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Title: The exercise of power in inter-organizational relationships in response to changes in the institutional environment: Cases from the European automotive industry

Abstract:

In response to calls for understanding the functioning of power in inter-organizational relationships, this study develops a framework that explains how organizational partners respond to changes in the institutional environment and as a result revise their relationship strategies and select the type of power to exercise. Based on the longitudinal analysis of two cases from the European automotive industry findings suggest that if the partners make sense of a common opportunity, they will respond to adapt by applying voice (cooperation) relationship strategy and exercise coercive power. If they perceive a common threat, their initial response will be avoidance, and to achieve that they will again apply voice (cooperation) relationship strategy and exercise coercive power. Finally, in case the common threat cannot be avoided and there exists a strong power difference, the powerful partner can perceive an individual opportunity at the expense of the weak partner. Then it will respond with opportunism applying exit (competition) relationship strategy and exercise coercive power, and the weak partner will need to adapt or be a victim of natural selection.

Keywords: Power; resource dependence theory; inter-organizational relationships; institutional change; strategic response; relationship strategy; European automotive industry

1. Introduction

Inter-organizational relationships evolve over time as unstable actor bonds, resource ties and activity links are continuously created, broken and recreated (Håkansson and Snehota, 1995; Abrahamsen and Håkansson, 2012). Despite growing literature on this topic, there are calls to better understand the dynamics of relationships (Ketchen, Jr., Snow and Hoover, 2004; Dahl, 2014). One area which deserves attention is the exercise of power which is a dynamic relational attribute (Fleming and Spicer, 2014). As earlier studies suggest, the functioning of power has been little understood and even neglected by organizational scholars (Perrow, 1986; Guillén, 2007). Even though the sources of power and the mechanisms through which it can be exercised have been identified, there is need to understand how the exercise of power is triggered and as a result how relationships change (Akpınar and Vincze, 2016). This study aims to contribute to this need by studying power and its exercise as relationship partners respond to changes in the institutional environment. It is an attempt to clarify the connections between change in the institutional environment, relationship strategies and the exercise of power in inter-organizational relationships.

The institutional environment, also called the non-market environment, is understood in this study as the political-legal environment which consists of institutions that regulate market rules (Boddeyn, 2003). An institutional change implies shifts in the institutional environment (e.g., policy changes, introduction of new rules and regulations, regional market integration initiatives) which may impact on the market environment. The institutional environment in this study is the European Union (EU). The creation of the Single European Market on January 1, 1993 aimed to benefit European consumers by raising the level of competition in the region and at the same time contribute to the competitiveness of European industries by creating a larger home market

(Greenwood, 1997). The cross-border integration of national production, exchange, and financial markets with free flows of goods, services, labour, and capital, i.e. negative integration, along with the transfer of policy-making powers from governments of member countries to supranational regulatory organizations, i.e. positive integration, would help to achieve this (Scott, 1996). In addition to market integration, expansions of the EU in 1995, 2004, 2007 and 2013 made it the world's largest single market with 28 member countries and a population of about 508 million.

Changes in the environment affect firms and their relationship partners as they need to align their operations with the external environment to survive and succeed (Lawrence and Lorsch, 1967). The firms and their relationship partners in this study are the original equipment manufacturers (OEMs) in the European automotive industry and their suppliers and dealers. The automotive industry is a key industry for the EU as it accounts for 10.3% of manufacturing employment in the region (European Automobile Manufacturers Association, 2016). Given its close links with other industries, such as metal, chemicals, glass, and electronics, the automotive industry is an engine for growth and employment in the EU (Heneric, Licht, Lutz and Urban, 2005). Following market integration and expansion in the EU, the European automotive industry was subject to changes in response to the emerging opportunities and challenges (Akpinar, 2009).

In line with recommendations by Clegg, Courpasson and Phillips (2006), Akpinar and Zettinig (2008a), and Hillman, Withers and Collins (2009), this study recognizes the dynamic nature of power and develops a preliminary theoretical framework in the second section on relationship strategies and the exercise of power in response to changes in the institutional environment. Following earlier studies in the automotive industry (see Akpinar and Zettinig,

