# The Uses of Power in Influencing Relationship Economic Satisfaction: An Empirical Analysis in the Automobile Industry in Malaysia

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Despite the assumption that relationship satisfaction contributes to buyer-supplier relationship, previous researches have concentrated more on factors affecting an overall relationship satisfaction and very limited research focus has been given to understand the factors that influence the economic relationship satisfaction. Using a survey method, this study explores the uses of power as antecedent of economic relationship satisfaction among 107 car dealers in Malaysia. Results have revealed that uses of non coercive power could have a pivotal effect on the economic relationship satisfaction. The evidence from this study suggests the need for enhancing theories and models relating to channel relationships.

# INTRODUCTION

In today's business environment, firms need to evolve from discrete relationship to long-term relationship which aims to reduce the cost of purchase, improve delivery time and levels of inventory, provides good customer service, good merchandise and efficient distribution systems. In this regard, small and large companies are forging partnerships with suppliers as a foundation of their supply strategies (Theng-Lau & Goh, 2005) because developing successful business-to-business relationships can be beneficial to buyers and sellers in the supply chain context, creating and delivering value to customers (Parvatiyar & Sheth, 2000). Thus, interest of researchers and marketers has become more focused on relationship building and development where, the use of a relationship marketing framework in studying supply chain relationships has gained significance both in practice and as an academic discipline (Palmatier, Dant, Grewal, & Evans, 2006).

Moreover, most of the studies on buyer-seller relationship in business-to-business markets focused on transaction-specific based satisfaction. Recent studies called for an approach to study exchange relationship rather than transaction specific relationship (Abdul-Muhmin, 2005; Homburg & Rudolph, 2001; Rossomme, 2003; Tikkanen & Alajoutsijarvi, 2002). Thus, many marketing scholars have recognised the need for an examination of the relationship aspects of buyer-supplier exchange and the components that influence relationship development and satisfaction (Abdul-Muhmin, 2005; Andaleeb, 1996; Anderson & Narus, 1984; Geyskens, Steenkamp, & Kumar, 1999; Ramaseshan, Yip, & Pae, 2006;

Rodriguez, Agudo, & Gutierrez, 2006; Selnes, 1998). Moreover, a successful buyer-seller relationship has been empirically shown to improve business performance and customer's loyalty trough stronger relational bonds. Thus, key concepts such as interdependence, trust, commitment and relationship satisfaction have been identified as key constructs influencing relational bonds to build, manage and maintain supplier-buyer relationships.

With the increasing interest in buyer-supplier relationships, satisfaction has become an important component in relationship marketing and channel theory (Abdul-Muhmin, 2005; Ramaseshan, Yip, & Pae, 2006; Rodriguez, Agudo, & Gutierrez, 2006). In business relationships, satisfaction with supplier relationship is viewed as an essential ingredient in the development and maintenance of long-term buyer-supplier relationships. The expansion and importance of relationship satisfaction in business-to-business relationship have changed the existing shape of transaction relationship between companies. This is because the importance of relationship satisfaction enables the construction of new relationship model, which was unavailable under the existing discrete transaction relationship. In other words, the satisfaction of business relationship has huge potential for enabling companies, small and large, to develop better collaboration and coordination for long-term based strategies and commitment in business relationship. Totally new competitive advantages and opportunities would open up for companies. As a result, the importance of relationship satisfaction is being emphasised.

#### LITERATURE REVIEW

During the last decade, selling and buying companies relied heavily on short-term economic transactions where each transaction was looked upon as an independent opportunity without any consideration of future contact and long-term relationships (Gummesson, 1994). But, due to the development of relationship marketing approach, firms have been attempting to improve the efficiency of transaction between buyer and supplier by long-term relationship orientation (Biong & Selnes, 1995; Cannon & Perreault Jr., 1999; Doney & Cannon, 1997; Ganesan, 1994; Jonsson & Zineldin, 2003). Most of the research on buyer-supplier relationship characterised it as long-term relationship which required suppliers to gain an in-depth knowledge on buyer behaviour and satisfaction in order for them to achieve a sustainable competitive advantage over rival suppliers.

