

The Effect of Use of Power in Buyer-Seller Relationships: An Investigation on the Firm Size Dependency

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Abstract

This study aims to introduce the effects of power use on firm performance in manufacturer-retailer relationships. Furthermore, this study will investigate the moderating role of the firm size of channel members between power use variables and firm performance. The data was collected from the 400 manufacturer firms of the supplier-retailer relationships. The conceptual framework is evaluated by exploratory factor analysis and multiple regression analysis using SPSS 15.0. The findings indicate that both expert and market power dimensions of power use have a significant and positive effect on firm performance. Additionally, the moderating effect of firm size is significant when it interacts with expert power on firm performance. Therefore, as long as the firm size (in terms of turnover) grows the expert power affect on firm performance decreases.

Keywords: power, buyer-seller relationships, firm performance, firm size, retailer, manufacturer

1. Introduction

In relationship marketing literature, power has been defined as one party's potential to control the decision variables of another party in the supply chain or to influence another firm's beliefs or aspects (El-Ansary & Stern, 1972; Frazier, 1984). Also, a firm might have power without using it (Frazier, 1984) unless there would not be an imbalanced dependence (e.g. firm size) between the parties.

Most researchers have argued the nuance between the use of power and the power is a balanced/imbalanced dependence in channel structure via some variables. For example, when A is highly dependent on B, B is more powerful; this approach can be viewed regarding the dependency (Anderson & Weitz, 1989). On the other hand, the use of power has been viewed in the context of the possession of resources over other parties --that is defined as the ability of one channel member to control the marketing strategies of another member- (Brown et al., 1995). As an example, a "channel captain", supplier A (Anderson & Weitz, 1989) dominates a retailer, customer B, with its own sources. As Brown et al. (1995) pointed out, the retailer perceptions of the supplier's use of power symbolizes an interactive relationship between the supplier's resources and influence strategies.

Throughout this paper the term "power" will be used to refer to the idea of "power use." Power use may contain 1) *some organizational capabilities*, e.g., punitive capability is the firm's ability to inflict negative consequences (Kumar, 2005); and 2) *resources* such as communication strategies, tactics, etc. Use of power takes a part in all channel relationships either for better or worse, depending on the symmetry/asymmetry between the partners. To explore whether power is used to enhance the nature of relational exchange (Frazier & Antia, 1995) or to take undesirable actions in channel exchanges, this paper attempts to evaluate the level of power's role in channel contexts. The primary aim of this study is, therefore, to present the effects of power use on firm performance in manufacturer-retailer relationships and secondly to introduce the moderating effect of firm size in these dyadic relationships. It is expected that the in-four-level-measured firm sizes of the manufacturers moderate the power-firm performance relations for each of the dimensions of power structure.

This paper is organized as follows. The next section describes the theoretical background of this study. The second section presents the methodology, data collection, analyses, results and overall findings. The final sections discuss the results of the study and state possible future research suggestions.

2. Literature Background and Theoretical Aspect

Based on the social exchange theory (Blau, 1964), the power-dependence structure (Emerson, 1962) is critical to understanding inter-organizational relationship performance in channel relationships, since it specifies a channel

member's ability to control (influence) the other (Palmatier et al., 2007). This perspective is concerned with the control mechanism regarding the possession of power, but the control is not an "evil" (Frazier & Antia, 1995). Moreover, when a firm's control is used effectively, it can create positive outputs on another partner's goal attainment. Similarly as Hingley (2005) said, only mutuality is already an output for every organization because there is no way to act alone in the market place.

According to Emerson (1962, p. 32), power is a property of the social relation that requires mutual dependence between the parties. In bilateral relationships where manufacturers and their retailer-customers are highly interdependent, the use of power means the ability to control the other's decisions as well as the authority of the legitimacy. Legitimacy, for instance, is one of the sources of power. In relationship marketing literature, in the context of use, the sources of power are reward, coercive, expert, referent, legitimate and information (e.g., French & Raven, 1959; Brown et al., 1995; Maloni & Benton, 2000), while others examined this classification as the function of power sources (e.g., attributed power, market power) in channel relationships (e.g., El-Ansary & Stern, 1972; Cool & Henderson, 1998; Butaney & Wortzel, 1988). Likewise, in some later studies these constructs of power sources were categorized as mediated (shown in Brown et al.'s (1995) paper as referent, information, expert, legitimate) and non-mediated (coercive, legitimate, reward; or in Maloni & Benton's article (2000), expert, referent and legitimate) power. Furthermore, the market and bargaining power dimensions have been added to the literature to explore the new insight of power in a channel context (e.g., Cool & Henderson, 1998; Butaney & Wortzel, 1988). Table 1 shows some of the important empirical studies and their featured dimensions.

