

## **USING POWER IN BUSINESS RELATIONSHIPS – OLD WINE IN NEW SKINS?**

**Abstract.** *Since many decades there is discussion going on about positive and negative sides of power in supply chains. The main two areas of supply chain management are cooperation (aligning interests) and coordination (aligning actions), which should be addressed separately. We posit that power can be considered one of the strongest and influential tools for supply chain management. Therefore, there is a challenge to find out what power is in general and how different types of power can be exercised through different means in supply chains for managerial and business purposes with specific attention to cooperation and coordination issues. To answer our research questions we conducted over 40 interviews with experts in the field of Russian agri-food business.*

**Keywords:** power, management, coordination, cooperation, Russian agri-food business.

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## **1. Introduction and research aim**

Worldwide a group of global players with enormous power has emerged among food manufacturers and food retailers. Since market opportunities in their saturated home markets are often not as favourable as in transition or developing markets, it is observable that these giants internationalize or globalize their businesses (Lyson and Lewis Raymer, 2000; Fernie et al., 2006; Hanf and Dautzenberg, 2009). When these powerful food retailers and processors enter a new country they face the challenge to build up their procurement and distribution systems. Often one observes that in these cases such companies ‘export’ their business models or supply chain management concepts from home that are based on two main areas of interest: cooperation and coordination (Hanf and Piniadz, 2007; Belaya et al., 2012).

Cooperation within the supply chain network is based on the individual motivation of its actors. It is resolved by aligning interests through formal mechanisms such as contracting (where possible) (Williamson, 1975). Informal mechanisms such as identification and embeddedness may also serve to align interests (Granovetter, 1985; Gulati, 1995; Gulati and Sytch, 2007; Kogut and Zander, 1996). Since cooperation is not always purely voluntary, powerful focal companies have a major impact on how collaboration is practiced along the chain. Some supply chain actors may be forced to participate; others are not fully supportive of the idea to cooperate or desire more influence or support in the collaboration process. There appears to be a spectrum of collaborative relationships between forced participation and equal matching. Ideally the relationship should be based on equal matching (Kampstra et al., 2006). That is why the focal actor managing the whole supply chain network should use its power to align the interests of individual entities and stimulate active cooperation among the actors.

Solving the problems of cooperation, however, does not automatically help to achieve coordination (Gulati and Singh, 1998). A supply chain network requires a great deal of coordination among the partners and these can only be efficiently aligned by a sophisticated management concept (Bogaschewsky, 1995). Whereas cooperation problems are rooted in motivation, coordination problems arise due to the limitations of participating actors that hinder them from possessing comprehensive knowledge of how others will behave in situations of interdependence. Problems of coordination emerge due to the lack of shared and accurate knowledge about the decision rules that others are likely to use and how one’s own actions are interdependent with those of others (Geanakoplos, 1992; Milgrom and Roberts, 1992). Coordination problems are situations in which one does not know which decision aligns best with other decisions in the chain or network. Various solutions for coordination problems have been formulated in a two-party context, like setting prices or quantities (income rights), organization/centralization (decision rights), regular meetings, installing information and communication technologies. In case of coordination problems, solution mechanisms have to aim to enhance shared and accurate knowledge about the decision

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rules that others are likely to use and how one's own actions are interdependent with those of the others (Gulati et al., 2005). Formal mechanisms include e.g. programming, hierarchy, and feedback while informal ones include e.g. leadership, norms, and culture.

Simplified one could say in the context of supply chain management powerful focal firms aim to achieve via cooperation and coordination that their suppliers and buyers are doing exactly what the focal firms want them to do (maybe even against their will). Recognizing that this statement exactly mirrors the definition power we have been surprised to notice that the fact that power can be used as a tool to coordinate and manage interfirm collaborations does not appear to be covered sufficiently in the literature. Instead, some works on business-to-business relationships indicate that trust as an important tool for managing interorganizational relationships (Priesmeyer et al., 2012). Some scientists assert that power negates cooperation (Naudé and Buttle, 2000) and even call power to be the antithesis of trust (Kumar et al., 1998), therefore being considered the opposite of what it takes for a relationship to function. However, some works mention that power can be seen as a mechanism for achieving coordination and cooperation amongst channel members (Stern and El Ansary, 1992).

But it gets also clear that in order to understand how to use power for managerial purposes, it is necessary to clarify it. Many of the authors who have studied power agree to that there seems to be a problem in defining the concept correctly. Bierstadt (1950) states that in the entire lexicon of sociological concepts none is more troublesome than the concept of power. Barnes (1988) claims that "power is one of those things, like gravity and electricity, which makes its existence apparent to us through its effects, and hence it has always been found much easier to describe its consequences than to identify its nature and its basis" (p. ix). According to these statements, power is and remains one of the most central and yet problematic concepts in many sciences. In spite of the fact that the discussion on power has been going on for many decades now, it is still necessary to shed new light on this concept as a managerial mechanism. Thus, it would be interesting to find out whether power could be used in business relationships as "old wine in new skins".

