Track 11: MNE strategy and organisation

Session format: Competitive

# Two is company but three's a triad – power strategies in international business-relationship triads

**Abstract:**

This research aims at exploring what type of power strategies are utilised in specific power relations in the context of international business-relationship triads by using a single illustrative single case. The data of the study was gathered using action research approach, while the analysis of the data was a cyclical and iterative process in which a narrative describing the power-dependence relationships of the triad was retrospectively constructed. The findings built theory based on existing literature by conceptualising and identifying different power strategies utilised in different power situations and suggested managerial implications of the findings. It was found that in asymmetric power relationships, rational strategies were used to create favourable outcomes. It was also found that a drastic change of an MNC's strategy transformed the composition of its value system into an international business-relationship triad which had subsequent changes in the established power relationships of each of the dyads inside the triad. The change in the power relations of the triad was created by the supplier utilising rational power strategy to the end-customer which through the actions of the end-customer transformed into a hard strategy. This newly identified power strategy was conceptualised as intermediary power strategy.

# Two is company but three's a triad – power strategies in international business-relationship triads

*"The powerful are able to intervene in this ongoing process in an attempt to change understandings and, if successful, to change the very nature of social reality" (Clegg et al. 2006, 294).*

## CHANGE IS YET TO COME

In a conservative industry where the modus operandi had been untouched for decades, where all of the actors had been solely performing their duties like meticulous assemblers on a conveyor belt, EMG (a pseudonym) rocked the boat. In the aftermath of the global financial crisis in the end of 2000s, many companies were looking for new ways to cope; new strategies, new streams of revenue. So was EMG. Managers of its European headquarters developed a strategy which would create new business for the multinational corporation (MNC) but also meant that other operators of the industry would need to embrace EMG's new way of doing business. As one might imagine, not everyone was pleased with EMG changing the established power setup of the value system. Yet, after voicing its new strategy and shaping it into business practices, EMG had started something that seemed like a collapsing cornice triggering an avalanche after which nothing would be the same.

The vignette above has been excerpted from our data recounting the events of a strategically transforming MNC and the implications of the power relations in its immediate business environment; an international business-relationship triad. The focus of this study is in exploring how the power relationships change in a triad when one of the organisations changes their business strategy. More specifically, this research aims to answer the following research question: how power is employed in international business-relationship triads when

one of the triad members attempts to successfully implement a new, drastically changed business strategy. The word drastic is used here to emphasise a major change of strategy; e.g. change of business model, customer segments, value offering.

## POWER IN INTERNATIONAL BUSINESS-RELATIONSHIP TRIADS

Power is an inevitable part of social interaction inside and outside of organisations (e.g. Pierro et al 2013). Yet it seems, in international business research, the role of power in social interaction has gained unseemly little interest and thus more research is called for on the topic (e.g. Geppert & Dörrenbächer 2014). This interdisciplinary research builds theory in the nexus of international business and organisational behaviour by exploring the role of power in a triadic relationship of an MNC (supplier), its customer (manufacturer) and the end-customer.

In international business literature, research on triads has been mostly concentrated on analysing triads as markets (e.g. Brouthers et al. 2000; Rugman & Verbeke 2004; Castellani et al. 2013) while in the field of organisational behaviour, triads are often studied as groups of three companies (e.g. Choi & Wu 2009; Shipilov & Li 2012; Wynstra et al. 2015). Havila et al. (2004) studied trust and commitment in international business-relationship triads by first conceptualising international business-relationship triads as groups of three parties who repeatedly have direct contact with each other (not necessarily all at the same time) with the purpose of completing business transactions in a cross-border setting. This exploratory case study uses Havila et al.'s (2004) conceptualisation of international business-relationship triads while building on Somech and Drach-Zahavy's (2002) research on influence strategies used to exert power in social relations. Somech and Drach-Zahavy (2002) studied the influence strategies superiors use to influence subordinates in organisations using Kipnis & Schmidt's (1985) categories of influencing strategies: hard, rational and soft. While this study focuses on

examining the role of power in a triadic international business-relationship of three companies, the micro-level framework is considered appropriate as no organisations, or triads exist without individuals (Felin & Foss 2005). Furthermore, micro-level concepts can explain collective level social phenomena (Felin et al 2012). By using an illustrative single case study, some of the complexities of an international business-relationship triad are unveiled using rich data (Dyer & Wilkins 1991; Dahlgren & Söderlund 2001; Child et al. 2013). The following chapter introduces the theoretical framework of the study.

