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Mediated power and outsourcing relationships

Sean M. Handley[a,*], W.C. Benton Jr.[b]

[a] Department of Supply Chain Management & Marketing Sciences, Rutgers Business School, Rutgers University, 1 Washington Park, Office 986, Newark, NJ 07102, United States
[b] Department of Management Sciences, Fisher College of Business, The Ohio State University, 2100 Neil Avenue, Columbus, OH 43210, United States

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ABSTRACT

Mediated power is often used by firms to control the behaviors or influence the decisions of other members of the value chain. Interestingly, significant contributions in the academic literature offer consistent evidence that the use of *mediated power* has a negative impact on the quality of inter-organizational relationships. Yet, there is a dearth of empirical research investigating the conditions under which the use of mediated power is more or less prevalent. Utilizing dyadic data collected on 102 outsourcing relationships, this study evaluates how the buying firm's dependence on the service provider, asserted importance of the outsourced activity, and difficulties with other inter-organizational control mechanisms are related to their reliance on mediated power. Results from our hierarchical regression analysis support the hypotheses that the use of mediated power is diminished when the buyer is currently more dependent on the service provider due to switching difficulties and the buyer has a higher expectation of future supply market consolidation. Similar hypotheses regarding the effect of the strategic importance of the outsourced activity and entry barriers to the service provider's market were not supported. The results also support the hypothesis that the use of mediated power is more pronounced when the buyer experiences contract management difficulties, but the same is not true when the buyer has difficulty in monitoring the provider. To our knowledge, these findings represent the first empirical explanation of conditions which either attenuate or exacerbate the use of mediated power by outsourcing organizations.

1. Introduction

The popular press is replete with examples of firms wielding their power to control the behaviors or influence the decisions of other members of the value chain. One can readily point to the well-known examples of General Motors pressuring suppliers for significant price reductions (White, 1992), or Wal-Mart's dictating the adoption of RFID technology to its major suppliers (McWilliams, 2007). Powerful organizations have been noted to use their position of strength to push for price concessions from the power target (Butler, 2010; Sharp, 2009; Zhang et al., 2009), influence key operating decisions at the power target (Brown et al., 1995; Etgar, 1978; Lusch and Brown, 1982), manipulate central elements of the power target's marketing strategy (El-Ansary and Stern, 1972; Scheer and Stern, 1992), and even pressure the power target to share proprietary technology with potential competitors (Wilson, 2009).

Power can be defined as "the ability of one individual or group to control or influence the behavior of another" (Hunt and Nevin, 1974, p. 186). This definition implies that the power source possesses the ability to influence the power target to engage in behaviors or make decisions that they otherwise would not. The ability of powerful parties to exert influence can become manifest in different ways. The focus of the current study is on buyers' use of *mediated power* toward outsourcing service providers. The term mediated refers to the power source's explicit use of extrinsic motivation to bring about some direct action on the part of the power target (Brown et al., 1995; John, 1984; Tedeschi et al., 1972). Table 1 provides several representative industry examples of the prevalent use of mediated power in practice. In each case, the power source exploits their ability to materially impact the target's financial welfare to manipulate the target's decisions or actions. Our focus on mediated power is driven by three observations. First, as the introductory paragraph and Table 1 illustrate, the intentional use of mediated power is commonplace in many industries. Indeed, Hunt and Nevin (1974) suggest that coercion, a salient form of mediated power, is perhaps the most commonly employed. Secondly, unlike non-mediated power, mediated power represents a conscious decision by the power source to exert pressure on their exchange partner. Finally, and perhaps most importantly, several prior studies across multiple industrial settings provide evidence that the use of mediated power has negative consequences for the quality of the relationship between the two organizations while the effect of non-mediated power is generally found to be positive (Benton

* Corresponding author.
E-mail addresses: handley@business.rutgers.edu (S.M. Handley), benton.1@osu.edu (W.C. Benton Jr.).

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Table 1
Industry examples of mediated power.

Power source	Power target	Description of mediated power	Source
Serco	Suppliers	Public services outsourcing firm tells suppliers their future relationship is connected to price reductions	Butler (2010)
Coles Supermarket (Australia)	Suppliers	Supplier must offer steep cost discounts or risk losing business	Sharp (2009)
Ford Motor	Suppliers	Asking suppliers to turn over technology and allow competitors to make their products	Wilson (2009)
Magnet (UK)	Suppliers	Kitchen retailer demands 5% price reduction on all orders	Vickers (2008)
Wal-Mart	Suppliers	Mandate adoption of RFID technology	McWilliams (2007)
Wal-Mart	Coca Cola	Threat of private label drinks to get compliance on warehouse direct shipping	Terhune (2006)
Sears	CSC	CSC indicates Sears threatened it with a breach of contract notice if it did not agree to limited IT contract termination fees	Sliwa (2005)
Kmart	Suppliers	Suppliers agree to sell on consignment due to fear of losing business	Munson et al. (1999)
Toys 'R' Us	Toy manufacturers	Refused to purchase toys from manufacturers supplying discount stores and warehouse clubs	Munson et al. (1999)
Hallmark Cards	Retailers	Coerced retailers to not sell competitor's products	Bovee et al. (1995)
General Motors	Suppliers	Demanded double digit price cuts from suppliers or business would be re-bid	White (1992)
Subway	Franchisees	Pressuring franchise owners to buy new locations	Marsh (1992)
Snap-On Tools	Dealers	Dealers pressured to extend credit to risky customers	Fanning (1988)