Since the definition of power remains ambiguous, a first necessity of this article is to use several theoretical lenses in order to elucidate the concept of power. The second aim of our article is to create a set of hypotheses about the existence, sources, distribution and effects of power as a managerial tool in agri-food supply chains. We test our hypotheses by conducting 40 exploratory expert interviews with the aim to reveal the opinions of experts in the field of Russian agribusiness about power in the relationships of international food retail and processing companies with their suppliers in Russia.

## 2. Theoretical background and hypotheses

### 2.1. Power in the light of different theoretical backgrounds

In spite of the fact that during the last several decades power has been receiving special attention of sociologists, psychologists, economists and political scientists who have directed their efforts towards its clarification, it still remains an elusive concept that has a variety of meanings and definitions, and there has been much disagreement as to the precise meaning of power (March, 1966; Wrong, 1979; Pfeffer, 1992; Astley and Sachdeva, 1984). In fact, the problem with defining power is that there are many various definitions and conceptualizations of power. For example, Dahl (1957) pointed out the multitude of power conceptualizations in the following way: "...all we have or can have is a great variety of operational concepts no one of which is strictly comparable with another... Perhaps we should label them: power 1, power 2, etc." (p. 212). Some authors who worked on this problem agree that power is an extremely troublesome, elusive, notoriously evanescent and subjective concept (Bierstedt, 1950; Bachrach and Baratz, 1962; Ramsay, 1996), a vague, poorly defined 'primitive' term (Hage, 1972) and a difficult idea to pin down (Clegg et al., 2006).

In fact, generations of sociologists, psychologists, political scientists and economists have spent a lot of effort to clarify the meaning of the concept of power. Cartwright (1959) even points out that a lot of authors 'invent' their own definitions to suit their needs. Following the advice of Bacharach and Lawler (1980), who state that "when doing research in order to capture the term of power we must identify a more concrete phenomenon or idea to which the primitive term points" (p. xii), we made a literature review before using the term 'power' in our research. However, we do not intend to provide our own new definition of power. Our aim is rather to understand what is it which is meant by 'power' and how we can conceptualize it for using it in the context of agri-food supply chains.

The sociological view of power is widely represented by a group of exchange theories, in which social interactions are seen as exchanges among multiple actors. Quite a number of theories underline the close connection of power to wealth and ownership of valuable objects or resources. A starting point for our discussion of power from the sociological perspective could be event-structure theory, which uses the conception suggested by Dahl (1957), who defines power of  $A$  over  $a$  in terms of "the probability that  $a$  will do  $x$  in response to  $A$ 's request minus the probability that  $a$  would do  $x$  in the absence of  $A$ 's request" (p. 203). Dahl's definition can be understood as referring to that special subset of causal relations he chooses to call power. In the event-structure theory the concept of power is broadened to include not only what  $A$  makes  $a$  to do, but also what he prevents  $a$  from doing.

In the social exchange theory relations are viewed as power relations and the outcome of any particular exchange depends upon the relative power of the participants. Power is viewed as the mechanics that can explain these relations among

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participating actors. Homans (1974, p. 23) states that “*A*’s power over *B* is the extent to which *A* can affect *B*’s behaviour (through exchange)”.

According to the rational choice theory, in which all actions are assumed to be fundamentally rational in character and actors calculate the likely costs and benefits of any action before deciding what to do, the notion of power is a generalization of the wealth concept in economic theory (Fararo, 2001). *A*’s power over *B* is the greater, the less resources or wealth the first exchanges with the second (Zafirovski, 2003).

Network exchange theory has its peculiarity in the fact that it puts power in relation to nodes and positions in the network which allow achieving favorable outcomes. Cook et al. (1983) define power in any dyadic exchange as relation *AB*, the power of *A* over *B* is the potential of *A* to obtain favorable outcomes at *B*’s expense.

Resource dependency theory views social relations in terms of mutual resource dependence between parties. Therefore, power is based on the control of resources that are considered strategic within the organization (Pfeffer and Salancik, 1978) and is often expressed in terms of budgets and resource allocations (Pfeffer and Moore, 1980; Mudambi and Navarra, 2004). Therefore, according to resource-dependency theory power is conceptualized as the amount of resources controlled by actors and offers a view that power is proportional to the degree of dependence among actors acquired either through control of scarce resource or something else.

The discussion of power from the economic and managerial point of view is reflected by the transaction cost theory which rests on the basic premise that firms try to internalize those activities that they are able to perform at lower costs. According to Williamson (1975) each partner is motivated by the self-interest of retaining an advantage for themselves and that a situation of power must be the ideal position to be in. As a result, the firm with most power seeks to minimize its transaction costs, and the less influential channel member is forced to bear the burden of increased transaction costs involved in an exchange process by incurring more transaction specific investments.