Therefore, researchers have expressed a great deal of interest in identifying various factors that contribute in creating and maintaining satisfaction in business-to-business industry and marketing channel firms (Abdul-Muhmin, 2002; Geyskens & Steenkamp, 2000). Specifically, in marketing channel relationship, researchers have revealed that a channel member's satisfaction increases long-term orientation and continuity (Bolton, 1998; Selnes, 1998). Under such a scenario, channel members like retailers and dealers must develop good working relationships with their suppliers in order to provide merchandise efficiently and effectively to the consumer. This is because the retailers and their suppliers are interdependent upon one another and this relationship is one of the keys to successful channel distribution. Despite that, building strong relationships between manufacturers, suppliers, distributors, retailers and customers has become an important channel strategy in both industrial and consumer markets. Through the utilisation of a relationship element like relationship satisfaction, channel members could integrate various functions spread over different areas within them which could lead to greater levels of channel trust and commitment. These efforts could enhance their capability to cope with today's worldwide trend towards building closer and more integrated relationships between channel intermediaries and suppliers (Corsten & Kumar, 2005; Leonidou, Palihawadana, & Theodosiou, 2006).

In other words, interest in satisfaction in channel relationship arises primarily from the belief that establishing and maintaining a network of satisfied resellers is crucial to the long-term viability of the channel systems (Dwyer, 1980; Geyskens et al., 1999). Besides, the level of satisfaction in relationship is also an important measure of an inter-organisational relationship (Jonsson & Zineldin, 2003; Rodriguez et al., 2006). For instance, evaluating existing supplier relationships and determining the major factors that affect relationship satisfaction could lead to manufacturers, retailers or dealers strategising their way of working with suppliers, resulting in an increase in relationship satisfaction in the long-term (Andaleeb,

1996; Gassenheimer & Ramsey, 1994; Jonsson & Zineldin, 2003). For this reason, a great number of studies have attempted to investigate the antecedents of satisfaction in buyer-supplier relationships (Andaleeb, 1996; Anderson & Narus, 1990; Dwyer, 1980; Ganesan, 1994; Lewis & Lambert, 1991; Scheer & Stern, 1992; Selnes, 1998).

The previous research focuses more on overall satisfaction of relationship with less research focusing on investigating specific channel relationship satisfaction as economic and social aspects (Geyskens & Steenkamp, 2000). It requires a channel member to seriously and comprehensively consider the economic and emotional aspects that have to be invested in the relationship for further development (Dwyer, Schurr, & Oh, 1987). According to Geyskens et al. (1999), despite the important and vast empirical research attention developed on satisfaction in channel relationships, there is no consensus regarding the conceptualisation of channel member's satisfaction. Some researchers viewed satisfaction in channel relationship more as the perceived discrepancy between prior expectations and actual profits; while other researchers perceived satisfaction in non-economic, social and psychosocial terms, defining it as an emotional response to the overall working relationship with the channel partner (Anderson & Narus. 1984; Crosby, Evans, & Cowles, 1990; Payan & McFarland, 2005; Selnes, 1998). Geyskens and Steenkamp (2000) argued that economic satisfaction "is conceptually distinct and created through different practices and has a different impact on channel relationship". Economic satisfaction is described as "a channel member's evaluation of the economic outcome that flows from the relationship with its partners such as sales volume, margins and discount". By specifying the economic satisfaction in relationship, the suppliers could improve their ability to manage channel relationships.

#### **USES OF POWER**

Power is the ability to influence the decisions or actions of others. In channel relationships, power is typically defined as a channel member's ability to influence the perceptions, behaviour, and decision making of another channel member. The previous researchers defined power of channel member as the "ability to control the decision variables in the marketing strategy of another member in a given channel at a different level of distribution (El-Ansary & Stern, 1972). This definition of channel power is very much based on Dahl's (1957) and Emerson's (1962) description of power in social theory. Channel members can use power on various occasions, including the development of operational linkages, providing channel training, developing discount systems, all of which are possibly relevant to the focal exchange (Berthon, Pitt, Ewing, & Bakkeland, 2003).

