

Influence of Resource Dependency Theory on Firm Performance – Managing the Competitive Environment

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Abstract

This paper examines the resource dependency theory by specifically investigating the extent to which dependency and uncertainty act as drivers for an organisation to embark on a variety of “controlling” strategies in a legal and quasi-legal manner to manage the competitive environment to its advantage. It also considers the effect of high firm power (asymmetric interdependence) as a moderator of the orientation-performance relationship. The authors predict that this inturn will positively strengthen the financial outcomes, however weaken customer outcomes. A conceptual model has been developed to test the hypotheses. Implications for theory and practice are noted.

Keywords: Strategic Orientation, Resource Dependency Theory, Asymmetric Interdependence, Firm Performance

Introduction

Scholars that examined buyer-seller exchange relationships have increasingly characterised the exchange relationship by non-market governance (Lusch and Brown, 1996). Much insight has been developed in the areas of coping with dependency and uncertainty, e.g., the use of contracts and transaction-specific investments. Significant empirical advances in this area have been spearheaded using the transaction cost analysis (TCA). TCA approach is dominated by its focus on the minimisation of the costs of production (Williamson, 1996) – the notion of efficiency. Associated with this focus, is the need to access the resources of production – the notion of effectiveness. Resource dependency theory (RDT) offers this lens. A review of the extant literature reveals the following: firstly, RDT has been cited widely in marketing (e.g. Heide, 1994; Rokkan and Haugland, 2002). On the one hand, one may interpret this as reflecting the success of RDT. Yet, despite numerous citations found in this literature, very little empirical work has been devoted to RDT. Secondly, the effectiveness criterion that is the ability to accomplish certain firm objectives, remains scantily examined (Aldrich, 1999; Heide, 1994). Thirdly, the question of how much of the variance in buyer-seller activities and firm performance is associated with context is lacking (Frazier, 1999). Considering these deficiencies in the marketing literature, research that performs an investigation of the RDT is highly warranted.

The purpose of this paper is to begin to fill these gaps in the literature by melding theoretical work in RDT with buyer-seller relationships and its consequences. From this, we develop a conceptual model that incorporates explicit ideas implied in the RDT literature, e.g., uncertainty and dependency propel an organisation to proactively manage the environment (Pfeffer and Salancik 1978) and the effect this has on financial and customer outcomes when a contextual factor, high firm power is taken into consideration. In doing so, we aim to elevate the conceptual nature of RDT to empirical scrutiny. We believe that the proposed framework contributes further insight in the development and clarification to the existing buyer-seller

exchange concepts and hope that it will ignite further research and debate with regards to RDT as means of understanding buyer-seller exchange relationship and firm performance. The rest of the paper is organised as follows: relevant research background of RDT, conceptual model, corresponding hypothesises, and implications to both theory and practice.

Research Background

Resource Dependency Theory (RDT)

RDT has its origins in open system theory as such organisations have varying degrees of dependence on the external environment, particularly for the resources they require to operate. This therefore poses a problem of organisation facing uncertainty in resource acquisition (Aldrich, 1999; Ulrich and Barney, 1984) and raises the issue of firm's dependency on the environment for critical resources (Dwyer et al., 1987; Grewal and Dharwadkar, 2002; Pfeffer and Salancik, 1978). Often, the external control of these resources may reduce managerial discretion, interfere with the achievement of organisational goals, and ultimately threaten the existence of the focal organisation (Scott, 1998). Confronted with the costly situation of this nature, management actively directs the organisation to manage the external dependence to its advantage. Organisation success is defined as organisations maximising their power (Allaire and Firsirotu, 1989; Ulrich and Barney, 1984).

Within this perspective, an organisation can manage increasing dependency by adapting to or avoiding external demands, by executing the following RDT strategies; 1) "altering organizational interdependence" through integration, merger and diversification, 2) establishing collective structures to form a "negotiated environment"; and 3) using legal, political or social action to form a "created environment" (Pfeffer and Salancik, 1978). Much of RDT is fixed upon Emerson (1962)'s insight that power and dependency are intimately related as such, Pfeffer and Salancik (1978) suggested and argued for specific sets of strategies to manage the external environment and discuss the conditions under which they are appropriate.

Proponents of RDT take the view that firm should seek to proactively control the resources in order to achieve organisation effectiveness. Effectiveness is described as follows: "The effectiveness of an organization is its ability to create acceptable outcomes and actions" (Pfeffer and Salancik, 1978, p. 7). In this view, effectiveness can then be related to proactively managing the competitive environment to its advantage in its quest to create acceptable outcomes and actions. To describe the notion of firms managing the competitive environment to its advantage, the authors coined the term Controlling Orientation (CO). A CO is propelled by the strategic thrust to proactively manage its competitive environment in a legal and quasi-legal manner to its advantage, by incorporating a spectrum of RDT strategies in their managing agenda/decision making to achieve superior financial performance.