Table 1. Some empirical studies about "power"

Authors	Indicators
Emerson (1962)	Power structure (authority, legitimacy) Power balance
El-Ansary & Stern (1972)	Power as a function of dependence Power as a function of sources of power
Frazier (1983)	Operational measures of power based on dependence
Butaney & Wortzel (1988)	Market power
Anderson & Weitz (1989)	Power imbalance
Cronin et al. (1994)	Marketing programs Ordering policies Pricing policies
Brown et al. (1995)	Information power Expert power Referent power Legitimate power Reward power Coercive power Balance of dealer-supplier power
Frazier & Antia (1995)	Use of interfirm power
Cool & Henderson (1998)	Structural power Dependence power Attributed power Integration power
Frazier (1999)	Interfirm power
Maloni & Benton (2000)	Expert power Referent power Legal legitimate power Coercive power Reward power
Hingley (2005)	Power symmetry Power and polarity Power imbalance
Benton & Maloni (2005)	Power-satisfaction Power-affected buyer-seller relationship
Kumar (2005)	Punitive capability based power Dependence-based power
Hansen (2009)	Power structure Shifting buyer-supplier power

The sources of power symbolize nearly the use varieties of power in reciprocity. Hence, measuring these elements can represent the level of the power-dependence balance wherein relational interactions result in a reciprocated manner by rewarding or punishing (Yilmaz et al., 2005) according to the dependency level. At this point, channel researchers have avoided declaring the negative aspect of power use such as coercive power or force (Frazier, 1999), because it establishes a negative association with cooperation in bilateral relationships and use of coercion may risk the power advantage. However, in power measurement essays, the coercive and legitimate power dimensions are measured in relation to the contracting policies in relational exchange; otherwise the level of power use can-not be employed. Each of these power bases explains why one party may hold authority over another (Maloni & Benton, 2000). For example, a dominant (powerful) party can have a legitimate advantage over the weaker to set the parameters of a contract form (Lusch & Brown, 1996). Legitimate power is nearly a common right to influence the other party, e.g. trade (/slotting) allowances, advertising or related concessions (Hansen, 2009). Beyond this, coercive power indicates the punitive capability, which is the powerful party's ability to inflict negative results on the weaker (Kumar, 2005). On the other hand, information and expert power are the sources of the knowledge and skills desired by the target, which increase commitment in channel relationships (Maloni & Benton, 2000). Accordingly, Brown et al. (1995) argue that the appropriate power use enhances commitment within a relationship; of course this commitment is "calculative commitment" (Kumar, 2005) with regards to the firms continuing to do business with each other. Therefore, as commitment increases a firm's performance effectively, power use is also expected to influence the firm's performance positively in terms of the power sources, except legitimate-coercive power. These two indicators may affect firm performance negatively because it is risky to influence the firm's internal accounts and business performance.

Therefore, it is conceptualized that the sources of power are a four-dimensional construct including information, expert, legitimate-coercive and market power (Figure 1). This study concentrates on these power sources because interviews with industry experts indicated that they are best constructs for the retail sector, in addition to market power. The primary research question to be answered is whether power use affects firm performance; this paper also argues that the firm sizes moderate the impact of power use sources on firm performance. This idea leads to the following research hypotheses to evaluate the direct effects:

H1_a: Information power will have a positive effect on firm performance.

H1_b: Expert power will have a positive effect on firm performance.

H1_c: Legitimate-coercive power will have a negative effect on firm performance.

H1_d: Market power will have a positive effect on firm performance.