## THEORETICAL FRAMEWORK

### MNC triad

Drastic strategic changes of an organisation operating in a triadic setting are experienced by all of the three member organisations of the triad. While within the changing organisation, the strategic change is experienced rather rapidly from the beginning of the implementation, the other two members of the international business-relationship triad will slowly become aware of the changed processes and business practices of the focal organisation (e.g. Jacobs 1997).

A typical illustration of a multinational and its customers and suppliers would be the traditional supply chain where all of the actors (supplier A, manufacturer B, customer C) are placed in a vertical line (e.g. van der Valk & van Iwaarden 2011) with arrows pointing from upstream to downstream (see figure 1). Havila et al. 2004 depict the international business-relationship as a triad where a supplier (A), an intermediary (B), and a customer (C) are all socially connected and communicate all together or in dyads through social interaction (see figure 2). In this study, the relationship between the actors could be depicted of having changed from figure 1 to figure 2 after the strategic change of EMG was implemented; the

focal MNC of the international business-relationship triad is the supplier (A) and the other two members of the triad are a manufacturer (B), and a customer (C).

Bases of power and strategies of influence

In this study, power is defined as the potential for a person to change the beliefs, attitudes or behaviour of another person by influencing them (Raven 2008; Pierro et al 2013). Furthermore, power is "property of the social relation; it is not an attribute of the actor" (Emerson 1962). The same definition is understood to apply on the intra-organisational level; organisational strategies and agendas are implemented by individuals who have formed collective meanings of different power relations in their business environment (e.g. Weick 1979). Furthermore, some of such collective meanings can gain recognition of many parties within the environment and form collective understandings of legitimacy of certain industry players (Weber 1964), subsequently increasing their power in the set environment. This study builds on one of the most cited conceptualisations of social power (Somech & Drach-Zahavy 2002; Raven 2008; Pierro et al. 2013); French & Raven's (1959; see also Raven 1993; 2008) typology of the bases of power to explore the intra-organisational power relationships.

The bases of power identified by French and Raven (1959; and further developed by Raven in 2008) are reward -, coercive -, legitimate -, informational -, expert-, and referent power. The six different types of power which French & Raven (1959; also Raven 2008) call "bases of power" can be understood as conceptualisations of the explanations of why someone (the influencer) is able to hold power over someone (the target). That is, power is the explanandum and the bases of power the explanans.

Reward power is the first explanan of power by which the influencer is able to offer the target some type of a positively perceived incentive (Raven 2008). How the target ends up in the submissive end of a reward power situation is through soft strategies executed by the

influencing organisation, e.g. discourses of flattery, politeness or friendliness (Kipnis & Schmidt 1985; Somech & Drach-Zahavy 2002). While rewarding the target is the classic carrot-to-the-donkey approach, the use of coercive power is the well-known stick-approach; threatening the target of negatively perceived consequences if one chooses not to obey (Raven 2008). The use of coercive power can be perceived as a hard strategy (Kipnis & Schmidt 1985) exercised by the influencer to gain compliance (Miller 1983). Both, coercive power and reward power imply that the influencing organisation would need to assess at a later point in time whether their wishes/orders had been followed; power is a product of a socially dependent change (Raven 2008).