The essence of this perspective is that if superior financial performance results primarily from managing dependencies and uncertainty. Choosing the appropriate strategies in which to proactively influence and thereby control the environment to its advantage should be a consideration in strategic decision-making. As this would then open an option for the firm to contribute or withhold an important resource or input which can then be used as leverage in bargaining with its partner/customer. That is, this perspective is concerned with managing the competitive environment.

Managing the External Environment – a Marketing Area?

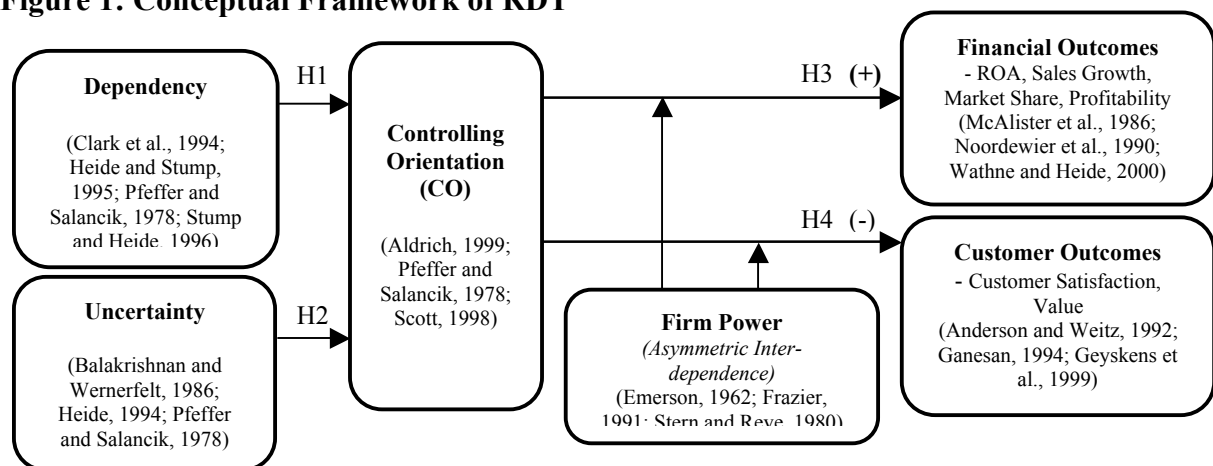
Formal discussion of managing the competitive environment in the marketing literature began with Zeithaml and Zeithaml (1984) with a term “Environmental Management.” However, its elements have been around for much longer, embedded in the assumptions under girding many strategic marketing tools. The main achievement of Zeithaml and Zeithaml (1984) was to challenge the deterministic bias in many marketing tools, arguing that organisational environment can indeed be influenced and that marketing strategies are central to achieving this. Thus, for example, firms craft public relations and political lobbying programs to help create a more favourable legislative environment (see Zeithaml and Zeithaml, 1984).

Several marketing scholars also echoed this view (e.g. Clark et al., 1994). This merely underlines what has long been recognised, that the marketing function is the firm’s key interface with its environment (Hutt and Speh, 1984; Lysonski, 1985).

Conceptual Model and Research Hypotheses

We developed a model that analyses the causes and consequences of a CO. We also analyse how the dynamics of the model may change when asymmetric inter-dependence (high firm power) exist. This research uses multiple measures to operationalise performance - financial and customer outcomes. Figure 1 depicts these ideas.

Figure 1: Conceptual Framework of RDT¹



¹ Representative literature pertaining to the construct is shown in parentheses.

RDT concerns the execution of a variety of strategies to manage the environment. The ability to manage the environment to its advantage is sought because of the power and control possibilities inherent in the state of dependency and uncertainty (Jap and Ganesan, 2000; Stump and Heide, 1996). Several researchers have developed theoretical arguments about dependency and uncertainty, to better understand inter-firm relationships (e.g. Balakrishnan and Wernerfelt, 1986; Clark et al., 1994; Scott, 1998; Ulrich and Barney, 1984). This literature adopts the view that 1) a lack of self-sufficiency of required resources creates potential dependence on other parties and 2) introduces uncertainty into a firm’s decision making since the resource flows are not subject to the firm’s control and hence may not be predicted accurately. With this, firms seek to manage their environment to ensure long-term

survival by minimising dependency and reducing uncertainty in its resource acquisition through formal or informal links with other firms (Heide, 1994). A variety of research in organisational behaviour, and marketing (Stern et al., 1996; Weitz, 1981) also further supports the view that the context has an important effect on the nature and functioning of inter-firm relationships. With this, we posit the following:

H1: The greater the dependency, the greater the controlling orientation.

H2: The greater the uncertainty, the greater the controlling orientation.

Financial Outcomes

It is proposed that high firm power will moderate the relationship between CO and outcomes. A long-standing principle in buyer-seller research maintains that firms with a power advantage can influence its exchange partner to fulfil its wishes (e.g. Frazier, 1991; Stern and Reve, 1980) and hence improve its own financial performance (Noordewier et al., 1990).