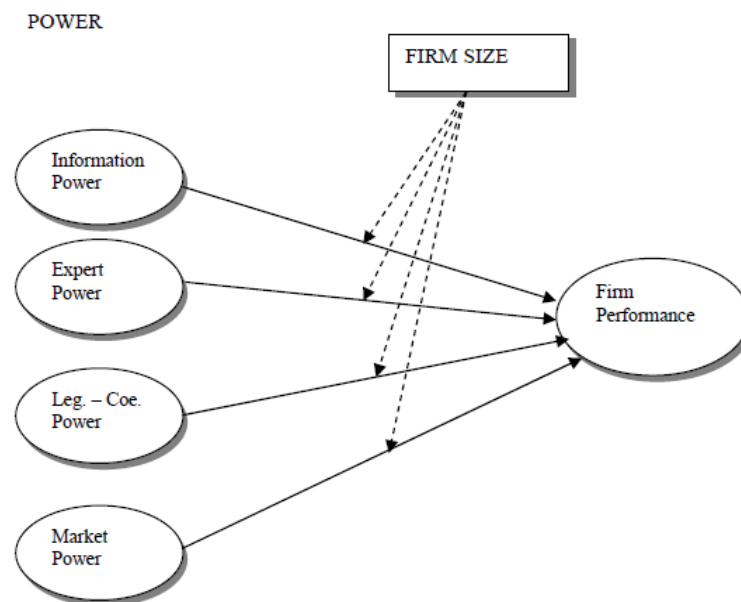


Figure 1. The empirical model

Previous marketing channel research has examined similar relationships and the correlation between power-use and firm performance is mostly significant. For example, Stern and Reve (1980) indicate that power holders dominate the high profitability and influence the overall profitability in the channel context. Maloni and Benton (2000) examine

the outcomes of power-affected relationship on chain performance. Also, Etgar (1976) shows that channel member performance can be affected by power. What is the effect of the firm size on channel members? With a supply-side orientation (Benton & Maloni, 2005), this study establishes another view of the moderating effects of firm size on the relationships between power sources and firm performance to show whether this relationship remains the same under imbalanced firm size conditions compared to the main effects of power sources on firm performance; consequently it will show the a/symmetric balance in the power-firm performance relationship. Therefore, the following hypotheses are formed:

H2_a: The firm size moderates the information power- firm performance relationship.

H2_b: The firm size moderates the expert power- firm performance relationship.

H2_c: The firm size moderates the legitimate/coercive power- firm performance relationship.

H2_d: The firm size moderates the market power- firm performance relationship.

3. Methodology

3.1 Sampling and Data Collection

The fast moving consumer goods (FMCG) industry was chosen to test the research hypotheses because of its rapid operations and focus on supply chain structure. The data used to test the hypotheses were collected from the respondent managers from the FMCG manufacturers in Turkey. Respondents include logistics managers, customer service managers, sales managers, key account managers and a few top managers, with whom the retailer customer interacts on a regular basis. A survey was conducted in all parts of the country with a random sampling method. The manufacturing firms were chosen from the database of the Turkish Retailing Catalogue. Using telephone interviews as a survey method, a total of 1600 firms were asked to respond, and 400 firms agreed to perform the survey. The response rate is 25%. Data include big-box FMCG retailers such as Carrefour, Metro, Tesco.

After conducting a pilot test of the questionnaire items with in-depth interviews of managers from 20 manufacturing firms and three academicians, some items were modified with their suggestions. In general, the measures' face validity appears strong (Frazier, 1983).

3.2 Measures

Each item was rated on a seven-point Likert scale ranging from 1=strongly disagree to 7=strongly agree, with the exception of firm performance measure items anchored at 1=decreased significantly and 7=increased significantly. Measurement items are provided in Appendix A. A brief summary of the study's measurements and instruments follows.

In the beginning, that the sources of power were conceptualized as a five-dimensional construct that included information, expert, legitimate, coercive and market power. However, as a result of the statistical analyses (due to poor factor loadings and low reliability value), it is structured as a four-dimensional framework (Figure 1) combining two variables as one factor (legitimate-coercive power). To explore the power use in buyer-seller relationships, four of the power sources constructs -information, expert, coercive and legitimate power- were borrowed from the study of Brown et al. (1995). During the pilot test phase, according to the feedback for face validity, some items were modified and some reverse items were removed. Items for the market power variable were adopted from studies by Butaney & Wortzel (1988) and Cool & Henderson (1998).

Firm size, considered a moderator variable, was measured with reference to the past year's turnover of the manufacturer firms and categorized into four groups according to these amounts.

Six quantitative and three qualitative performance indicators were used to measure the firm's internal business performance; the indicators were adopted from studies by Rosenzweig et al. (2003) and Fisher (1997). The firm performance items focused on self-performance evaluation and financial indicators.