From the point of view of agency theory which is concerned with resolving two problems in agency relationships the conflict of the desires or goals of the principal and agent and the problem of risk sharing that arises when the principal and agent have different attitudes towards risk, the key problem is that principal always tries to act in such a way as to align agent’s interests with those of his own and, therefore, to retain power over the actions of the agent (Eisenhardt, 1989).

Another approach to power is provided by the game theory. For example, the prisoner’s dilemma constitutes one of the problems in game theory. No matter what the other player does, one player will always gain a greater payoff by playing defect. The amount of payoffs determines the power of the player. The game theory concept that is closest to the notion of power is bargaining power (Osborne and Rubinstein, 1990), which is determined by the extent to which players can influence the division of contested resources.

The theory of competitive strategy views power in terms of supplier and buyer power driven by the number of major customers of a supplier’s component, a

supplier's market share of a given component, the number of suppliers from which a buyer purchases a particular component, the number of potential suppliers for a given component, and the amount of revenue a supplier generates from a single buyer, the uniqueness of the product or service, as well as the cost of switching from one product to another (Porter, 1980).

There are also perspectives on power formed by supply chains and marketing channels literature. Most definitions of power within studies on marketing channels are based on the definition by El-Ansary and Stern (1972), who define power as "the ability of a channel member to control the decision variables in the marketing strategy of another member in a given channel at a different level of distribution" (p. 47). Power in supply chains is defined as "the ability of a firm to own and control critical assets in markets and supply chains that allow it to sustain its ability to appropriate and accumulate value for itself by constantly leveraging its customers, competitors and suppliers" (Cox, 2002, p. 3). Hu and Sheu (2005) view power in terms of a strategy-influencing source that is oriented from one channel member to another. As a result, power is viewed as an effectively applied means to gain certain objectives by utilizing influence strategies, once the power over another firm was attained (Hu and Sheu, 2003; Payan and McFarland, 2005).

As stated by Dobson et al. (2003) power in the context of retailing arises from the ability of leading retail firms to obtain from suppliers more favourable terms. According to the view of OECD this favourable terms may be reflected by the ability of a retailer in relation to at least one supplier to threaten to impose a long term opportunity cost: "Retailer A has buyer power over Supplier B if a decision to delist B's product could cause A's profit to decline by 0.1 per cent and B's to decline by 10 per cent"(OECD, 1998, p. 3). In any case it is agreed upon that there has been a shift of producer power towards buyer power, where more powerful actors on the chain tend to increasingly apply aggressive bargaining strategies, resulting in lower prices and margins for producers (Dobson et al., 2003; Shreck, 2005; Pelău, 2008; Swinnen and Vandeplas, 2009).

All in all the discussed theoretical views offer each a unique way of grasping the basis of where power comes from depending on the theoretical view according to which the environment and interacting entities are conceptualized. A number of sociological theories have equally defined power as a specific type of relation not only between individuals as in psychology but also within a group of persons or among groups. Therefore, we may conclude that from a sociological perspective power is an ability to intentionally make someone do something in order to fulfill one's own will or goal against existing resistance from the side of the weaker party in a dyadic relationship or within a group. The economic view reflects the assumption that firms act according to the principle of partially rational and partially bounded rational behaviour, and that actors are motivated by the possibility of making a profit. Power in economics is associated with payoffs, possession of valuables, minimizing costs and maximizing gains and with the aim to gain as much profit for themselves as possible

even if this requires aggressive acts and coercion. We can draw the conclusion that power is used to influence decisions, actions and behaviour of other individuals for own profit and represents optimal and efficient behavior of the power holder.

## **2.2. Role of power in supply chains**

For many decades there has been a discussion going on about the positive and negative sides of power. The negative side of power is seen in exercising coercion, which may reduce the frequency of exchange among actors and hinder conflict resolution (Lawler and Yoon, 1996) as well as create difficulties in fostering the information flow which threatens successful negotiation of an exchange (Giebels et al., 1998). Some research shows that power makes trading relations less cooperative and that power increases intra-channel conflict and decreases satisfaction (Gaski, 1984). Others argue that power places an overbearing advantage in the hands of retailers, which allows large and superior firms to exploit the small ones (Tokatli, 2007) to obtain superior economic returns (Perrow, 1970; Dore, 1983) and higher margins (Ailawadi et al., 1995). Suppliers have little choice but to comply with retailer demands and learn to live with inequitable returns (Corsten and Kumar, 2005). However, the concept of power is not necessarily opposed to the concept of cooperation (Dapiran and Hogarth-Scott, 2003) and should not always be seen in a negative light for a weaker party. A number of authors claim that power imbalance is not a barrier to the formation of close and workable relationships and demonstrate that suppliers achieve greater economic performance and develop their capabilities in collaborative relationships with powerful retailers (Corsten and Kumar, 2005).