Though previous studies have investigated the financial outcomes under an uncertain environment. For example, Noordewier et al. (1990) used transaction cost agency (TCA) and relational elements to examine financial outcomes such as inventory turnover of relationships under uncertain environments and found that performance in terms of resource acquisition costs is improved when firms introduce more relational elements into their purchasing arrangement. However, the main focus of their study is to examine the buyer's performance defined in terms of efficiency (vis à vis RDT's focus on effectiveness) and furthermore the dependency variable (firm power) was positioned as a control variable instead of a moderator. As such, more testing is therefore, warranted to investigate this relationship.

As discussed earlier, proponents of RDT suggest that firms should tackle the aspect of increasing dependency and uncertainty by developing dependencies and expand power to its advantage (Clark et al., 1994; Pfeffer and Salancik, 1978; Zeithaml and Zeithaml, 1984) and thus enable the firm to embark on a redistribution of wealth to its gain (McAlister et al., 1986; Wathne and Heide, 2000) and thereby ensure its constant supply of resources. Following this reasoning, we expect that the greater the CO of an organisation, the better will be its financial performance as firm power increases. Therefore, the following hypothesis is put forward.

H3: The greater the extent of firm power, the greater the positive relationship of CO-financial outcomes.

Customer Outcomes

Previous research found that higher total interdependence has a positive effect on relationship quality (Kumar et al., 1995a) and performance (Buchanan, 1992) because both parties justify the need for one other to meet each other's objectives in a collective manner because of commonality of interest and thereby goal congruence. Thus, this serves as a disincentive to engage in hostility and encourages the investment of more time and resources in developing a good working relationship (Hibbard et al., 2001). When asymmetric interdependence exists, researchers found that relatively dependent parties feel greater hostility and develops a greater sense of dissatisfaction with the relationship, because the dependent party perceives that its concerns have not occupied a fair share of the more powerful firm's attention (Anderson and Weitz, 1992) and its actions are perceived as unfair (Kumar et al., 1995b). Furthermore, from the perception of the more powerful firm, relative dependent parties are often viewed as

ineffective; as such, power advantage firms tend to attribute success to themselves (Lusch and Brown, 1996).

To the best of our knowledge, no research to date has investigated the link between CO and customer outcomes. The literature on RDT makes little mention of customer satisfaction and value; we predict that organisations adopting CO will channel more of their attention to managing their external dependencies especially to resources that are critical to their achievement of the organisational objective by exploiting power asymmetries to their advantage such as obtaining some kind of decision control (Lusch and Brown, 1996) or dictate prices, quality and delivery standards (Rokkan and Haugland, 2002) rather than to devote effort in incorporating customer satisfaction and value as they are viewed as competitors of organisation wealth, not sources of it (Porter, 1980).

Therefore, it is reasonable to argue that since they are attempting to “own” the customer (e.g. high switching costs, lock-in conditions) to achieve certainty in their resource acquisition; they will devote more of their attention in controlling the customer as the notion of customer satisfaction and value is not on top of their strategic agenda. Indeed, firms that exhibit CO behaviours is to increase the dependencies of the customers so that they are locked-in to the firm resulting in asymmetries to the firm’s advantage. Wathne and Heide (2000) argued that the presence of transaction-specific investments and information asymmetry could lead to a situation that the customer will be “stuck” with the firm. And furthermore, as discussed previously, CO firms will attempt to engage in a re-distribution of wealth to its advantage. As a result, the weaker partner due to poorer outcome may be dissatisfied and is likely to view the more powerful firm as untrustworthy and exploitative (Ganesan, 1994; Geyskens et al., 1999). Following this, we predict that CO, will result in lower customer satisfaction and value as firm power increases. The following hypothesis is put forward.

H4: The greater the extent of firm power, the greater the negative relationship of CO-customer outcomes

Implication to Theory and Practice

The development of any science, including marketing, depends on the outgoing competition and debates among alternative explanation of firm behaviour and performance to advance academic knowledge (Pulendran et al., 2000). Heeding this, our analysis of RDT has incorporated two underlying goals. Firstly, offer a perspective that begins to meld theoretical work in the RDT literature with extant buyer-seller exchange relationship and its consequences. This is achieved by establishing theoretical linkages between controlling the competitive environment efforts, and financial and customers. Secondly, it attempts to examine if context plays a role in the buyer-seller relationship and if so, to what extent. Recently, while acknowledging that strong relationship may offer a value-creating advantage, Frazier (1999) stated that “there are even more contexts in which attempts to build and maintain the strongest partner relationship makes little sense because the costs of relationship building activities would outweigh their benefits” (Frazier 1999, p. 231). With this, this paper also aims to contribute to that aspect. In doing so, it suggests 1) the importance of context in explaining firm behaviour and 2) managers prioritise depending on the situation they are in.

For practitioners, empirical answers to the research questions would be valuable in assisting firms in understanding 1) the policy implications of executing such strategies 2) formulation

of contracts framework and 3) it provides the general basis of a more rational division of effort between adapting and changing the organisation's environment.

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