Previous study by French and Raven (1959) is in line with Stern and El-Ansary (1992) which stated that these resources are known as the channel members' "bases" of power, and they include rewards, coercion, expertise, reference and legitimacy. Moreover, these "bases" of power mere classified as coercive and non-coercive by several researchers. Coercive bases of power represent a power struggle driven by force (Mallen, 1963), which may decrease the level of cooperation in relationship (Skinner, Gassenheimer, & Kelley, 1992). Non-coercive bases of power increase the value of the relationship through team support and common interests as well as promoting collective goals. Scholars have examined power as a bi-polar construct: coercive, or the ability to compel compliance by means of threats, legalistic plea and promises; and non-coercive, or the ability to compel by means of requests, information exchange, and recommendations (Boyle & Dwyer, 1995; Etgar, 1976; Morgan & Hunt, 1994).

More specifically there are many studies which indicate the association between power used by supplier and buyers' satisfaction (Frazier & Summers, 1986; Gaski & Nevin, 1985; Gassenheimer & Ramsey, 1994; Ramaseshan et al., 2006). However study by Howell (1987) on interrelations among a channel entity's power produced different findings for power bases and dealer's satisfaction. The study using covariance structure modeling reveals no relationship between partner's use of power bases which include coercive, expertise, legitimate, referent, assistance, as well as partner's power with dealers' relationship satisfaction. The reviews concluded that in channel relationship the exercise of power has become an important research objective of many marketing channel studies. It is recognized that some

form of power is necessary in inter-organizational relationships because unguided channel activity is likely to lead to sub-optimal performance (Stern, El-Ansary, & Coughan, 1996). Thus, sources of channel power and their application have been considered to be immensely important in channel management theory (Sahadev & Jayachandran, 2004). In line to this, most studies have included power as antecedents of channel satisfaction but there are mixed empirical results between use of power sources and satisfaction (Frazier & Summers, 1986; Scheer & Stern, 1992).

Researchers in distribution channels also pointed out that there is a need to extend channel power research to other locations, and to test the construct in developing economies with different cultural settings (Ramashehan, Yip & Pae, 2006). This however needs verification. Therefore, the impact of use of power sources on satisfaction further merits further investigation. Previous empirical trials showed that threats, promises, and legalistic pleas are termed as coercive use of power, while requests, information exchange, and recommendations are termed as non-coercive use of power (Frazier & Summers, 1986). Thus, for the purpose of this study, coercive power is defined as the use of direct pressure through adverse consequences of punishment in the hope of modifying the focal channel member's behavior, while non-coercive power is defined as the use of power to affect behavior of channel member's compliance through the unconditional provisions of rewards.

Furthermore, the findings of relational elements in channel relationship, have not been fully replicated in markets in developing countries (Roslin & Melewar, 2004). These underlying gaps have led many researchers to suggest further empirical research in this area (Abdul-Muhmin, 2005; Geyskens & Steenkamp, 2000; Ramaseshan et al., 2006). As a result, this study seeks to amplify the current knowledge base of dealer-supplier relationships by examining the relationship constructs such as use of power and economic satisfaction that are likely to contribute the most to success in ongoing business relationships. It is interesting to note that most previous studies on relationship satisfaction concentrated on industrial buyers and suppliers (Abdul-Muhmin, 2002, 2005; Jap & Ganesan, 2000; Sahadev & Jayachandran, 2004; Smith & Barclay, 1997) and very little research was done explicitly on the automobile dealer-supplier relationships. In line with this fact, Geyskens et al. (1999) suggested that further conceptual and empirical studies need to be carried out in different business market settings