Table 2. Correlations matrix and descriptive statistics

Construct	Mean	Std.Dev.	1	2	3	4	5	6
1. Info_Pow	5.60	0.75	1					
2. Expert_Pow	5.49	0.77	.47**	1				
3. Leg-Coe_Pow	5.36	0.78	.21**	.29**	1			
4. Market_Pow	5.46	0.83	.11*	.15**	.32**	1		
5. Qual_Perf	1.03	1.03	.04	.08	.11*	.07	1	
6. Quan_Perf	5.50	1.01	.18**	.20**	.03	.15**	.26**	1

* Correlation is significant at the .01 level (2-tailed) ** Correlation is significant at the .05 level (2-tailed)

Table 2 presents the correlation matrix of these measures and the descriptive statistics for each. All of the power sources indicators are correlated significantly. There is no evidence of serious multicollinearity among exogenous variables.

3.3 Measure Validation

An exploratory factor analysis and coefficient alpha are used to evaluate the construct validity and scale reliability. The literature review and the interviews with industry business executives established the content validity for the meaningfulness of the items. Next, an exploratory factor analysis was employed that allows assess the factorial pattern of the scale and show construct validity. After conducting the principal components analysis using varimax rotation, nearly all dimensions of power sources (information, expert, legitimate, coercive and market power) are unidimensional, except legitimate power (LP) items which did not load on LP construct at a satisfactory level. Two items of this dimension were problematic because of low factor loadings and were deleted. Nevertheless, the remaining two items of legitimate power were loaded to the coercive power factor and structured as a new variable. All items had factor loadings between .50 and .96, which exceeded the recommended minimum value of 0.5 (Hair et al., 2010). The results in Table 3 show that each scale item was loaded to relevant factors largely with strong factor loadings.

Table 3. Exploratory factor analysis and reliability results

Factor Items	Factor Loadings	Cronbach alpha (α)
Information Power		.65
PO1_I1	.71	
PO2_I2	.57	
PO3_I3	.74	
PO4_I4	.61	
Expert Power		.79
PO5_E1*		
PO6_E2	.75	
PO7_E3	.79	
PO8_E4	.77	
Legitimate Power**		.75**
PO9_L1*		
PO10_L2*		
PO11_L3	.51	
PO12_L4	.67	
Coercive Power**		.75**
PO13_C1	.79	
PO14_C2	.70	
PO15_C3	.70	
Market Power		.70
PO16_M1	.79	
PO17_M2	.87	
PO18_M3	.68	
PO19_M4	.50	
Qualitative Firm Performance		.93
FP1_QL1	.96	
FP2_QL2	.96	
FP3_QL3*		
Quantitative Firm Performance		.95
FP4_QN1	.88	
FP5_QN2	.90	
FP6_QN3	.89	
FP7_QN4	.90	
FP8_QN5	.89	
FP9_QN6	.84	

* Items dropped after Exploratory Factor Analysis (EFA)

** The two factors (Legitimate and Coercive Power) have been combined as one factor after EFA and reliability results

The Cronbach's alpha coefficients (α) were estimated for each construct to assess the reliability of the scales. The Cronbach's alpha scores of for all dimensions of power sources and firm performance ranged between 0.65 and 0.95, well beyond the threshold levels suggested by Nunnally (1978), and indicating adequate reliability for all constructs (Table 3).

3.4 Analyses and Results

Hierarchical multiple regression analysis was performed by using SPSS 15.0 to test the hypotheses. Hierarchical regression models allow an examination of the relationship between a set of independent variables and the dependent variable, presenting the effect of a different set of independent variables on the dependent variable. Therefore, the first estimation of the regression model in this study only includes the main effects of the independent variables (Equation 1).

$$FP = \beta_0 + \beta_1 \text{INFO} + \beta_2 \text{EXPERT} + \beta_3 \text{LEGCOE} + \beta_4 \text{MARKET} + e \quad (1)$$

The model in Eq. (1) explains .05% of the observed variance in firm performance ($F = 5.27$, $df = 4,422$, $p < 0.01$). The results indicate that expert power (EXPERT) ($\beta_2 = 0.14$, $p < 0.05$) and market power (MARKET) ($\beta_4 = 0.11$, $p < 0.05$) have a positive and significant effect on firm performance as expected. A comparison of their standardized regression weights revealed that they have a similar effect on firm performance. Therefore, $H1_b$ and $H1_d$ are clearly supported. However, neither legitimate power nor information power has a significant contribution to firm performance. Hence, $H1_a$ and $H1_c$ cannot be supported.