Another explanan of power is conceptualised as legitimate power which requires the target to recognise the influencer as a having "a right" to tell them what to do and comply accordingly (Raven 2008). To recognise the "right" of the legitimate party is understood as an institutional social norm. It is considered that legitimate power can be perceived both negatively and positively by the target. The target may be complaisant on following the influencer's demands/actions because it is a social norm, and thus perceived as the "right thing to do", or the influencer may have created a position of legitimacy through manipulation and aggression, in which case gaining power through legitimacy could be perceived as a hard strategy (Kipnis & Schmidt 1985; Somech & Drach-Zahavy 2002).

Expert power and informational power are closely related explanans. According to Raven (2008), expert power can be witnessed in situations when a target organisation is under the impression that the influencing organisation has somehow superior knowledge and thus the target organisation is willing to accept what the influencing organisation states as true and acts accordingly, even if they would not understand why. Being able to understand the reasons behind requests/statements/actions of the influencing organisation is the explanan conceptualised as informational power (Raven 2008). Informational power and expert power

could be gained utilising rational strategy in which logical argumentation and bargaining is considered to act as mechanisms of influence (Kipnis & Schmidt 1959). The last base of power in French & Raven's typology (1959) is referent power, according to which the target complies to the influencer's wants because the target identifies with the influencer (French & Raven 1959; Raven 2008). Referent power can be believed to result from the use of soft influencing strategy (Kipnis & Schmidt 1959). While the bases of power framework (French & Raven 1959; Raven 2008) describes the power relationship from the target's point of view, the three strategies (hard, rational and soft) outlined by Kipnis & Schmidt (1959) can be strategies used by the influencer to create a power relationship which the target perceives as one of the six explanans or quite the contrary as strategies for the target to influence the original influencer and subsequently change the power relationship.

## METHODOLOGY

The ontological stance the researchers assume is social constructivism; events are subjectively perceived by individuals and reality is socially constructed (cf. Dyer & Wilkins 1991). A single, extreme case (Yin 1981) was considered to provide rich, in-depth knowledge of the researched phenomenon and advance theory building (Dyer & Wilkins 1991; Dahlgren & Söderlund 2001; Child et al. 2013). This research was conducted using action research approach; an interventionist method, focusing on dialogue between the focal firms and researchers (Gummesson 2000).

The data consists of interviews, field notes based on real-time observations in interviews, meetings and workshops (see table 2), and company documents. The analysis of the data was a cyclical and iterative process (Zuber-Skeritt 2001) in which a narrative describing the power-dependence relationships of the triad was built retrospectively based on the data (e.g. Halinen & Törnroos 2005). The approach used bares resemblance to the narrative approach in

that sensemaking of organisational events is considered to require retrospective and prospective thinking while attempting to depict organisational realities as accurately as possible (Weick 1995). Furthermore, analysing the data using a narrative was considered appropriate as explaining organisational actions and events through a narrative is a "legitimate form of explanation" (Van Maanen 1988; see also Vaara & Tienari 2011). The research builds theory with rich data and high level of contextualisation (Dyer & Wilkins 1991), with no attempt to generalise.

## ANALYSIS OF THE CASE

### Power relations of the triad before the strategic change

EMG's roots were in steel manufacturing. From a small firm manufacturing a single steel product, in nearly hundred years EMG had transformed into a successful MNC offering a variety of products and services to its customers. The composition of what later became an international business-relationship triad; EMG, the manufacturer and the customer at this stage was a typical value chain (see figure 1). That is to be precise, not a triad but a supplier selling to a manufacturer who assembles the products (large scale transportation vehicles) which were again sold to the end-customer. While EMG's transactions were mainly with the manufacturer, on a rarer and much smaller scale, EMG also had a direct relationship with the end-customer. It was selling a different type of product to the end-customer and thus over the years had developed a relationship with the firm. Thus, the relationships of the three MNCs could be described as three dyads; EMG and the manufacturer, EMG and the end-customer, and the manufacturer and the end-customer.