It should also be noted that most of the extensive studies on channel relationships were in Western developed economies such as the USA (Frazier & Rody, 1991) and Europe (Johanson, Hallen, & Seyed-Mohamed, 1991). Then research has moved beyond this narrow confine. For example, Abdul-Muhmin (2002) concentrated on industrial distributors in Saudi Arabia, whereas Lee (2001) investigated a Chinese local brewery distributors relationship with their suppliers. The studies that have been conducted in non-Western countries suggest differences in channel participants' behaviours (Lee, 2001). As a result, it is questionable whether such studies can be applied universally across various countries. Sahadev and Jayachandran (2004) suggest the need for studies to be conducted on issues influencing channel members in other cultures so that such knowledge can be integrated into a general theory of the distribution system as a behavioural system. Research on channel structures in other countries would be a timely progression in the study of distribution relationship, given the issues of the applicability of channel research findings to other countries. Thus, it is important to investigate whether the same evidence can be found in a Malaysian context for automobile dealer-supplier relationships. If the findings of this study were consistent with those previous studies, then, it would be possible to identify relationship structure in the Malaysian automobile industry.

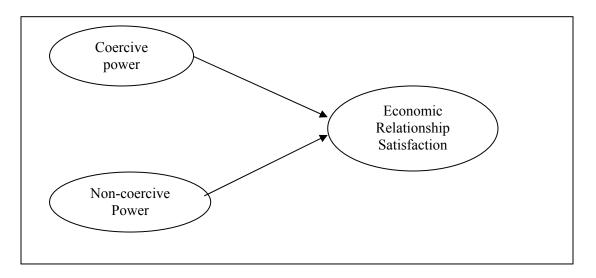
In summary, the automobile industry environment is changing more rapidly than ever before, competition is increasing, and national manufacturers are being drawn into battle with foreign manufacturers setting up businesses in Malaysia. Given the need to satisfy dealers and its importance to business success, knowledge gained in this area will be of great value to dealers and suppliers. As far as the automobile dealers-suppliers relationship is concerned, there is apparently little literature to suggest that research has been conducted in the Malaysian perspective. Thus, the present study attempts to address the gaps discussed in the previous paragraphs by investigating the relationship between the use of power and dealers' economic satisfaction with their suppliers among automobile distribution channels within the Malaysian context.

## **METHODOLOGY**

Our sample consists of car dealers in Malaysia. From the discussions in the literature review, the following framework has been constructed. Figure 1 shows that coercive and non coercive power are hypothesized to influence economic relationship satisfaction of the dealers. 300 questionnaires were distributed to new car dealers of national cars in Malaysia.

Out of this number, 109 were returned and 2 were incomplete. A total of 107 responses were usable and have been used for subsequent analysis. Thus, the effective response rate is 35.6 percent. This response rate is consider adequate and within the range reported by other researchers for channel studies (Abdul-Muhmin, 2002; Baker, Simpson, & Sigauw, 1999; Kumar, Scheer, & Steenkamp, 1995).

FIGURE 1 CONCEPTUAL MODEL FOR USES OF POWER AND ECONOMIC RELATIONSHIP SATISFACTION



## **MEASUREMENTS**

A questionnaire instrument was developed to measure dealers' perceptions of economic relationship satisfaction with their suppliers. The items were based on the previous studies discussed in literatures. The coercive and non-coercive uses of power were adapted from Scheer and Stern's instrument (1992) and Geyskens and Steenkamp (2000). They were operationalised as separate, but related to constructs of uses of power. The internal reliabilities reported by Geyskens and Steenkamp (2000) was .75 and .78 for coercive uses of power and non-coercive uses of power respectively. For the economic relationship satisfaction, the measurement adapted from Geyskens and Steenkamp (2000) was adapted. This scale has been found to be the most robust measure of satisfaction in channel relationship and the internal reliabilities reported by Ramaseshan et al. (2006) for economic satisfaction was .86. All of the dimensions developed were measured using 5 points Likert-type scales, ranking from strongly disagree (1) to strongly agree (5).