2008a, 2008b) the resource dependence theory (RDT) is adopted as the main theoretical lens, and power is perceived as the control over vital resources for which there are few alternatives (Pfeffer and Salancik, 1978). Aiming to help managers in reducing environmental dependence RDT has been adopted widely in studying mergers, joint ventures, boards of directors, political action, executive succession, supplier relations, and entrepreneurial resource acquisition (Hillman et al., 2009). As a theory of environmental complexity it has influenced other theoretical domains such as network theory, stakeholder theory, and new institutionalism theory (Wry, Cobb and Aldrich, 2013). Despite its wide application previous RDT research has rarely studied the use of multiple strategies in reducing dependence (Hillman et al., 2009). In the preliminary framework, it is assumed that responding to an institutional change requires strategic choices over time after making sense of opportunities and threats from the change as well as power differences in relationships. This study adopts the typology by Pfeffer and Salancik (1978) and utilizes avoidance and adaptation as the types of strategic responses and predicts that the choice of the type of strategic response will influence the choice of the relationship strategy and the type of power to exercise. The contributions of this study to RDT literature are (i) the identification of a third type of strategic response called opportunism to the typology of Pfeffer and Salancik (1978), (ii) the display of how a powerful partner can shift from one strategic response to another over time, and (iii) the clarification of how strong power difference and the exercise of power are related to strategic choices.

The framework is further developed with the help of the empirical study which consists of the longitudinal analysis of two complementary cases from the European automotive industry. The first case is about the Eastern expansion of the EU in 2004 and 2007 and the accompanying changes in OEM-supplier relationships. The second case studies the impacts of the Block

Exemption Regulation (BER) 1400/2002, which was introduced by the European Commission on July 31, 2002, on OEM-dealer relationships. The impacts of this case on OEM-dealer relationships has been studied in earlier literature using the lenses of industrial organization theory and the descriptive stream of stakeholder theory (see Akpınar 2007, 2009). The two cases are complementary in that the former is about a perceived opportunity, and the latter is about a perceived threat. By studying the two cases we can understand how power is exercised in responding to opportunities and threats. The methodology is explained in the third section, and the results are shared in the fourth section. Finally the fifth section discusses about contributions, managerial and policy implications, limitations, and suggestions for future research.

2. Literature Review

2.1 Power in inter-organizational relationships

Power in a relationship can be viewed as coercive or coactive (Clegg et al., 2006). In the coercive view (also called the distributive view) it is defined as the actual or potential ability to impose will on another (Lukes, 1974; Reitz, 1981), implying a zero-sum conflict of interests and the use of firm-specific resources in the pursuit of self-interest (Perrow, 1986; Avelino and Rotmans, 2009). According to this view, power can be exercised through direct influence mechanisms of coercion and manipulation (episodic power) or indirect influence mechanisms which aim at constructing ideological values and influencing self-identity (systemic power) (Fleming and Spicer, 2014). In the coactive view (also called the collective view) power is regarded positively in that actors combine their resources to enhance their joint power to achieve a common goal (Parsons, 1967). This study uses the typology of coercive (distributive) power

and coercive (collective) power (Parsons, 1967; Clegg et al., 2006; Avelino and Rotmans, 2009) in the developed framework.

Sources of power might be anything, but in the right context (Clegg et al., 2006). In RDT power is conceptualized as the ability of a firm to create an environment that better suits its interests (Pfeffer and Salancik, 1978). Interdependence, heterogeneous goals and scarcity of resources in the environment create conflicts which trigger the use of power (Pfeffer, 1981). In a relationship power is determined by resource importance (measured in terms of the degree to which the partner requires it), resource control (the extent to which the firm exercises control over the resource), and resource alternatives (the availability of alternatives or substitutes) (Pfeffer and Salancik, 1978). Akpınar and Zettinig (2008b) suggest resource diversity, customer diversity and international market diversity as additional determinants of power in OEM-supplier relationships. Other determinants can include the ability to cope with uncertainty, the ability to build consensus, political skills, control over information flow, position in formal and informal communication networks, and personal characteristics (Pfeffer, 1981).

Power imbalance in a relationship refers to the difference in the dependencies of the partners to one another (Casciaro and Piskorski, 2005). Strong power difference may be problematic in that the powerful firm may act opportunistically to extract a higher share of the exchange surplus (ibid.), but excessive exploitation of power imbalance can jeopardize inter-organizational trust (Ireland and Webb, 2007). Supporting these claims, Akpınar and Vincze (2016) provide evidence from the case of the Volkswagen Group and Porsche that strong power difference leads to increased competition which may end the relationship with an acquisition. Finally, power is a dynamic concept, i.e. power and power difference can change over time with changes in the context affecting resource importance, resource control and resource alternatives (Pfeffer and

Salancik, 1978; Clegg et al., 2006; Akpınar and Zettinig, 2008a; Hillman et al., 2009; Akpınar and Vincze, 2016).

