy to be one of the five bases of power. However, their definition of legitimate power 'as that power which stems from internalized values in P which dictate that O has a *legitimate* right to influence P and that P has an obligation to accept this influence' (1959: 159, emphasis added) is circular. Indeed, they fall into the error of failing 'to make a clear separation between the concept of power and that of legitimacy' (Beetham, 1991: 42).

Legitimacy is the phenomenon which justifies acts in specific, concrete situations in terms of the norms, values, beliefs, practices and procedures of a society (Suchman, 1995). Among scholars who have discussed legitimacy there is agreement that it is 'fundamentally a problem in the social construction of reality' (Berger and Luckman, 1966: 15) and therefore requires consensus: 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. 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' (2001: 9). Indeed, legitimation is the process that 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 relationship, beliefs (Beetham, 1991: 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*' (1998: 380, emphasis in original).

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, 'although a great deal of analysis has addressed the importance of legitimacy for ensuring compliant or cooperative behavior, far less has been devoted to the emergence of legitimacy' (Hegtvedt and Johnson, 2009: 392) and as a consequence, 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: 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 value systems exist within any society or recognized subgroup of society that define what members consider acceptable conduct (Etzioni, 1988: 202–13). This is the position where power relations are viewed to be an ongoing process and that the main issue is 'how legitimacy is maintained and reproduced in given societies, not how it may have originated, if it ever can be said to have done so' (Beetham, 1991: 103–4).

The beliefs shared by both dominant and subordinate can range from the general to the specific. Thus British[2] managers accept 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. Furthermore, except where they operate in a major financial institution, a British manager would recognize that, if their firm does ever face financial difficulties, it is extremely unlikely that government assistance would be made available.[3]

It seems therefore that the only way forward is to seek to analyse the situation as it currently is[4] – 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 a situation could occur before the legitimacy of a situation would be questioned.

The 'foundations' of legitimacy

Berger et al. argue that the concept of 'status characteristics' (1998: 381) underpins the concept of legitimacy. Where two parties *O* and *P* interact, each ascribes status characteristics to the other and these can be 'specific', i.e. related to clearly defined situations, or 'diffuse', i.e. related to generalities. In 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* (a customer) and *P* (a supplier), 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. For example, if *O* is one of *P*'s major customers then *P*'s ability to achieve its objectives will be closely linked to *O*'s behaviour. (This link may still be close 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: 45).

(b) how effectively *O* responds, from *P*'s point of view, when new situations arise. Does *O* demonstrate a capability of responding to new challenges in its markets in a manner which takes account of its impact on suppliers such as *P*?

(c) the extent to which *O*'s capabilities are seen as distinctive. For example, does *O* manage its interactions with its suppliers in a way which distinguishes it, in a positive manner, from its competitors?

Diffuse status characteristics attributed to *O* by *P* in the business-to-business context would include the extent to which *P* believes that the collective expecta-

tion is that where *O* is a large customer, it will dominate *P*. Several writers (e.g. Marion, 2006; Dal Bo, 2007; Zelditch and Walker, 1984) point out that a situation can only be considered legitimate if it does not contradict the socially validated beliefs held by the groups within which *O* and *P* operate. Thus if, within the business community, what 'everybody knows to be true' (Berger et al., 1998: 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 customers' 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: 59–60). Indeed, this argument has been used in the UK to justify the dominance of large retailers because it is asserted that they provide consumers with a wide choice of products at very competitive prices (*The Economist*, 2007: 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: 385). This is a pragmatic acceptance of *O*'s power based on

> the belief that the dominant and the subordinate, however much they may differ, are also linked by a community of interest; and that the distribution of power serves the interests of the subordinate, and not those of the powerful alone. (Beetham, 1991: 82)

Why legitimacy is questioned

The legitimacy of a dominant organization's power is seldom a matter that the subservient organization constantly questions. Indeed, some organizations' power is perceived as legitimate because they have become established features of a system and consequently their power is unquestioned by affected parties. If Luhmann's argument about 'intermediate zones' is admitted then this is not a surprising situation. Suchman has suggested the term 'taken-for-grantedness legitimacy' (1995: 583) should be applied to such a situation which 'represents both the most subtle and most powerful source of legitimacy' (Suchman, 1995: 583), because the parties involved do not consider alternatives and indeed alternatives may become impossible to imagine. Such a situation is perhaps an illustration of the ultimate exercise of power which is 'to get another or others to have the desires you want them to have – that is, to secure their compliance by controlling their thoughts and desires' (Lukes, 2005: 27). In these circumstances the atmosphere of the relationship will be relatively free of conflict.[5]