Thorelli (1986) considers power a central concept because of its ability to condition others and to stimulate necessary actions without the emotional attachment trust creates (Ireland et al., 2005). So this ability of power distinguishes it and allows using it as an effective tool in coordinating and promoting harmonious relationships, solving conflicts, and enhancing performance of the whole network and its members (Bierstedt, 1950; Blau, 1964; Bachmann, 2001). Power also corrects organizational problems, when incomplete contracts fail; it intervenes and lets the transaction work itself out (Sodano, 2006). Stern and Heskett (1969) theorize that power plays can be used to achieve integration, adaptation, and goal attainment in marketing channels. However, in order to discuss the effects of power on supply chain management, one needs to be specific about the nature of the power and its origins.

In order to use power the power holder needs to apply specific mechanisms or tools, which can be targeted to a specific channel member and to a specific behavior or performance. Possession of power does not mean that it has to be necessarily used. We refer to the phenomenon 'power mechanism' which indicates the communication mediator by which power subject becomes aware of the existence of power. Drawing upon the statement of Stern and Heskett (1969, p. 299) who said that "power need not imply coercion or use of force; it may be any degree of compulsion from the gentlest

suggestion to absolute domination”, we delineate the power mechanisms each corresponding to their power types (French and Raven, 1959; Raven and Kruglanski, 1970; Hunt and Nevin, 1974): coercive power and non-coercive power (legitimate power, referent power, expert power, informational power, reward power).

In the context of supply chains and networks, research has shown that the role of power is crucial in that through its interactions with other elements of the relationship atmosphere, it can seriously impede cooperation (Cox, 2001; Tokatli, 2007; Yaqub, 2009). On the other hand, Bachmann (2001) states that power can be seen as a mechanism for coordinating social interactions efficiently and for allowing relatively stable relationships to develop between cooperating social actors.

Substantive literature has found that coercive power leads to an undesirable cooperative relationship (Brown et al., 1995; Maloni and Benton, 2000; Benton and Maloni, 2005). The use of coercive power may have a negative effect in the sense that the weaker parties may lose interest in the relationship. However, some authors see coercive power as having a positive effect in promoting coordination and development of stable relationships (Stern and E1-Ansary, 1992; Bachmann, 2001). Non-coercive power does not include any aggressive elements which may produce friction in the relationship, but fosters a relatively high level of agreement between the interacting parties (Frazier and Summers, 1984). Moreover, the use of non-coercive power helps increase financial and social benefits (Wilkinson, 1979). Therefore, this kind of power can help promote common interests and collective goals within the relationship, as well as enhance a friendly and constructive atmosphere.

*Table 1*

**Research questions and assumptions about existence and distribution of power in supply chains and networks in Russia**

<b>Research questions</b>	<b>Research hypotheses</b>
Does power exist in supply chains and networks at all in Russia?	<i>H1: Power exists in supply chains and networks</i>
If yes, how is power distributed among supply chain actors and why?	<i>H2: Power is asymmetrically distributed among actors in supply chains and networks</i>
Which supply chain actors possess more power than the others and why?	<i>H3: The closer the supply chain actor is towards the consumer along the supply chain, the more power it possesses (retailers are the most powerful, etc.)</i>
Can power be classified according to the framework of French and Raven (1959)/Raven and Kruglanski (1970)/Hunt and Nevin (1974)?	<i>H4: Power can be classified according to the framework of French and Raven (1959)/Raven and Kruglanski (1970)/Hunt and Nevin (1974)</i>
What is the perceived effect of using power for cooperation and coordination in supply chain management?	<i>H5a: Power has a positive effect on coordination H5b: Power has a negative effect on cooperation</i>

**Source:** own illustration.



### **3. Empirical study of Russian agri-food business**

#### **3.1. Method, data and sample**

To answer our research questions we conducted 40 exploratory expert interviews with the aim to reveal the opinions of experts in the field of Russian agribusiness about relationships of international food retail and processing companies with their suppliers in Russia. The interviews were held from the 19<sup>th</sup> of October 2009 till the 29<sup>th</sup> of January 2010. 40 telephone semi-structured in-depth interviews lasting from 15 to 60 minutes per respondent were carried out. The questions were first pre-tested on 5 personal interviews. The aim of the pre-test was to test the quality of the formulated questions and to obtain individual reactions to draft materials. The results of the pre-test were used to improve the questionnaire design and contents. Then the interviewees were informed about the interviews via email. After receiving their consent, the calls were given at the time appointed by the interviewees. We made a thorough selection of the interviewees which were chosen according to their leading positions in order to effectively gather relevant information (Blankertz, 1998; Merkens, 2000; Patton, 1990). Specifically, we employed an expert (concentration) sampling (Patton, 1990). The persons chosen were in positions with a high level of concentration of appropriate information. The applied technique makes particular sense in view of the above mentioned research questions.