2.2 Making sense of changes in the institutional environment

Firms operate in challenging environments which are changing (Lawrence and Lorsch, 1967). The institutional environment in the EU has been changing following the creation of the Single European Market on January 1, 1993. European supranational institutions such as the European Commission have emerged as powerful actors, diminishing the significance of the nation state (Mercado, Welford, and Prescott, 2001). The powerful European Commission introduced many directives related to automotive production and distribution (see Akpınar, 2009 for a review). In addition, the Eastern expansion of the EU in 2004, 2007 and 2013 created the world's largest single market. These changes created opportunities and threats for OEMs, suppliers and dealers in the automotive industry.

Firms should respond to changes in the environment in order to survive and succeed (Lawrence and Lorsch, 1967). In order to make the right response, managers should make sense of the changes. Sensemaking is an individual or collective process of creating meaning to new experiences or situations based on past experiences, beliefs, assumptions, and future expectations (Weick, 1995). Sensemaking is a process in time because the change does not occur in an instant, it rather emits signals of its occurrence in advance (Ansoff, 1975). It is important for managers to be able to receive such signals properly and perceive the coming change because they can only respond to what they notice (Miles, Snow and Pfeffer, 1974). Early noticing may be a crucial step for taking timely action to prevent threats and capture opportunities. Once the change is noticed, relationship partners make sense of it, both individually and collectively. They imagine

likely consequences of the change, i.e. possible opportunities and threats. According to the framework in this study, managers will consider the power difference in making sense of opportunities and threats. The framework suggests that sensemaking influences strategic responses to changes (Maitlis and Sonnenshein, 2010) which then affects the choice of relationship strategies and the exercise of power.

2.3 Strategic responses

Strategic responses to the environment can vary according to different views (see Astley and Van de Ven, 1983). According to the natural selection view, managers are not able to respond to changes in the environment due to structural inertia, so the highly deterministic environment will select the successful firms (Hannan and Freeman, 1977). The structural inertia emerges from internal pressures like heavy investments, internal politics, historical commitments, and a strong culture as well as external pressures such as barriers to entry and exit, high costs of information, the need to achieve legitimacy, and restrictions from competition (ibid.).

The system-structural view relaxes the structural inertia and argues that managers can adapt reactively to changes in the influential environment (Lawrence and Lorsch, 1967). This is a dynamic view based on the assumptions that the firm is an adaptive mechanism (Selznick, 1957), and a good fit between the firm's strategy and structure to conditions in the environment is essential for success (Chandler, 1962). According to this view, successful firms are those which best match their internal competences (strengths and weaknesses) with opportunities and threats from the environment (Learned, Christensen, Andrew and Guth, 1971).

The strategic-choice view differs from the previous two views by diminishing the influence of the environment and argues that managers have proactive capabilities to shape their

environments (Child, 1997). They can choose which markets firms will operate in, how they will compete in each market, and which structures they will adopt. The role of the environment is restricted to constraining the portfolio of strategic choices and providing feedback on the selected choices through rewards and penalties (ibid.).

Finally, the collective-action view adds an interactive dimension to the response process and argues that managers will construct their environments in interaction with actors in the environment through collective bargaining, conflict, negotiation and mutual adjustment based on compromise (Commons, 1950). In sum, based on the four views introduced here, managers can proactively shape their environment individually (the strategic-choice view) or in interaction with other actors (the collective-action view). They can reactively adapt to changing environments (the system-structural view), or they may fail to respond by any means due to structural inertia (the natural selection view).

Pfeffer and Salancik (1978) propose two types of responses to environmental demands: adaptation and avoidance. Adaptation refers to organizational compliance with external constraints. This implies a loss of discretion and an admission of limited autonomy. Avoidance, on the other hand, refers to actions to reduce the probability of being subject to undesired environmental demands. These two responses can be explained with the aid of the above views in the context of inter-organizational relationships. Avoidance suits for cases in which changes in the environment create threats. It assumes that partners in the relationship have the will to avoid the possible negative impacts of the threats. In this type of response the partners will act to shape the environment to prevent the threat from happening. This can be done individually (the strategic-choice view) and/or collectively (the collective-action view) depending on the individual / collective powers of the partners to affect the source of the threat. Adaptation can

suit cases of responding to both opportunities and threats. In the case of an opportunity partners can adapt themselves individually (the system-structural view) and/or jointly (the collective-action view) to take advantage of the opportunity. In the case of a threat which cannot be avoided partners may need to adapt themselves to bear with the negative consequences of the threat (the system-structural view). This study employs the avoidance / adaptation typology of Pfeffer and Salancik (1978) as possible strategic responses.

