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Vassal or lord buyers: How to exert management control in asymmetric interfirm transactional relationships?

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Abstract

This paper examines how buyers control their suppliers in asymmetric interfirm transactional relationships. The conceptual framework is based on two perspectives—transaction cost economics and relational exchange view. The empirical research analyses three case studies of buyer firms: one in a situation of favorable asymmetric dependence (lordship) and two in a situation of unfavorable asymmetric dependence (vassalage). Three major findings stem from this research. First, the lord buyer mainly exerts a market-based control. This pattern is blended with a bureaucracy-based control to take maximum advantage of interfirm transactional relationships and with a social-based control to strengthen over time cooperation at the operational level. Second, the vassal buyer can only exert social-based control to reduce its transaction risk. Third, the relational behaviors of the most dependent partners seem to be strategies to moderate the negative effects of their dependence.

Keywords: Interfirm relationships; Asymmetric dependence; Market; Bureaucracy; Social control; Management control

1. Introduction

Over the past 20 years, the growth in outsourcing practices has had the effect of widening the frontiers between firms and strengthening the links of dependence between buyer firms and their suppliers. In industrial sectors such as car manufacturing, electronics and information technology, as well as in most service businesses, the economic performance of firms that outsource is due, to a large extent, to the

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suppliers who contribute roughly 80% of the added value of products sold. As a result, the success of interfirm transactional relationships stems largely from the capacity of buyer firms to manage their dependence with regard to their resources and to control their suppliers (Cooper and Slagmulder, 2004).

In marketing, strategy or operations management, research conducted into this subject has significantly improved our understanding of the causes and consequences of interfirm transactional relationships. Researchers have examined the determining factors in "make" or "buy" decisions (Walker and Weber, 1984), the most appropriate modes of governance (Heide, 1994), as well as the advantages of cooperation for partners (Hamel, 1991). For a long time, researchers in management control have focused on the traditional hierarchical organization rather than on interfirm relationships (Hopwood, 1996; Otley, 1994; Scapens and Bromwich, 2001). Their studies essentially deal with the outsourcing of activities (Anderson et al., 2000; Langfield-Smith and Smith, 2003; van der Meer-Kooistra and Vosselman, 2000), inter-organizational cost management (Cooper and Slagmulder, 2004), control in alliances (Das and Teng, 1998; Groot and Merchant, 2000), control in business networks (Dekker, 2004; Håkansson and Lind, 2004; Tomkins, 2001), and value chain analysis (Dekker, 2003).

This paper focuses on the control of interfirm transactional relationships in situations of asymmetric dependence between buyer firms and their suppliers. Our interest in this field arises from two observations. The first relates to the fact that a number of scholars (Crozier, 1964; Penrose, 1959; Pfeffer and Salancik, 1978) state that the asymmetry of the dependence between firms guides their strategic actions, their management modes, and their relationships with external partners. The second is tied to the scarcity of management control studies dealing with situations of asymmetric dependence in interfirm relationships. Here, the buyer's control is defined as the process through which the buyer influences the supplier's actions to fall in line with its own expectations.[1] Like the exercising of power, control is never one-sided and arises from reciprocity. A dominated partner may exert control over another, even if its influence is limited (Crozier and Friedberg, 1980). Although this influence is generally oriented towards the expectations of the one exerting it, whenever precise objectives cannot be set, the dominated partner still points in a general direction.

For the purpose of this article, we will consider the buyer firms' modes of control in light of their goals. As Dekker (2004) underlines, the goals of control may be diverse. They give meaning to the devices implemented and merit greater in-depth analysis. Control modes will be analyzed regarding decisions that structure the control process: choosing the suppliers and identifying the risks associated with them, drawing up and implementing the management control system. Such decisions concern two phases of a relationship: a selection phase and an execution phase. The first one includes the selecting of parties and the designing of the control system. It corresponds to the contact and contract phases of van der Meer-Kooistra and Vosselman (2000). The second phase consists in implementing the different control modes.

We will also examine the reactions of the controlled, something that is not discussed in an explicit manner in current research. To do so, we will follow Etzioni (1964) who distinguishes three types of reactions from an actor facing a control system: (1) a positive reaction of commitment when the controlled actor has positive feelings towards the one controlling it; (2) a reaction of involvement when the controlled actor bases its relationship on the calculation of satisfying its interests; (3) a reaction of alienation when the controlled actor submits to control that it sees as contrary to its interests. The study of

[1] We are applying Flamholtz's (1996) definition of organizational control to buyer–supplier control.