Nevertheless, history shows that changing circumstances eventually lead to questions being asked about a powerful party's legitimacy, even where it has been established for a long period. Such questioning may originate from a wide variety of sources including: the subservient parties; the dominant parties; third parties directly affected by the interaction between the dominant

and subservient parties; and third parties who are 'merely' observers but whose questions arise from their ethical point of view.

From the subservient parties' point of view there are three categories of circumstances in which the legitimacy of *O*'s power over *P* will be questioned. 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 (i.e. *P*'s) ability to achieve 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, 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 a complete success (*The Economist*, 2007: 38). Yet while the impact of these campaigns on the behaviour of the supermarket chains has been limited, the campaigns appear to have resulted in some critical government responses with regard to the supermarkets' behaviour (Brown and Browne, 2007: 6). Furthermore, media reaction to the proposals by the Competition Commission (Brown, 2008: 4) to curb supermarket buying power, and to the Commission's more recent proposals (2009) to establish an ombudsman to monitor and enforce compliance with the Groceries Supply Code of Practice would indicate that these groups have had some impact on government policies.

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: 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) delisted 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, an unexpected act may damage a relationship (Mills, 1940), it is important to recognize that such an act will not always disrupt the exchange. Because people and organizations operate within intermediate zones, it is only when an action crosses the thresholds of these zones that the party involved will react to a significant degree. Luhmann argues that thresholds are used to simplify the world within which parties have to operate, stating that a threshold 'denotes an artificial discontinuity which levels out the area of experience before and after the threshold, and thus makes for simpli-

fication' (1975: 73). For example, 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. Clearly though, even under the CUSUM approach, one very serious error may push the party across the threshold.

In the context of the legitimacy of *O*'s power over it, *P* may thus continue to accept the legitimacy of *O*'s power even when it is subjected to an unfair demand as long as it is either a one-off event or not frequently repeated. Yet a series of new but small demands may cumulatively eventually push it over the threshold of acceptance. Or, if these demands become public knowledge, it may be that 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: 394). So a large one-off or a series of small but successive incidents may lead *P* and/or the business community to question the legitimacy of *O*'s power and prestige status relative to *P* (Ridgeway and Diekma, 1989).

However, even if a subservient party decides that the legitimacy of a dominant party's power over it is open to question it does not necessarily mean that it will seek to challenge the situation. There are two reasons for this. First, there are situations where the negative connotations normally associated with being the subservient party are compensated by benefits which arise from the situation. For example, the dominant party may have obligations such as 'the pastoral responsibility due from superior to subordinate' (Roccas and McCauley, 2004: 270). Second, the subservient party must also determine whether or not it is capable of effectively challenging the situation.

Challenging 'legitimate' power

Any party challenging the legitimacy of a power situation will incur costs[6] that must be set against the benefits anticipated by this action. Moreover, any party considering such action should recognize that, just as there may be different parties who question it, there may also be different parties who are anxious for the situation to be maintained. Thus an organization, when determining whether to challenge the legitimacy of another's power, must consider the likely responses of all those parties that find the dominant party's current position beneficial. Some of these parties, perhaps with the active support of the dominant party, may already have taken action to make the situation 'seem natural and inevitable' (Suchman, 1995: 593) and may even respond aggressively if questions about the legitimacy of the power relationship are raised.

Where a party determines that it needs to challenge the legitimacy of another's power there are two categories of response. There are pragmatic actions and moral actions. Pragmatic responses would include activities such as showing that the subservient party is no longer economic and that it will cease trading unless the dominant party adjusts its behaviour. In a situation where there is a shortage of capacity in the subservient firm's industry then the possibility of further loss of capacity might cause the dominant party to re-evaluate its relationship with the subservient party. Another approach within the pragmatic category would be to suggest that the effect of the dominant firm's behaviour on the general public is contrary to the public interest – perhaps because of the potential or actual development of monopoly power.