The alpha values for the present study were also calculated to assess the internal consistency reliabilities of the scales. For the coercive and non-coercive uses of power scales, the results indicate acceptable values were .84 and .88 respectively. Economic satisfaction was measured using 5 items and the alpha values are .90. Inter-correlation between variables was done, where the values of correlation coefficients for all the three variables exceeded .50 and below .80 and were significantly correlated

TABLE 1
DESCRIPTIVE AND RELIABILITY ANALYSIS RESULTS

Variables	No. of Items	Mean	Alpha
Coercive power	4	2.66	.84
Non-coercive power	4	3.56	.88
Economic Satisfaction	5	3.66	.90

# **FINDINGS**

The results from OLS regression are summarized in Table 2. The table reveals that the use of coercive power ( $\beta$ = -.05; p < .01) was found to have no significant influence on economic relationship satisfaction. On the other hand, the use of non-coercive power positively influenced economic relationship satisfaction ( $\beta$  = .73; p< .01). This supports the argument that any business relationship that results in more friendly and less uses of power exchange would enhance the degree of satisfaction in term of economic. This study seems to support such an argument.

TABLE 2
THE INFLUENCE OF USES OF POWER ON ECONOMIC RELATIONSHIP SATISFACTION

Independent variables	Coefficient (β)	t value
Coercive power	050	58
Non-coercive power	.730	8.41*

<sup>\*</sup>p< .01

# **DISCUSSION**

This study has revealed a non-significant relationship between supplier's uses of coercive power with dealer's economic satisfaction. The finding is different from those of the previous studies that reported direct negative effect of coercive power on satisfaction (Frazier & Summers, 1986; Geyskens & Steenkamp, 2000). This might be due to the existing harmonious relationship between the dealer and the supplier. Whereas, in the automobile industry, dealers operate closely with the suppliers in order to deliver better marketing services to the customers. This indicates that the dealers are tolerant, dependent and unlikely to retaliate with the supplier's use of coercive power. The study revealed that Malaysian channel members behave differently from the Western counterparts in responding to channel partner coercion, and this is in line with study by Ramasheshan et al. (2006) who also found similar findings in Chinese channel members. They explained that Chinese collectivist culture places a high value in conducting exchanges in a harmonious manner which makes the channel members to be more tolerant to coercive influences. Thus, the results could deduce that dealers are more understanding and tolerant to coercive reinforcement because Malaysian collectivistic culture also places a high value, closeness, friendliness and relational in conducting exchanges in a harmonious manner. Indirectly, another reason that could explain the lack of significant influence of use of coercive power on economic satisfaction is likely the overriding effect of non-coercive power on economic satisfaction. The latter is likely to subsume the effect of coercive power on economic satisfaction and could play a mediating role between the use of coercive power effects and economic satisfaction in Malaysian channel perspective.

This study appears to confirm a positive and significant relationship between the dealers' degree of economic satisfaction with supplier's use of non-coercive power. This means that the greater the emphasis placed by supplier on use of non-coercive power, the higher will be the economic satisfaction level of the dealers. This is probably due to the use of reward, information exchange and recommendations (Boyle & Dwyer, 1995) by the suppliers. Another reason is possibly because of the behaviour obtained through possession and control of resources that are valued by the other party. In the case of dealers, although they work independently, non-coercive supports are expected from supplier in delivering the products as expected by the customers. These include the supplier freely offering its expertise, information and assistance that might make the dealers happy and satisfied with existing relationship. This finding validates the earlier study by Boyle and Dwyer (1995), Frazier and Summers (1986), Lee (2001) and Ramasheshan et al. (2006) on the importance of non-coercive uses of power in causing satisfaction in working relationship. They concluded that a partner's attitude towards another partner is affected by the outcome that results from the behaviour adopted in their relationships. If the suppliers adopt more positive types of behaviour in dealing with their dealers, they may make the dealers feel satisfied with the relationship.

# IMPLICATIONS FOR SUPPLY PRACTICE

Several implications for implementing uses of power and economic satisfaction blocks result from this study. It has been greatly assumed that harmonious and collaborative efforts among supplier-buyers may be the best way to minimize uncertainty and enhance long-term relationship. From a practical perspective, this study provides a few key implications on how managers in automotive supply in particular can manage their relationship with dealers in an effective way. The business goal is to establish and maintain relationship with the dealers for long-term sales instead of maximizing short-term sales. Relationship marketing helps dealers and suppliers build, develop and keep a continuous process of relationship building. Suppliers and dealers should specifically devote their attention to relationship satisfaction in order to "increase the pie rather than divide the pie".