Table 4. Regression results

Model	Variable	Parameter estimate		Standard error	t-value
		Unstandardized β	Standardized β		
1	Constant	3.788	.000	.411	9.217
	INFO_PO	.65	.060	.058	1.111
	EXPERT_PO	.139	.132	.058	2.396**
	LEGCOE_PO	.004	.004	.054	.072
	MARKET_PO	.110	.112	.049	2.230**
	<i>R-squared=0.05</i> <i>F_(4,422) = 5.27*</i>				
2	Constant	3.41	.000	.412	8.270
	INFO_PO	.064	.060	.057	1.123
	EXPERT_PO	.134	.128	.057	2.358**
	LEGCOE_PO	.025	.024	.054	.472
	MARKET_PO	.086	.088	.049	1.777***
	SIZE	.149	.198	.036	4.196*
<i>R-squared=0.09</i> <i>F_(5,418) = 7.91*</i>					
3	Constant	3.342	.000	.415	8.052
	INFO_PO	.089	.083	.058	1.548
	EXPERT_PO	.157	.150	.057	2.760*
	LEGCOE_PO	-.006	-.005	.055	-.101
	MARKET_PO	.085	.087	.049	1.754***
	SIZE	.143	.189	.036	4.006*
	INFOxSIZE	-.079	-.075	.054	-1.445
	EXPERTxSIZE	-.119	-.109	.057	-2.091**
	LEGCOExSIZE	.092	.095	.051	1.812
	MARKETxSIZE	.004	.004	.040	.091
	<i>R-squared=0.11</i> <i>F_(9,414) = 5.57**</i>				

* $p < .01$, ** $p < .05$, *** $p < .05$ (one-tailed)

$$FP = \beta_0 + \beta_1 \text{INFO} + \beta_2 \text{EXPERT} + \beta_3 \text{LEGCOE} + \beta_4 \text{MARKET} + \beta_5 \text{SIZE} + e \quad (2)$$

The second regression model contained the firm size variable (Equation 2). The size of the organization is measured by its total sales volume. This model explains .09% of the observed variance in firm performance ($F = 7.91$, $df = 5,418$, $p < 0.01$). As shown in Table 4, expert power (EXPERT) ($\beta_2 = 0.13$, $p < 0.05$), market power (MARKET) ($\beta_4 = 0.09$, $p < 0.05$, two-tailed) and firm size (SIZE) ($\beta_5 = 0.15$, $p < 0.01$) have positive and significant effects on firm performance.

$$FP = \beta_0 + \beta_1 \text{INFO} + \beta_2 \text{EXPERT} + \beta_3 \text{LEGCOE} + \beta_4 \text{MARKET} + \beta_5 \text{SIZE} + \beta_6 (\text{INFO} \times \text{SIZE}) + \beta_7 (\text{EXPERT} \times \text{SIZE}) + \beta_8 (\text{LEGCOE} \times \text{SIZE}) + \beta_9 (\text{MARKET} \times \text{SIZE}) + e \quad (3)$$

The third regression model (Equation 3) was developed to examine the moderating effect of firm size on the relationship between power source indicators and firm performance, in which the four two-way interaction terms represent ($\beta_6 \text{INFO} \times \text{SIZE}$, $\beta_7 \text{EXPERT} \times \text{SIZE}$, $\beta_8 \text{LEGCOE} \times \text{SIZE}$, $\beta_9 \text{MARKET} \times \text{SIZE}$) the moderating effects respectively, in addition to the predictor variables in Eq. (2). Due to their high variance inflation factor values, the interaction terms were mean-centered to lower the multicollinearity problem and re-calculated. In this conclusive model, the four dimensions of power sources and firm size explain 11% of the total variance in firm performance ($F = 5.57$, $df = 9,414$, $p < 0.01$). Table 4 demonstrates the results of the third analysis. According to the results, only one of these interaction terms, $\beta_7 \text{EXPERT} \times \text{SIZE}$, has a significant effect ($\beta_7 = -0.12$, $p < 0.05$). This negative and statistically significant regression coefficient was depicted as a reducing effect of firm size, which decreases the effect of expert power. In other words, the higher the firm size in terms of turnover, the lower the expert power effect on firm performance. Therefore, H_{2b} is fully supported while hypotheses H_{2a} , H_{2c} and H_{2d} regarding moderating effects cannot be supported.