Moral responses within business-to-business relationships would relate to the application of legal rights. For example, it is recognized that dominant firms often fail to make payments within the contractually defined time period (e.g. Eaglesham, 2009: 2); or that a dominant firm may restrict its suppliers from dealing with it competitors (e.g. Baird Textile Holdings Ltd vs M&S plc, 2000: 3). The former action is a breach of contract and the latter an illegal restraint of trade, yet cases relating to such situations seldom come to court because subservient firms fear that they will either be 'punished' or lose business if they take such action against a dominant party. The reluctance of subservient firms to complain about the behaviour of dominant parties is illustrated by the experience of the UK Competition Commission. It found when investigating allegations of aggressive behaviour by supermarkets towards their suppliers that:

> Most suppliers were unwilling to be named, or to name the main party that was the subject of the allegation. There appeared to us to be a climate of apprehension among many suppliers in their relationships with the main parties. (Competition Commission, 2000: 6)

Thus any party thinking of challenging the legitimacy of another's power position through either pragmatic or moral arguments must recognize that such an action may be costly.

Some caveats

The issue of power and the legitimacy of its use can be approached from a variety of points of view and these contribute to the lack of agreement between those studying the subject. This paper has deliberately set limits to its discussion but arguably two issues might also have been addressed. The first is the implication that a subservient party is always disadvantaged by the dominant party's power. However, in many cases a subservient party can determine whether or not it wishes to remain in a power relationship and its decision about this matter will be based upon the balance of the costs and benefits they obtain within the relationship (Gordon et al., 2009). Sometimes, the benefits of being the subservient party are sufficient to justify acceptance of such a role. For example, the dominant party may have obligations which the subservient party values. Indeed, in the above discussion of 'The

"foundations" of legitimacy', two of the three conditions (i.e. (b) and (c)) which must be fulfilled if another party's power is to be recognized as legitimate, demonstrate the point that a subservient party expects to gain some benefits.

The second issue is that of the overlap between justice and legitimacy (Jost and Major, 2001). There are in this context two types of justice: procedural justice and distributive justice. The difficulty is, when these come into conflict, determining which should have priority. On the one hand there is research which shows that procedural justice matters to individuals independent of the outcomes that they receive (Tyler, 2001); yet others claim that distributive justice is more important than procedural justice because 'individuals engage in social exchange in order to obtain benefits' (Hegtvedt and Johnson, 2009: 393). A further difficulty with the literature on justice is that most of it deals with the behaviour of individuals (often within organizations) rather than of organizations per se. In the business-to-business context some studies (e.g. Blois, 2009) have investigated the closely related concept of 'equity' in the use of power. However, while equity is associated with the concept of distributive justice, equity theory's concern is with the ratio of inputs to outcomes; distributive justice is concerned only with outcomes.

Summary

The exercise of power by one party over another within a B2B relationship is frequently observed and the application of this power is often long term. In many cases this situation does not appear to have disadvantaged either party to any great extent in that both members of the relationship, in spite of intermittent financial difficulties, have remained successful. This paper has argued that in such circumstances the dominant party's power may, in the eyes of relevant parties, become to be taken for granted and thus the situation becomes accepted as legitimate by default. The conditions under which such a situation might arise have been set out. However, changes in the behaviour of either party or in the environment within which the relationship exists may cause the legitimacy of a power situation to be questioned.

Any power which is used may be founded on one or more of a variety of bases; but which bases it is legitimate to use will vary from case to case. Indeed, it cannot be said that any one form of power is always or is never a legitimate basis for the exercise of power. The legitimacy of using a particular form of power is determined at a given point in time by the norms, values, beliefs, etc. of the community in which the issue arises.

Notes

1. Another perspective is the Transaction Cost Economics approach, whereby the subservient organization may estimate the costs of challenging a powerful organization as being greater than the potential benefits.
2. As the 2008–9 credit crisis demonstrated, governments within the EU adopt different positions with regard to the provision of financial assistance to firms.

3. The refusal of the British Government to 'bail out' firms (outside the financial service sector) in the period from the end of 2008 through 2009 confirms this view.
4. 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.
5. Because they consider that the presence of conflict is the only certain indicator that a power situation exists, some commentators (e.g. Bachrach and Baratz, 1970) would not accept this argument.
6. Some of these costs, such as use of advisors, will be simple to evaluate, but others, such as gaining a reputation of being a 'difficult' supplier, are much more difficult to assess.

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