Both suppliers and dealers should look for effective relationships in order to maximize their profits, minimize their costs and ultimately lead to the long-term relationship. Obviously, the finding of this study gives an insight to suppliers to carefully use power reinforcement behaviours. Specifically, the use of non-coercive reinforcement has been examined as the necessary antecedent to satisfy dealers for as long as possible. Therefore, suppliers must focus on non-coercive reinforcement behaviours to maintain the existing relationship in order to gain dealers' economic satisfaction. The dealer's economic satisfaction with a sustainable channel relationship can then be fostered by continuously using non-coercive power such as freely offering its expertise, providing assistance without requiring specific behaviour in return, sharing of information and giving rewards and benefits as these would increase the dealers' relationship satisfaction. Providing and assisting the dealers with rewards and information related to automotive industry are very important to increase dealers' economic satisfaction. The suppliers are thus advised to distribute useful materials to for help their dealers to conduct their businesses effectively.

Even though our results demonstrate the supplier's use of non-coercive power as significant, this does not mean dealers do not feel or perceive supplier's use of coercive power. This situation may require the suppliers to use more frequent non-coercive power while avoiding or minimizing the use of coercive power reinforcement on dealers. However, it is inferable that the supplier should avoid application of power in term of withholding information and services that were previously provided, sanction such as delayed delivery, a cancelled order or an added charges on dealers and imposing unilateral actions that damage dealer's profitability.

## DIRECTION FOR FUTURE RESEARCH

Although this study has some interesting findings on the consequences of relationship satisfaction, it also has several limitations. The sample of dealers was taken from one industry. Somewhat unique to this

industry is the fact that it is in a mature stage. This means that majority of the firms are well established, only a few new firms are entering this industry. Consequently, the results of this study could not be generalized to other industries such as agriculture, mining, health and others. Additional research on factors affecting relationship satisfaction should be expanded to different types of industries/sectors such as service (education, health etc.), textiles and clothing, electronics, etc.

Another important limitation is that this analysis was cross-sectional in nature. The nature of data collection was a cross-sectional study whereby the data was collected at one point of time. However, an attempt was made to minimize such problem by using a well-established scale for most constructs, and pre-testing the questionnaire to ensure that there was no perceived overlap between the different variables. Additional research must be done longitudinally in order to assess the impact of determinants and consequences over time. The longitudinal studies would provide valuable input in investigating the impact of channel strategies taken by supplier firms that are aimed at enhancing the degree of economic satisfaction and uses of power. Since the impact the use of power on economic satisfaction has already been demonstrated in this current study, an additional research is needed to fully understand the impact of such issues like opportunism, cooperation, and communication. Further, interpersonal factors in relationship need to consider how these can be used to determine relationship satisfaction. Other aspects of relationship might be complaints handling, response strategies, and loyalty (Emerson, 1962)

#### **CONCLUSIONS**

One prime conclusion which can be drawn from this study is that the types of power exercised play an instrumental role in fostering or weakening economic satisfaction in supplier-dealer channel relationship. A successful relationship in supplier-dealer channel relationship can be achieved when the non-coercive power rather that coercive power is employed. The use of non-coercive power is a better choice for supplier to foster economic satisfaction among dealers compared to the use of coercive power. The finding gives academicians and managers a much stronger basis than intuition and anecdotes for recommending the wisdom of adopting and implementing relationship-marketing approach. Preferably, the management should take initiative in the way that has been suggested under discussion for the purpose of harmonizing the dealer-supplier relationship. There must be a rightful desire within both the supplier and dealer to understand each other, to feel the importance of the relationship, and arrive at decisions that are acceptable to each party besides working together towards progress of both in terms of specific goals and long-term relationship. The evidence from this study suggests the need for enhancing theories and models relating channel relationships in Malaysia. For this reason, it is hoped that this study will generate some interest among other researchers to examine the issues related to relationship satisfaction in Malaysian channel distribution relationship.

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