



Power source and its effect on customer–supplier relationships: An empirical study in Yangtze River Delta

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ABSTRACT

Power has been considered as an important factor in customer–supplier relationship management and supply chain integration. Many previous researches borrowed the definition of power from marketing, economics or sociology. Quite few researchers studied it from the perspective of operations management. However, power effect can be observed from pricing control, inventory control and Just-In-Time (JIT), operations control, channel structure control, and information control. This study tries to fill in the gap based on the empirical study in Yangtze River Delta. It is found that there is a close relationship between the firm's resources and power in operations management. Also, firm's power is also critical in determining its power position with respect to its supplier or customer.

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1. Introduction

With the intensive competition in market, cost efficient customer–supplier management and supply chain management (SCM) are not sufficient for survival. Being triple-A (agility, adaptability, alignment) is the approach for competitiveness (Lee, 2004) and managing according to reason is a new philosophy in supply chain management (Xu and Xu, 2011). Supply chain integration, customer–supplier collaboration and partnership have been the trend in business practice and management across industries.

Supply chain integration is also technically feasible. Based on SCOR (Supply Chain Operations Reference) model, Zdravković et al. (2011) tried to develop a semantic language to describe the operations, thus system interoperability in supply chain can be possible. Applying SCOR, Li et al. (2011a, b) found each decision area of the model has positive impacts on both supply chain quality performance and firm level business performance. Technological applications such as RFID (Radio Frequency Identifier) (Kumar et al., 2011), lean supply chain modeling with Petri nets (Ma et al., 2011), grid-based supply chain modeling (Sepehri, 2012), information systems and enterprise systems (Li, 2005; Xu 2011a, b) and infrastructural manufacturing decisions (Li, 2005) provide means to improve supply chain collaboration and market performance. Li and Warfield (2011) described the latest research in supply chain quality coordination and assurance.

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van der Vaart and van Donk (2008) reviewed 33 survey-based research and found that supply chain integration greatly improved company performance. Various researchers have also described and analyzed the potential benefits of the customer–supplier strategic integration partnerships and long-term relationship (Watts and Hahn, 1993; Cooper et al., 1997; Carr and Pearson, 1999; Zsidisin and Ellram, 2003; Perona and Saccani, 2004; Li, 2011; Li et al., 2011a, b).

The rationale behind customer–supplier partnership is to combine partners' resources and perspectives into a firm's value propositions, thus allowing both to excel in performance (Yeung et al., 2009). However, it is also found that hidden information and actions among the partners (Narayanan and Raman, 2004) refrain companies from cooperating with their supply chain partners (Fawcett and Magnan, 2002). Cox and Chicksand (2005) studied UK fresh/frozen beef supply chain, and observed that when there is a dominant buyer in the chain, one-sided commercial benefits will flow from the suppliers to the buyer (hereafter, we use buyer and customer interchangeably). Similar phenomenon has also been observed by other researchers. For instance, based on the empirical studies in UK grocery industry, Ogbonna and Wilkinson (1998) found that the relationship between retailers and manufacturers cannot be simply characterized by partnership. There are different relationships between major brand manufacturers and the top three or four retailers, between some large retailers and secondary manufacturers, and between retailers and manufacturers of own label brands. Fishman (2003) also described a Wal-Mart supplier went to bankruptcy because of Wal-Mart's low pricing, where partnership and win-win perspective cannot be observed. Ketchen and Giunipero (2004) suggested that while the

SCM literature often seem to assume that “a rising tide lifts all boats... a chain member may exploit its partners for its own gain.” In summary, as pointed out by [van der Vaart and van Donk \(2008\)](#), there is still little consensus on how to capture the essence of supply chain integration and customer–supplier partnership. Investigation in customer–supplier power distribution is critical to understand the customer–supplier partnership attitude, patterns and practices.

Focusing on Chinese practices, [Li \(2000\)](#) tried to find the sources of competitiveness and performance of Chinese manufacturing. Competencies in marketing, product innovation, manufacturing and human resource development have been analyzed. The author found that besides market competency, delivering order on time was highly emphasized by Chinese managers. [Li \(2012\)](#) explored how information technology facilitates supply chain collaboration. It is found that collaborative forecasting and replenishment significantly benefit operations performance, and better operations performance has significant impact on firms' marketing performance. [Liu et al. \(2009\)](#) further provided an integrated framework of relationship stability, trust, Chinese Guanxi and relational risk in marketing channel in order to achieve relational benefits and competitive advantages. The study indicated that buyers locked in a stable relationship will face relational risk which is the result of power and dependence ([Deleue, 2004](#)). Thus, by looking into the success of Chinese manufacturing, factors such as marketing competency, technology facilitation, and trust versus Chinese personal relationship have been disclosed. More complex or systematic factors such as power and dependence in customer–supplier relationship and supply chain are needed to be investigated deeply.