The main motivation behind conducting expert interviews was to explore the current situation in Russia in order to be able to refine our theoretical assumptions at this stage of the research. We observe that international retailers and food processors usually export their business concepts, such as supply and quality chain management. Such companies with Foreign Direct Investments (FDIs) are influencing supply chain management concepts in Russian agri-food business at all stages of the chain. Foreign retailers introduce their new procurement and management concepts while working with local food processors, as well as directly with producers. International food processing companies impose their management concepts on Russian producers and motivate them to improve the quality of the supplies. At the same time a lot of Russian retailers and processors begin to copy the management strategy of foreign companies, so there is a spill-over effect on Russian management.

The biggest share in our sample belongs to business consultancy companies (24%). The interviewees were holding very high positions (partners, project coordinators, general directors and business consultants). The next big groups in our sample included retail and food processing companies (15% each). Agricultural producers in our sample had a share of 10%. We also interviewed experts from three producer associations: Russian association of milk producers, Russian association of retail companies and German agriculture association. Besides, in our sample we included four academic, higher education and research institutions in Russia and Germany (working on Russian agri-food business). Further interviewed experts were from market research companies, market research institution conducting research on

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Russian retail sector as well as policy makers from the Russian State Duma and other international agricultural policy research institutions (See Appendix 1 for more details).

Since the contents of the expert interviews in our study were available in written form and since we have not conducted structured interviews, thus, having no basis for analysing any quantitative aspects, we decided to conduct a qualitative content analysis. According to (Patton, 2002) the main goal of qualitative content analysis is to identify relevant information through categorizing the body of content and, thus, to better describe the message of the material by determining the existing regularities in the body of the text. This approach allows us to understand the social, relational and emotional background of the study. Therefore, the qualitative content analysis suits best to analyse and interpret the results of the data at hand. During the first stage of the analysis the transcripts of the interviews were carefully read. The next stage included searching for the possible answers to the raised research questions and analysing the data systematically and transparently.

### 3.2. Main results and discussion

The following table shows the main findings from the expert interviews according to the research hypotheses. In this section we describe and interpret our findings.

Table 2

#### Findings from the expert interviews according to the research hypotheses

Research hypotheses	Fully confirmed	Partially confirmed	Not enough information
H1	x		
H2	x		
H3		x	
H4	x		
H5a			x
H5b			x

Source: own illustration.

#### 3.2.1. Existence, sources and distribution of power in supply chains (H1, H2, H3)

We asked our interviewees about where they think power actually comes from. Among the answers were: access to the market; number of alternative buyers or suppliers; access to resources; switching costs; size of the company; expertise in management and logistics systems; good connections with administration. One of the interviewees said that the following principle is working in the dairy industry “*he who has access to the market, he has the power*”.

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Other opinions regard the issues of competition. If there are many suppliers and few buyers – the classical illustration of the model of Porter – then the buyers have more power. If it is the other way around then the suppliers have more power. In other words, the bigger the number of the agents, the higher is their bargaining power. Since there are more suppliers than processors and retailers, suppliers have less power.

Access to resources was mentioned as the next condition of having power. One of our interviewees stated: *“Power has anyone who has access to critical resources. Even the seller of theater tickets will apply his power on you, because you do not have what he has. The same situation is in the food industry. If you have a resource which others do not have and would like to have, and it gives you power.”* Those companies which have capital and financial resources are more powerful. Foreign companies have a better chance to attract foreign banks; therefore, they become more powerful than Russian companies with insufficient financial resources.

Another condition of having power is dependence. After establishing long-term relationships both partners become dependent on each other due to developed working systems, commitment, etc. They cannot exchange the partner right away, which makes them vulnerable and less powerful.

All of the mentioned conditions of bases of power were found to be consistent with the classification of power according to French and Raven (1959). For example, access to the market and the number of alternative buyers or suppliers are evident bases of legitimate power; the size of the company and good connections with administration reflect the possession of referent power; expertise in management and logistics systems is a clear base of expert power; access to resources could be regarded as a base of reward power.