and Maloni, 2005; Boyle et al., 1992). Empirical evidence also suggests that the use of mediated power is associated with the power target expressing less satisfaction with the inter-organizational relationship (Hunt and Nevin, 1974), lower levels of normative commitment to the relationship (Brown et al., 1995), and diminished levels of inter-firm agreement on key operating decisions (Frazier and Summers, 1984). Given the prevalent use of mediated power in inter-organizational relationships along with the negative impact it appears to have on the quality of the relationship, the dearth of research exploring why, or under what conditions, firms employ mediated rather than non-mediated forms of power is surprising.

The current study represents the first study to evaluate the conditions under which the use of mediated power by outsourcing organizations (i.e. the buyer) is the most pronounced. Utilizing dyadic data collected on 102 outsourcing relationships we evaluate how the buying firm's dependence on the service provider, asserted importance of the outsourced activity, and difficulties with other inter-organizational control mechanisms are related to their reliance on mediated power. In evaluating this conceptual model, illustrated in Fig. 1, three contributions are made. First, as previously alluded, this is the first empirical study to offer an explanation for why buying organizations continue to rely on mediated power as a form of control. It is too naïve, and likely incorrect, to simply assume that outsourcing managers are not aware of the negative relational implications of utilizing mediated power. Rather, this study takes the position that managers are fully aware of the implications of their actions and are rationally choosing to deploy such measures. Secondly, we contribute theoretically grounded evidence linking the strategic sourcing process to the decision to rely on mediated power. Supply market research is the foundation upon which a sound sourcing strategy is developed (Benton, 2010, p. 162; Day et al., 2010; Kraljic, 1983). The results of our statistical analysis demonstrate that the buyer's interpretation of current and future supply market conditions help explain the use of mediated power. Finally, hypotheses are tested which explore how the use of mediated power interacts with the effectiveness of other inter-organizational control mechanisms. Contractual devices and monitoring mechanisms are noted as primary means of controlling agent behavior. We find that as buyer's experience contract management difficulties, they turn to mediated power as an alternative means of control. Put differently, mediated power may be used to substitute for effective contract management.

This paper is structured as follows. Section 2, reviews related literature and provides the theoretical grounding for the research hypotheses. Details of the research methods and measurement model analysis are covered in Section 3. Sections 4 and 5 discuss the statistical analysis used to evaluate the research hypotheses and also provide a discussion of the implications of the research findings. Concluding comments and future research directions are presented in Section 6.

2. Literature review and research hypotheses

The central goal of this study is to explicate buyers' use of mediated power in outsourcing relationships. Specifically, it is posited that the use of mediated power is rationally associated with the buyer's interpretation of supply market conditions and the effectiveness of other control mechanisms. To develop the theoretical underpinnings for the research hypotheses, we draw not only from the literature on inter-organizational power, but also rely on insights from strategic sourcing, inter-organizational control, and agency theory. First, the conceptual domain for mediated power is developed and an overview of the related literature contributions is provided. Subsequently, theoretical support is detailed for each of the research hypotheses.

2.1. Inter-organizational mediated power

Whether one is referring to individual relations or relations between commercial organizations, power is widely considered to be a function of dependence (El-Ansary, 1975; Frazier and Rody, 1991; Gaski, 1984). Specifically, "the power of A over B is equal to, and based upon, the dependence of B upon A" (Emerson, 1962, p. 33). This dependence, and the corresponding balance of power, can be derived from multiple power bases or sources. A prominently invoked framework for the different bases of power originates from the seminal work by French and Raven (1959). French and Raven identify five bases of inter-organizational power: reward, coercive, legitimate, referent, and expert. The bases of reward, coercive, and legal legitimate have further been categorized as *mediated* forms of power (Brown et al., 1995; Maloni and Benton, 2000), while referent and expert are categorized as *non-mediated*. This dichotomization of mediated vs. non-mediated power has been extensively drawn upon in the marketing channels and supply chain literatures (e.g. Benton and Maloni, 2005; Brown et al., 1995; John, 1984; Tedeschi et al., 1972; Zhao et al., 2008). Mediated power is recognized to represent the "stick" or competitive approach toward managing the inter-organizational relationship, while non-mediated power represents the "carrot" or more relational orientation (Benton and Maloni, 2005; Zhao et al., 2008). Mediated power involves the explicit use of extrinsic motivation to bring about some direct action (Brown et al., 1995; John, 1984; Tedeschi et al., 1972). Conversely, non-mediated power is not explicitly exercised by the