Recently, investigation in power and customer–supplier partnership or supply chain integration has attracted great research interest. Researchers study the power in SCM from different angles and perspectives. Most research focuses on the effects of the relationship of power and SCM (e.g. [Crook and Combs, 2007](#); [Griffith et al., 2006](#)), trust and SCM (e.g. [Johnston et al., 2004](#); [McCarter and Northcraft, 2007](#)), power and trust in SCM (e.g. [Yeung et al., 2009](#)), power, relationship commitment and SCM (e.g. [Sheu and Hu, 2009](#)), and power (a)symmetry or power and dependency (e.g. [Brown et al., 1995](#); [Duffy and Fearn, 2004](#); [Cox and Chicksand, 2005](#)).

Specifically, [Crook and Combs \(2007\)](#) argued that strong members reap most of the direct benefits, and weak members can often gain by building switching costs with strong members. [Griffith et al. \(2006\)](#) found that the perceived procedural and distributive justice of a supplier's policies enhance the long-term orientation and relational behaviors of its distributor. [Johnston et al. \(2004\)](#) found that higher levels of inter-organizational cooperative behaviors are strongly linked to the supplier's trust in the buyer firm. [McCarter and Northcraft \(2007\)](#) proposed that the presence of trust and power in the supply chain increases the probability of a firm's investment in a supply chain alliance. Based on the data from Chinese supply chains, [Yeung et al. \(2009\)](#) found that both trust and coercive power improve internal and supplier integration, and that coercive power improves supplier integration with or without the presence of trust. [Sheu and Hu \(2009\)](#) found that the sophisticated utilization of independent incentives through channel relationship commitment as the key mediator determines the channel performance. [Brown et al. \(1995\)](#) investigated how retailer commitment affects performance in the channel and argued that the symmetry of power within the channel moderated the linkage. [Duffy and Fearn \(2004\)](#) proposed that partnership can help a firm to improve its performance, and power imbalances have a detrimental effect on the sharing of partnership benefits.

Most researches define power from marketing, economics and sociology perspectives. [Dahl \(1957\)](#) defines power as the ability of

one individual or group to get another unit to do something that it would not otherwise have done. From marketing strategy perspective, [El-Ansary and Stern \(1972\)](#) applied this notion to distribution channels by operationally defining power as the ability of a channel member to control the decision variables in the marketing strategy of another member at a different level in the channel of distribution. [French and Raven \(1959\)](#) focused on social and psychological dimensions of power-dependence relationship, and defined five powers which seem common and important: reward, coercive, legitimate, referent, and expert powers. These were further classified into two categories of coercive and non-coercive powers. Summarizing the previous researches, marketing literature is dominated by the focus of power implication in channel relationships, and economics literature is concerned with the market structure and its locus of control within it ([Ogbonna and Wilkinson, 1998](#)).

Few researches studied the power in customer–supplier relationships and supply chain integration from operations management perspective. For a company, power affects its pricing strategy, inventory control and JIT, operations control, channel or distribution structure management, and information management ([Munson et al., 1999](#)). Clearly, power and its effect will address most aspects of operations management, thus affect companies' performance. Thus, we argue that power is also an operations management area, without understanding power and its implication to this perspective, it could not be managed effectively.

This paper is a step towards filling this gap. It presents the results derived from empirical study in Yangtze River Delta of China, which includes the city of Shanghai and two provinces of Jiangsu and Zhejiang. Since China is an extremely diverse country, although economic reform has helped all regions to develop, it has also served to increase regional disparities ([Lin et al., 2002](#)). In the recent years, the Gross Domestic Product (GDP) of Yangtze River Delta is around 20% of the whole country (National Bureau of Statistics of China: www.stats.gov.cn). Especially, Shanghai is also home to one of the largest container ports and to one of the two stock markets in China. Thus, Shanghai is not only a manufacturing base, but also a major financial and logistical center, playing the leading and supporting roles in the economic development of the region and the whole country. Therefore, Yangtze River Delta is a typical representation of the success of fast growing Chinese manufacturing and economics.

As pointed out by [Flynn et al. \(2007\)](#), manufacturing has probably made the greatest contribution to China's stunning rate of growth. Moreover, as the global market has become more cost competitive after China's WTO accession, Chinese manufacturers have been understanding the importance of competing on other competitive dimensions including customer–supplier relationship besides cost. Personal networking (in Chinese: Guanxi) and trust (in Chinese: Xinyong) based customer–supplier collaboration ([Lee and Humphreys, 2007](#); [Yeung et al., 2009](#)) contributes to the Chinese manufacturing advantage. It is because such relationship mechanism is more adaptive to changing environments due to its flexibility. Especially, in emerging markets where national economies grow rapidly in a context of immense market uncertainty and regulatory variability, relational norms and mutual trust provide supply chain partners with much needed flexibility ([Liu et al., 2009](#)). For instance, Chinese fiber production amounted 60% of the total world production in 2010, and had observed 13% annual increase for the past five years ([Economy Daily, 2011](#)). By the on-site visit and interviews to the fiber and fabric companies in the Yangtze River Delta reported in [Feng et al. \(2007\)](#), some interesting practices in customer–supplier relationship have been observed. For instance, the sales transaction can be conducted without a formal contract since personal relationships are viewed as more reliable than a written contract (legitimate power) in

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