DEPENDENCE DISADVANTAGE IN BUYER-SUPPLIER RELATIONSHIPS:

UNCERTAINTY AND THE EROSION OF TRUST AND SATISFACTION

Siqi Ma
Department of Supply Chain Management
Sam M. Walton College of Business
University of Arkansas, Fayetteville, AR, 72701
Phone: (479)-575-6070
Email: sma@walton.uark.edu

Adriana Hofer
Department of Supply Chain Management
Sam M. Walton College of Business
University of Arkansas, Fayetteville, AR, 72701
Phone: (479)-575-7424
Email: ahofer@uark.edu

John Aloysius
Department of Supply Chain Management
Sam M. Walton College of Business
University of Arkansas, Fayetteville, AR, 72701
Phone: (479)-575-3003
Email: aloysius@uark.edu
Extended Abstract

The following information for potential suppliers to Walmart conveys the power differential in the buyer supplier relationship: “The Supplier Agreement may be completed by invitation only, after you have completed the Supplier Questionnaire. If your Supplier Questionnaire was successful, you will receive an email with a link to the Supplier Agreement” (www.walmart.com). The power imbalance can favor the supplier as well, as conveyed by the following information for potential Apple providers: “Organizations applying for Service Provider status are required to have been in operation for a reasonable period, with audited financial records available for review by Apple. A credit line is required and must be agreed with the Apple Finance team in the appropriate region. The organization should actively promote the Apple brand as part of their business along with AppleCare service and support products.” (www.apple.com). Becoming a Wal-Mart’s supplier or an Apple service provider is a very selective and competitive process. Even though the buyer-supplier relationship is built after rigorous selection, Wal-Mart or Apple still have the ability to dominate their suppliers or service providers. This power imbalance is an active phenomenon in supply chain relationships (Cox 2011). The current research seeks to understand how disadvantaged suppliers or disadvantaged retailers react to this power imbalance, and how it affects the buyer-supplier relationship.

Resource dependence theory is the first to provide a unified theory of power at the organizational level of analysis in organizational research (Casciaro and Piskorski 2005). It assumes that an organization’s vulnerability to extra-organizational influence is partly determined by the level of dependence on certain types of exchanges for its operation with external environment (Jacobs 1974). However, the exchange of resources with the environment or other organizations are not stable and ample. Thus, it creates uncertainty or instability which threatens the continued existence of the organizations (Pfeffer and Salancik 1978). Gulati and Sytch (2007), for example, examined the effects of
dependence asymmetry on the performance of two major U.S. auto manufacturers. They found that a manufacturer’s dependence advantage was positively related to its performance in the procurement relationship, but a supplier’s dependence advantage was negatively related to the manufacturer’s performance in the procurement relationship. Casciaro and Piskorski (2005) examined the relationship between power imbalance and performance by using the data from U.S. public companies and the results indicated that mutual dependence was a key driver of mergers and acquisitions, power imbalance acts as an obstacle to their formation. Resource dependence theory (RDT), which focuses on inter-organizational relationships, gives a sound theoretical rationale for the social control of organizations. It emphasizes the importance of the external environment and characterizes organizations as open-system structures that seek to manage their levels of dependence on the environment (Stinchcombe 1965; Thompson 2011). RDT assumes two interrelated reasons for the formation of exchange relations occurring among organizations: specialization and scarcity (Cook 1977). First, most organizations perform specialized functions, but cannot access all necessary resources (Cook 1977) to fulfill the specialization. Thus, they must exchange with other organizations to obtain necessary resources available to their exchange partners, but not available to them. Second, according to Levine and White (1961 p: 20), “the scarcity of resources impels organizations to restrict activity to limited specific functions. The fulfillment of these limited functions in turn requires access to certain kinds of elements which an organization seeks to obtain by entering into exchanges with other organizations.” Thus, the scarcity on the availability of resources make organizations seek potential partners to exchange resources and then resources interdependence are created (Mindlin and Aldrich 1975). The function of the organization determines the amount of organizational interactions with exchange partners and the kinds of elements exchanged (e.g., resources, referrals, or labor services) during the relationship (Levine and White 1961). That is, some organizations need more frequent exchange or more exchange elements than others due to their functions (Levine and White 1961).
survival of these organizations depends on their exchange of resources with multiple environmental elements, including suppliers, buyers, competitors, and regulators. Thus, these organizations are vulnerable and easily affected by the environment and other organizations.

The dependence imbalance is the determinant of the vulnerability of organizations. Pfeffer and Salancik (1978 p: 40) emphasized that dependence “exists whenever one actor does not entirely control all of the conditions necessary for the achievement of an action or for obtaining the outcome desired from the action”. By this definition, although both actors are mutually dependent in an exchange, it does not mean that they are always equally dependent on each other since organizations are unique and require different amount of critical resources from each other and external environment (Pfeffer and Salancik 1978). Thus, the level of dependence varied across organizations in the exchange relationship. Furthermore, Emerson (1962) proposed an important concept of power-dependence in social exchange relations. Power fundamentally resides in the dependence of one actor on another. If an organization is more dependent on its exchange partner, the resulting net-positive dependence on the partner, or the partner’s dependence advantage, was construed as the source of partner’s power; similarly, if an organization’s net dependence was negative, then the actor was believed to have the dependence advantage and thus to be in a position of relative power (Emerson 1962).

While the literature shed light on the performance affecting of dependence asymmetry, it did not address the role of uncertainty originated from power-imbalance in buyer-supplier relationship. Thus, this paper develops a conceptual model to explain how dependence advantage affects perceived riskiness and perceived ambiguity—two aspects of uncertainty—and how those perceptions influence trust which is known to affect commitment and satisfaction in the relationship.

This paper provides two distinct theoretical contributions to resource dependence theory. First, perceived riskiness and perceived ambiguity as two completely new constructs are first introduced to
resource dependence literature to capture the aspects of uncertainty. Resource dependence theory implies resource dependence leads to uncertainty (Pfeffer and Salancik 1978), and this paper clarifies why and in which dimensions resource dependence affects uncertainty: perceived riskiness and perceived ambiguity.

Second, this paper builds the link between dependence advantage and satisfaction in the buyer-supplier relationship through perceived riskiness, perceived ambiguity, trust, and commitment. Previous research has only focused on the performance of each organization involving in the relationship (Gulati and Sytch 2007, Casciaro and Piskorski 2005). However, this paper addresses how dependence advantage impacts on the relationship, transmitting through perceived riskiness and perceived ambiguity. Dependence advantage not only directly affects trust, commitment, and satisfaction with the relationship, but also indirectly impacts on the relationship through perceived riskiness and perceived ambiguity.

In this paper, we developed five hypotheses that provide a conceptual framework: specifically, this paper hypothesizes that organizations who are in the dependence disadvantage will perceive a higher level of risk and ambiguity in the relationship; that perceived riskiness and perceived ambiguity negatively impact trust; and that trust will positively affect commitment and satisfaction in the relationship. In the last session, this paper concludes with some implications of the theoretical development. The conceptual model is presented in Figure 1.
References