While the described business arrangement seems rather typical of industrial manufacturing, so were the power relations of the three dyads. The power relationship between EMG and the manufacturer seemed asymmetric with the manufacturer being the dominant actor in the

relationship. A technical manager of the manufacturer explained: *"A typical sales process could be described as follows: our sales team discusses about a new vehicle being built with the end-customer. Us and the end-customer discuss some of the technical requirements of the product based on which we make the specifications of the product. Once the deal is sealed, we choose the suppliers we want to use in order to manufacture the end-product…how many suppliers sell the same product as EMG – too many".* The manufacturer had the upper-hand while having a number of suppliers to choose from, while for EMG, the only way to win the bidding against competitors was to compete with as many weapons they had in their arsenal; e.g. price, design, quality, or fastness to mention a few. Same situation existed in the EMG-end-customer dyad in which competition existed for EMG's products. For the manufacturer-end-customer dyad, a number of manufacturers would usually bid for the deal of building the new vehicles for the end-customer and thus it would seem the end-customer was the one holding all the cards. The selection of suppliers by the manufacturer was also linked to the bids the manufacturer could make to the end-customer; e.g. while attempting to cut costs in manufacturing and thus being able to offer more competitive prices, suppliers with whom prices could be negotiated down could be chosen.

In all of these relations, it would seem legitimate power (Raven 2008) was experienced by the actors bidding to win the contracts from the purchasing party. In an attempt to influence the buying parties perceived of having more power in the trade situation, it seemed all of the organisations selling their products or services were using the rational strategy (Kipnis & Schmidt 1985). While making offers to the buyer during the bidding of the contract, it can be assumed all of the sellers were offering the buyers something which they presumed would "maximise the expected value of some outcome important to the target" (Somech& Drach-Zahavy 2002).

Drastic change of strategy

In the aftermath of the global financial crisis, EMG was looking for new revenue streams. Managers in its European headquarters created a new strategy which would create new business for the MNC; instead of offering products and related services to its customers (mainly to manufacturers), it started to offer holistic solutions to the end-customers. EMG had realised with the product portfolio it had, it could create higher level of value to the end-customer by offering improved features in the vehicle. However, the only obstacle for this epiphany was that the actual purchasing decision would be made by the manufacturer as the manufacturer was still responsible for assembling the vehicle. Hence, the three separate dyadic relationships changed into an international business-relationship triad (see figure 2).

One of EMG's managers explained the transformation: *"This is the, we changed strategy here, it was volume driven and now we needed to change this to value driven, which would be the way to actually find the business growth back…the challenge in the whole business is that, they are actually stuck on wrong KPI's"* (Manager at EMG). As EMG already had a relationship with the end-customer it approached the customer explaining the additional value it could create to the end-customer's product. This was perceived of being a rational strategy (Kipnis & Schmidt 1985; Somech & Drach-Zahavy 2002) to approach a member of the triad which had the power to make the purchasing decision of the end-product as EMG was arguing on creating improved levels of value to the customer (Somech & Drach-Zahavy 2002). The end-customer accepted EMG's proposal and demanded the manufacturer to purchase everything that was needed from EMG for it to create the value adding solution to the end-product. Subsequently the strategic change of EMG had changed the power relations between the triad; while the manufacturer had had power over EMG in the dyadic relationship they had had before, due to the end-customer's demands, the manufacturer was no longer in a position to choose the suppliers it wanted. As one would expect, the manufacturer was not thrilled

about losing its power position which the role of being a buyer had given it legitimacy before. "*The sales case was a failure…our relationship with the manufacturer suffered major setbacks and we have had to work hard ever since to get back to their graces*" explained one of the managers of EMG's Asian subsidiary. Going through the end-customer seemed to have disturbed the internal processes of the manufacturer related to its procurement and further pricing the end-product. Furthermore, as EMG was still trading with the manufacturer, the friction in the relationship was worrying; would the manufacturer anymore select EMG as a supplier if the end-customer was different?