The most powerful in the supply chain are the retailers because they have direct contact with consumers. Since retailers have a lot of suppliers to choose from, they may dictate their terms of trade. Nowadays, the power is on the side of the retailers. All suppliers dream about working with a big retailer. Agri-food suppliers in Russia have no or very little power over retailers. It is connected with the competition among the suppliers. Retailers offer suppliers very attractive ways of selling their products and have direct contact to consumers. They often have more information on consumers' preferences and demand. Our interviewee from the retail sector said: *“I would say that we have power parity, since there are also some big branded processors which have not less power than retailers.”*

With respect to producers one can say that power is in the hands of the processors. There are several reasons for that. First of all, the processors represent a very important channel for agricultural products. Since producers cannot process, they are dependent on processors to buy their agricultural products on time and at a good price. One of our interviews remarked: *“Can you imagine, if the producers produce their milk and cannot sell it? They have to have reliable processors which will buy their milk and market it further.”*

The power of suppliers differs depending on the status of the supplier. When it is a preferred supplier he has more power than a small and unknown supplier. Power is generally said to be in the hands of retailers, though some big branded international as well as Russian processors might also have a lot of power over the retailer.

### 3.2.2. Classification of power (H4)

We were told that in Russia there is a system of bonuses and fees which retailers use with their suppliers. Retailers take a payment for each assortment position, or SKU (Stock Keeping Unit). Sometimes instead of SKU other terms are used, but the essence of calculations with suppliers is the same. One interviewee explained to us how the mechanisms of punishments and rewards are used on the example of milk: *“Actually suppliers of milk are already used to indirect sanctions and punishments. For example, depending on the number of bacteria in the milk they are paid according to the quality classes. If the milk contains no more than 150000 bacteria, it belongs to the 1<sup>st</sup> class and is paid with 11 rubles per kg. If this number is between 150000 and 250000 the milk is 2<sup>nd</sup> class and is paid with 9 rubles per kg. So if the farmer wants to get more money, it is motivated to deliver better quality milk.”*

With regard to using information exchange as a means of influencing the suppliers we were told that: *“Under no conditions the key information can be shared in Russia. This is a rule – no one shares the information – regardless of the status the relationships have.”*

We were able to classify the mechanisms which were mentioned by the interviewees according to the power types:

- *coercive power* (cutting the price; terminating the relationship; delistings; fines; payments for accommodation of the goods on a shelf; replacement of the Russian operators due to a difference of credit rates; establishment of an economic pressure in process of achievement of a monopoly position; long period of payment from retailers for delivered goods (between 45 and 120 days); obligation of the supplier to pay the “entrance ticket”; compensation to the retailer in case of robbery in the supermarket; obligation of the supplier to lower the price during the time of promotions and discount periods in the supermarket; obligation of the supplier to pay the costs of exchanging the goods from the shelves of the supermarket in case of low demand by consumers; obligation of the supplier to pay the costs of advertising in the mass media and promoting the goods; providing to the retailer the monitoring of the prices for the specific goods in the region);

- *non-coercive power* (written contracts; lobbying of interests through power structures at a legislative level; negotiations and discussions; investments into the production and cooling equipment; financial assistance to producers in the form of credit or leasing; assistance programs with farmers to guarantee the quality of the products; trainings and educational activities; attractive terms of payment, quality audit; regularly controls our production process; financial support and technical assistance programs for suppliers; transfer of know-how and innovative technologies).

3.2.3. *Effects of using power (H5a, H5b)*

With regard to the effect of some mechanisms on relationship our interviews recommended using specific mechanisms for establishing long-term relationships and others for achieving better coordination in the chain. We were told that in Russia it is not recommended to rely on promises made in an oral or informal way. Everything has to be written down in order to make sure that the contractual arrangements will be fulfilled. Such mechanisms as emotional appeals do not function in Russia. People are motivated by full purse and financial stimulation. Only if people know that they will have price cuts for insufficient quality or not punctual delivery, they will follow the rules of the game. As far as educational and consulting activities are concerned Russians need to be accompanied at all steps of the projects. Consulting services should really be project-bound and constant. The same is true for monitoring of Russian producers' activities. In order to make sure that everything goes well, foreign partners need to check and watch the development from the very beginning. In that case Russian producers also appreciate international companies which offer assistance and are always there for them at any stage of the project.

Such mechanisms as threats and penalties were considered to be not very effective because they show that the company has aggressive intentions. One of our interviewee from the retail sector said to us: *“We do not use any coercive means such as threats, sanctions or fines, because they do not allow us to reach our goal which is to have long-term relationships with our suppliers. Any kind of coercive measure may destroy the motivation of the suppliers, therefore we use other worked out management approaches with our suppliers, but not punishments.”* One representative of a Russian supplier company told us that they do not cooperate with big retailers because they are known for their system of entry bonuses which are in other words bribes. Big retailers were said to have in general very high demands and to be very difficult to work with. For example, big retailers might return the products to the supplier if they couldn't sell it.