2.4 Relationship strategies

Relationships imply interdependencies. Synthesizing from Hawley (1950), Thomas (1957), and Thompson (1967) there can be three types of interdependencies: competitive interdependence, outcome interdependence, and cooperative interdependence. In competitive interdependence two parties depend on each other because they compete for the same scarce resources or customers (Hawley, 1950). In outcome interdependence the output of one party is the input for the other one (Hawley, 1950; Thomas, 1957). Finally, cooperative interdependence refers to relationships where two or more parties cooperate in joint activities (Thomas, 1957; Thompson, 1967). Thompson (1967) differentiates further between pooled and intensive types of cooperative interdependence. In pooled cooperative interdependence, two or more parties use the same resource to perform a joint activity (e.g., a joint manufacturing plant), whereas in intensive cooperative interdependence different parties bring in specialised resources and capabilities in order to achieve a common goal (e.g., a research project).

Mutual orientation, relationship-specific investments, and strong bonds to allow information sharing are the key elements of relationships (Johanson and Mattsson, 1987). Relationships are dynamic in that they are established, developed, and broken (Thorelli, 1986). They can evolve

gradually or in a revolutionary way when for example new resources are found or an actor loses control over a critical resource (Håkansson and Henders, 1995). In managing relationships Helper (1991) differentiates between exit strategy and voice strategy: whereas in the former the powerful firm will choose to end the relationship in the case of an emerging problem, it will cooperate with its weak partner to solve the problem in the latter. The former can be regarded as competition strategy and the latter as cooperation strategy, terms which are used in coopetition literature. Whereas possible motives behind competition strategy may be strong power difference, overlapping competitive goals, decrease in resource interdependence, and increasing level of hostility, motives behind cooperation strategy can be strong common stakes, resource complementarity, the intention to strengthen collective bargaining power, and cost- and risk-sharing considerations (Akpinar and Vincze, 2016). This study uses the typology of exit (competition) and voice (cooperation) strategy by Helper (1991) as relationship strategies in the developed framework.

2.5 The preliminary framework

Place Figure 1 here

According to the preliminary framework (see Figure 1), changes in the institutional environment create opportunities and threats for firms and their relationship partners. This resembles well the case of the EU where the Single European Market and the Eastern expansion have created new opportunities and threats for OEMs and their suppliers and dealers in the European automotive industry. Firms should respond to changes in the environment in order to survive and succeed

(Lawrence and Lorsch, 1967) following a sensemaking process (Weick, 1995). Managers of OEMs, suppliers and dealers make sense of the emerging opportunities and threats by taking into consideration power differences in their relationships. Suppliers and dealers are in a relationship of outcome interdependence (Hawley, 1950; Thomas, 1957) with OEMs, and the automotive industry is well-known for strong power differences between OEMs and suppliers (Akpinar and Zettinig, 2008a, 2008b) and between OEMs and dealers (Akpinar, 2007). Sensemaking will affect the choice of the strategic response (Maitlis and Sonnenshein, 2010) which could further require a revision of the relationship strategy and the accompanying exercise of power. This study employs the avoidance / adaptation typology of Pfeffer and Salancik (1978) as possible strategic responses, the voice (cooperation) / exit (competition) typology of Helper (1991) as possible relationship strategies, and the coactive (collective) power / coercive (distributive) power typology (Parsons, 1967; Clegg et al., 2006; Avelino and Rotmans, 2009) as the types of power to exercise.

3. Methodology

3.1 Research design and case selection

This study applies multiple case study methodology and analyses two in-depth longitudinal cases (Yin, 2003). Longitudinal case studies suit well to study change since they allow to analyse data from multiple sources at different levels over time (Eisenhardt, 1989; Langley, 1999) by measuring changes in variables from one period to another (Menard, 2002) and taking into account contextual factors (Pettigrew, 1992). In longitudinal research there are two approaches to study change: the variance approach and the process approach (Van de Ven and Poole, 2005).

This study pursues the outcome-driven variance approach and focuses on the relationships between the variables.

The two cases are selected to cover changing OEM-supplier and OEM-dealer relationships in the European automotive industry. They represent relationships of outcome interdependence (Hawley, 1950; Thomas, 1957) in which there are strong power differences in favour of OEMs. The first case analyses changes in Eastern European production for OEMs and their suppliers from year 2000 to year 2010 in response to the Eastern expansion of the EU. This case helps to understand changes in OEM-supplier relationship strategies in the light of the changing production in Eastern Europe. In the second case the impacts of the BER 1400/2002 on OEM-dealer relationships is studied from year 2000 to year 2004. BER 1400/2002 aimed to benefit consumers through the development of parallel trade across borders and strengthen the dealers' independence from OEMs (Monti, 2000). This case helps to understand changes in OEM-dealer relationship strategies.