The change in the power relationships of the triad was analysed to have been accomplished by EMG first utilising the end-customer's legitimacy as the buyer of the end-product (legitimacy power perceived by the target (the manufacturer)), and secondly by using a rational power strategy with the end-customer through negotiating the added-value argument to the end-customer (e.g. Somech & Drach-Zahavy 2002) which transformed into a hard strategy, originally coming from EMG yet manifested through the end-customer's strict demands, changing the manufacturer into the target. Therefore, this finding of used power strategies in international business-relationship triads suggests in this case that third party influencers can be used to gain leverage in asymmetric power relations in cases where the third party holds power over the target. This type of strategy is defined as an intermediary power strategy. Figure 3 elucidates the changes of the power relationships in the triad. Before EMG's strategic change, the power position had been held by the purchasing party; the end-customer being the dominant actor against the manufacturer, the manufacturer being the dominant actor against the supplier, and the end-customer being the dominant actor against the supplier. After EMG's strategic change, the power relationships turned so that the supplier became the dominant actor against the manufacturer and the end-customer, and the end-customer remained the dominant actor against the manufacturer.

## LIMITATIONS OF THE STUDY AND FUTURE RESEARCH

One of the limitations of this study was gaining access to the right people from all of the organisations of the triad. As the topic could be perceived rather sensitive and the implications of the power change still raw, a more thorough interpretation of the situation could have been perhaps developed if it would have been possible to interview more people from all of the three organisations. This study was executed using a single case case study approach, focusing on EMG, an MNC as an actor in an international business-relationship triad. The aim of this study was not to generalise but to develop theory through rich data and high levels of contextualisation (e.g. Dyer & Wilkins 1991; Dahlgren & Söderlund 2001). For future research, a comparative analysis might be beneficial (Eisenhardt 1989), based on which theoretical hypotheses could be further developed.

## CONCLUSION

This study explored the power relations of a strategically transforming MNC and its immediate business environment; an international business-relationship triad. The research aimed at explaining what type of power strategies are utilised in specific power relations in the context of international business-relationship triads. The theoretical implications of the study built on the frameworks of French & Raven (1959; also Raven 2008) and Somech and Drach-Zahavy (2002) by identifying how different power strategies were used utilising the understanding of the explanans of the specific power situations. In asymmetric power relationship where the base of power (French & Raven 1959; Raven 2008) relied on legitimacy (buyer-seller), rational strategies (Kipnis & Schmidt 1959; Somech & Drach-Zahavy 2002) were used to improve one's position with the attempt of accomplishing favourable outcomes. The legitimacy of the dominant actor was perceived by the targets; the non-dominant actors. It was also found that a drastic change of an MNC's strategy

transformed the composition of its value system into an international business-relationship triad which had subsequent changes in the established power relationships of each of the dyads inside the triad. The change in the power relationships of the triad was created by the supplier first utilising the end-customer's legitimacy as a buyer of the end-product (legitimacy power perceived by the target), and secondly by using a rational power strategy (Kipnis & Schmidt 1959; Somech & Drach-Zahavy 2002) with the end-customer through negotiating the added-value argument to the end-customer (e.g. Somech & Drach-Zahavy 2002). In the process of the supplier influencing the other triad members, the rational strategy, originated by the supplier, transformed into a hard strategy through the end-customer's strict demands towards the manufacturer, subsequently changing the power position of the manufacturer from dominant to non-dominant. This strategy was conceptualised as the intermediary power strategy. This finding of used power strategies in international business-relationship triads suggests in this case that third party influencers can be used to gain leverage in asymmetric power relations in cases where the third party holds power (reward, coercive, legitimate, expert informational, referent (French & Raven 1959; Raven 2008)) over the target. The managerial implications of the study suggest not only evaluating the power relationships of one's own company and the transacting partner but also evaluating the dyadic power relationships of key players in the company's business environment in order to detect possibilities to gain leverage through the intermediary strategy.