Another recommendation with regard to the use of mechanisms states: *“Through contracts the buyer can guarantee the trade conditions and can punish or go to court if the conditions of the contract are not fulfilled. But the most reasonable thing would be to try to understand why the supplier cannot fulfill the certain terms of the contract and try to support it through consultation and educational activities. I think that punishments and threats are not successful in building long-term partnership.”*

Such mechanisms as bonuses and business talks seem to be more effective for maintaining a harmonious relationship. Identification with the company as well as approval or disapproval of actions was said to be not very efficient in Russia due to the Russian mentality. Collaborative discussion, persuasive arguments, educational activities or qualification opportunities are used for suppliers which are motivated and interested in long-term work. Such mechanisms as financial support and technical assistance programs for suppliers, transfer of know-how and innovative technologies

were reported to be successful for creating long-term relationships with suppliers. In order to control suppliers in Russia the penalties and fees might be effective the first time, but they do not solve the problem at its root. One needs to investigate why the supplier cannot fulfill its contractual obligations.

#### **4. Conclusions and managerial implications**

Being encouraged by the statements about the complexity and multi-faceted nature of power found in the literature, we have attempted to shed light on this matter by examining power in the context of various theoretical backgrounds. In most theories no matter from what origin they are it is agreed upon that when one has power he has access to more material resources such as financial resources and physical comforts, as well as social resources such as higher esteem, praise, and positive attention. When people have low power they are subject to more social and material threats, especially the threat of losing favor among the powerful. Among the various definitions of power there are subtle nuances, but the definitions generally seem to represent attempts to capture the idea that power has something to do with the way people affect or have the capacity to affect other people in a direction which is compatible with their own wishes or preferences. There is no doubt that power generally refers to the ability to affect, influence others, to make, achieve, get things done in order to fulfill one's own will or interest.

Thus, these findings indicate that for managerial purposes power has to be used differentiated or more faceted as normally used in 'classical economics'. It views the firm as a decision unit engaged in maximizing profits studies action based on principle of rationality and directed towards the pursuit of profit within systems of exchange based on money and markets. In this sense power is conceived as a means of achieving favorable outcomes, gaining financial benefits, maximizing profits and minimizing costs at the expense of less powerful partners either through punishments or threatened sanctions. Very often this nature of power is viewed in terms of control and coercion and might have negative and destructive consequences. Emphasizing coercive power, the theories with economic origin often ignore the non-coercive side of power and its positive effects on relationships and explicitly acknowledge the costs and benefits of actions and efforts to minimize costs and maximize the profit. Particularly for the management of collaborations the non-coercive aspects of power can be of high importance.

Having examined the different perspectives of power we conclude that its definitions in different sciences resemble each other with a difference of a context in which it is applied. Power is present everywhere – in human relations, society and state, channels and networks. It always has a power holder, a target and a source, and generally refers to the ability, capacity or potential to get others do something, to command, to influence, to determine or to control the behaviors, intentions, decisions or actions of others in the pursuit of one's own goals or interests despite resistance, as well as to induce changes. One point is clear that the one who possesses power over

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another possesses the ability to cause that party to do something that it would not otherwise have done. According to our opinion, there are no considerable differences in definitions of power. Power itself as a phenomenon is defined similarly; the only difference appears to be in its origin and application. Therefore, each theory does not present a completely different and new perspective on power, but rather examines it from another angle and contributes a small part towards a holistic picture of power. This holistic view is important to keep in mind, since in reality social and psychological aspects are interacting with economic forces and this mutual interaction shapes the nature of interorganizational and business relationships.

Our findings indicate that power was indeed identified by the majority of our respondents. We were told that it may originate from access to resources; number of alternative buyers or suppliers; switching costs; size of the company; expertise in management and logistics systems; and favour of or good connections with administration; access to the market. These findings are consistent with the classification of French and Raven (1959). In general the power in the supply chain is increasing the closer it gets to the end consumer. One can say that power is generally in the hands of retailers, though some big branded international as well as Russian processors might also have a lot of power over the retailer. Since retailers have a lot of suppliers to choose from, they may dictate their terms of trade. All suppliers dream about working with a big retailer. Agri-food suppliers in Russia have no or very little power over retailers. It is connected with the competition among the suppliers. Retailers offer to suppliers very attractive ways of selling their products and have direct contact to consumers. They often have more information on consumers' preferences and demand. However, power of suppliers might differ depending on the status of the supplier. When it is a preferred supplier he has more power than a small and unknown supplier.

With regard to the effect of power on relationship our interviews recommended using specific power mechanisms for establishing long-term relationships and others for achievement of better coordination in the chain. We were told that threats and penalties are not very effective because they show that the company has aggressive intentions and might destroy the motivation of the partners. On the other side, coercive power is widely used in Russia and often could have a hidden character. For example, retailers require Russian suppliers to pay the "entrance ticket"; to provide the monitoring of the prices for the specific goods in the region; to compensate to the retailer the robbery in the supermarket, etc. Non-coercive power could include not necessarily a direct financial bonus, but rather special assistances, services or privileges like a status of a preferred or leading supplier or a special favourable self-space for their products. We were told that bonuses often have a hidden character. For example, retailers offer to suppliers not a direct financial bonus, but rather special assistances, services or privileges. They could offer them a status of a preferred or leading supplier or provide a special favourable self-space for their products.