4. Discussion

This study set out with the aim of assessing the importance of power sources dimensions in buyer-seller relationships, especially with their effect on firm performance. In reviewing the literature, similar studies that examined the association between power sources-commitment, power-overall profitability or power-satisfaction, etc. found that power use has a dramatic effect on these relationships. Similarly, the multiple regression results of this study demonstrate that expert power and market power are related significantly to firm performance. These findings are reasonable since both expert and market power sources are related to the supply chain performance improvements in terms of cost. For example, when a supplier gains some advantages from their customer's expertise, it could also affect its business performance, especially in the rapid operations of the retailing sector (e.g., FMCG). On the other hand, the finding that legitimate-coercive power is not related significantly to firm performance is unexpected because this finding implies that there is no negative evidence about the asymmetric relationships to evaluate. That is, in contractual obligations desired by customer have no impact on firm performance of the supplier. A possible explanation for this result might be the tendency of the non-contractual environment (Maloni & Benton, 2000) which underestimates legal power's role in retailer-manufacturer relationships.

Adding the firm size effect into the model, the explained variance in firm performance increased to 11%, which yields approximately 10% compared to the initial model which predicted only the direct effects of power sources. This suggests that to maintain a cognitive consistency, power use's influence can be explained with regards to the evaluation of the balance (in this study, in terms of firm size), as conceptually expected. This model hypothesized that firm size moderates the relationship between power sources (information, expert, legitimate-coercive and market) and firm performance. From these, only the firm size-moderated path linking expert power to firm performance (H_{2b}) was statistically negative and significant. This negative link implies that the firm size has a greater effect than expert power on firm performance because expert power loses its impact. Stated somewhat differently, a supplier may not need to have expert power to improve its business performance in bilateral relationships, because it already has industry expertise.

Comparing the three models, market power had a significant impact on firm performance in first two models but not in the third. This statement can be explained in terms of the balance of dependency, while market power may not have a notable meaning regarding firm size. Thus, as Butaney and Wortzel (1988) stated, according to the potential of industry characteristics/conditions, the manufacturer has the need and ability to determine the marketing program; therefore the manufacturer may not need to take a position regarding its firm size. Another possible explanation for this might be that market power is not related to the asymmetric dependency in bilateral relationships when considering its possible interaction with firm size.

5. Limitations and Future Research Directions

One major limitation of the study is that data was collected from only one side of the retailer-supplier relationships. The data for this research are based on the supplier's perspective of this dyadic relationship. Similarly, some previous studies in marketing literature also examined one side of the relationship (e.g., Yilmaz et al., 2005; Benton & Maloni, 2005). Although measuring from one side is a disadvantage, the selected measures are validated and the main objectives of this study have been realized.

For further research, bidirectional studies are needed to evaluate the moderating effect of firm size; other power sources can be added into the model according to the industries' needs.

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APPENDIX A

Measure Items

POWER

(adopted from Brown et al. 1995; except "Market Power")

(1) Information Power

- The information our customer provided us made sense.
- Our customer often had more information than we did.
- Our customer convinced us that it made sense to follow their suggestions.
- Our customer knew more than we did about what needed to be done.

(2) Expert Power

- Our customer's business expertise made them likely to suggest the proper thing to do.*
- The people in our customer's organization knew what they were doing.
- We usually got good advice from our customer.
- Our customer had specially trained people who really knew what had to be done.

(3) Legitimate Power

- It was our duty to do as our customer requested.*
- We had an obligation to do what our customer wanted, even though it wasn't a part of the contract.*
- Since they were our customer, we accepted their recommendations.
- Our customer had a right to expect us to go along with their requests.

(4) Coercive Power

- Our customer often hinted that they would take certain actions that would reduce our profits if we didn't go along with their requests.
- Our customer might have withdrawn certain needed services from us if we didn't go along with them.
- If we didn't agree to their suggestions, our customer could have made things difficult for us.

(5) Market Power (adopted from Butaney & Wortzel, 1988; Cool & Henderson, 1998)

- Competition power
- Market share power
- Bargaining power

- Our customer is more powerful than us.

FIRM PERFORMANCE

(adopted from Rosenzweig et al., 2003 and Fisher, 1997)

(1) Qualitative Performance (QL)

- Employee commitment
- Employee satisfaction
- Service and product quality*

(2) Quantitative Performance (QN)

- Return of assets (ROA)
- Return on sales
- Return on investment (ROI)
- Sales growth
- Market share
- Overall performance

* Items dropped after Exploratory Factor Analysis (EFA) and reliability results (Cronbach alpha)