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**List of Figures**

**Figure 1** Typical Value Chain

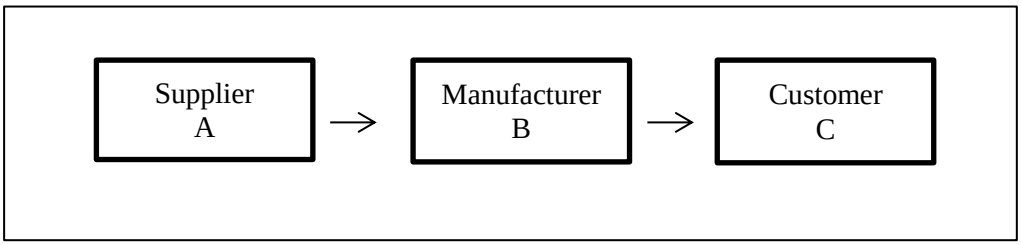


**Figure 2** International Business-Relationship triad

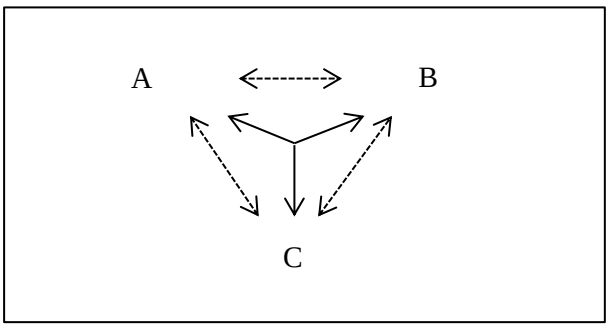
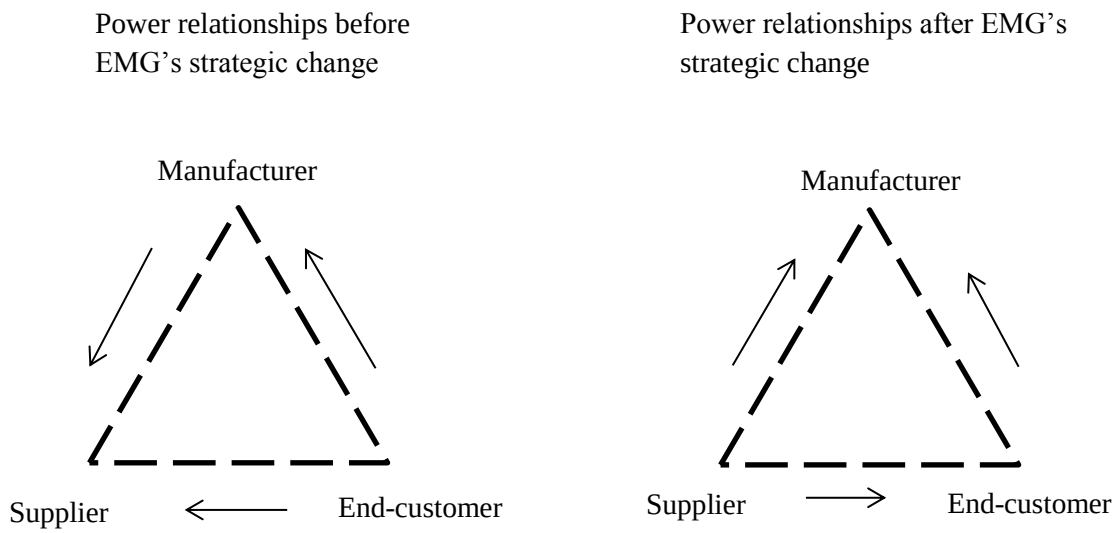



**Figure 3** Changing power relations in the international business-relationship triad




## List of Tables

**Table 1**

| Data | Number of data collection events | Number of persons interviewed/talked to |
|---|---|---|
| Interviews | 6 (lasting 1-2 hours) | 10 |
| Real-time data collection occasions | 7 (lasting 1,5-2,5 hours per meeting) | 10 |
| Workshops | 2 (lasting approx.5 hours each) | 10 |