For managerial implication this means that the actors gaining power from other parties must know that these actors still have some power that can be used opportunistically. Thus, knowing these sources can help work out influence strategies of dealing with this behaviour. Furthermore, using power does not always imply that coercive actions have to be taken. Instead knowing that power includes rewards might lead to a change in behaviour enhancing cooperation. This is particular valuable because chain management is both the alignment of actions but also the one of interests.

The preliminary results show that depending on which source the power originates from, it may have different effects on cooperation and coordination. Power may have different effects on coordination and cooperation depending on its origin and the way it is applied. It can destroy a cooperative relationship or help solving problems of coordination and aligning actions. Besides, when solving coordination and cooperation problems, managers should weigh the expected costs and benefits before using power. We hope that our recommendations can help managers to understand different interactions of these factors, and to design their management practices to successfully manage food supply chains and networks in Russia. The knowledge about these effects should be skillfully used for effective management of supply chain networks so that using power as a managerial tool is more than filling old wine in new skins.

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### Appendix 1. Information about expert interviews

No	Date of interview	Job title of interviewee	Type of institution	Duration of interview
1	19.11.2009	Expert analyst	Russian association of milk producers	25 min.
2	26.11.2009	Executive Director	Russian association of retail companies	30 min.
3	26.11.2009	Assistant of the Deputy Chairman	State Duma	30 min.
4	30.11.2009	Managing Partner	Russian consultancy company	20 min.
5	30.11.2009	Project Coordinator	Russian consultancy company	15 min.
6	01.12.2009	Managing Director	German consultancy company	15 min.
7	01.12.2009	Long-term Expert and Project Coordinator	German consultancy company	30 min.
8	02.12.2009	Manager in Finance & Administration	International branded confectionary company	15 min.
9	02.12.2009	Head of Government Department	German Cash & Carry and retail trade operator	20 min.
10	02.12.2009	General Director	Russian beef producer	25 min.
11	02.12.2009	Specialist on Operational Planning	Russian branded milk processing company	15 min.
12	02.12.2009	Key Account Manager	Russian branded milk processing company	15 min.
13	03.12.2009	Category Development Manager	International branded non-alcoholic beverage producer	40 min.
14	07.12.2009	Agricultural Policy Advisor	Russian agricultural policy representative	20 min.

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<b>№</b>	<b>Date of interview</b>	<b>Job title of interviewee</b>	<b>Type of institution</b>	<b>Duration of interview</b>
15	07.12.2009	Head Cooperations CIS countries	German agriculture association	35 min.
16	07.12.2009	Senior Researcher	German higher education institution	60 min.
17	07.12.2009	Business Consultant	German consultancy company	25 min.
18	07.12.2009	Senior Agricultural Economist	US agricultural policy research institution	20 min.
19	07.12.2009	Manager of International Sales for Retail Sector	International market research company	15 min.
20	07.12.2009	Partner	Russian consultancy company	45 min.
21	08.12.2009	Professor and General Director	Russian consultancy company	15 min.
22	10.12.2009	General Director	Russian branded meat processing company and retailer	30 min.
23	10.12.2009	General Director	German ingredients supplier for food processing industry	30 min.
24	10.12.2009	General Director	German market research institution	30 min.
25	10.12.2009	<i>Senior Credit Risk Manager</i>	International trade company	30 min.
26	21.12.2009	<i>General Director</i>	Russian grain producer	15 min.
27	23.12.2009	<i>Managing Director</i>	German consultancy company	15 min.
28	23.12.2009	<i>Professor and Senior Adviser to Director</i>	International agricultural policy research institution	40 min.
29	23.12.2009	<i>Retail Manager</i>	Russian market research institution	15 min.
30	07.01.2010	<i>Sales Manager</i>	German seeds breeding and producing company	15 min.
31	13.01.2010	Special Adviser	Federal Ministry of Agriculture	20 min.
32	13.01.2010	Consultant	Russian agricultural consultancy company	15 min.
33	19.01.2010	Category Manager of Purchase department	German retailer	15 min.
34	21.01.2010	Manager of image projects	Russian branded brewing company	15 min.
35	22.01.2010	Consultant	German consultancy company	15 min.
36	28.01.2010	Manager of Department of Operations Retail	Russian retail company	20 min.
37	28.01.2010	Manager of Department of Commerce	Russian retail company	15 min.
38	28.01.2010	Manager of Purchasing Department	Russian retail company	15 min.
39	28.01.2010	Public Relations Manager	Russian retail company	15 min.
40	29.01.2010	Professor of Marketing	Russian higher education institution	15 min.

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