3.2 Data collection

Initially secondary data was collected systematically for the two cases from extensive reliable sources in history and reviewed critically to avoid possible discrepancies (McGinn, 2010).

Secondary data suits well to study causal relationships in cases when researchers do not have control over events (Yin, 2003). This was followed by two expert interviews: one with Dr. Gerd Hoff, the Managing Director of the Berlin office of the German Association of the Automotive Industry, and the other with Mr. Pentti Rantala, the Head of the Finnish Association for Motor Trades and Repairs and a member of the Board of the European Council for Motor Trades and Repairs (CECRA). The inter-subjective communication with the knowledgeable informants

complemented the secondary data and allowed to gain further insights on the causal relationships in each case (Halinen, Medlin and Törnroos, 2012). In addition, the author also utilized his professional knowledge gained from consulting a German-Turkish joint venture automotive supplier. The time frames and the sources of the collected data are presented in Table 1 for each case, and the non-academic sources which are cited in the text are provided in the appendix.

Place Table 1 here

3.3 Data analysis

The analysis is guided by the theoretical framework, according to which the data is reduced and categorized in each case (Strauss and Corbin, 1990). During this stage contradictory information is carefully handled via triangulation (Yin, 2003). The main mechanisms applied in the analysis are coding (Strauss and Corbin, 1990) and pattern matching across cases (Eisenhardt, 1989; Yin, 2003). Theoretical codes are used for the variables of institutional change, opportunity, threat, power difference, avoidance, adaptation, voice (cooperation), exit (competition), coercive (collective) power, and coercive (distributive) power. The relationships between these variables are analyzed over time for each case, and new variables emerging from the data are integrated into the framework. The results from each case are then compared with each other to reveal differences in patterns for the further development of the framework (Miles and Huberman, 1994). Using the same theoretical base allows to make systematic comparisons across cases (Halinen and Törnroos, 2005).

4. Results

4.1 Case: EU's Eastern expansion

On May 1, 2004 Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia, and Slovenia joined the EU, and Romania and Bulgaria followed them on January 1, 2007. This created an opportunity for OEMs in the automotive industry as the Czech Republic, Hungary, Poland, Romania, Slovakia, and Slovenia offered locational advantages based on their long traditions of automotive manufacturing and cheap labour costs (Akpinar, 2013). Unit labour costs in the automotive industries of these countries ranged from 9% to 34% of the EU-15 average in year 2001 while labour productivity in for example Slovakia and Hungary even surpassed the EU-15 average, giving these countries a clear competitive cost advantage (Cleff, Licht, Spielkamp, and Urban, 2005). OEMs which are originally from outside of the EU (e.g., Hyundai-Kia, Toyota) and European OEMs which are pursuing cost leadership strategy (e.g., Renault, PSA Peugeot Citroën, Fiat) took advantage of this opportunity by establishing new assembly plants (e.g., the Toyota PSA Peugeot Citroën plant in Kolin, the Czech Republic) or acquiring existing plants (e.g., the acquisition of Dacia in Romania by Renault) in these countries (Akpinar, 2013), and as a result production in Eastern Europe increased by 171% from 1,154,132 units in year 2000 to 3,122,011 units year 2010 (see Table 2).

Place Table 2 here

The increase of production in Eastern Europe had two major implications on OEMs' supplier networks. As proximity between OEMs and their suppliers is important in automotive production and there are strong links between OEMs and their national first-tier suppliers, OEMs moving

into Eastern Europe invited their key national first-tier suppliers to move with them to Eastern Europe (Heneric et al., 2005; KPMG International, 2009). This was an opportunity for the suppliers to grow their businesses and secure closer long-term relationships with OEMs, but it could also be a risky move because suppliers in the automotive industry are restricted in their resources and highly dependent on OEMs (Kappelhoff, 2005; Akpinar and Zettinig, 2008a; KPMG International, 2009). In grasping this opportunity, OEMs were also dependent on their key first-tier suppliers to move with them because they had transferred significant amounts of manufacturing and R&D responsibilities to them (Mattes, Meffert, Landwehr and Koers, 2004; Cleff et al., 2005; Fuchs, 2005). This was also brought up by Dr. Hoff during the interview as follows: *“The success of the German automotive industry is grounded on the excellent networking and intensive cooperation between large OEMs and their top-performing first-tier suppliers. Under increasing competition from Japanese OEMs, the transfer of manufacturing and R&D responsibilities to the first-tier suppliers and the resulting intensive cooperation was a crucial change to maintain the competitiveness of the German automotive industry.”* Dr. Hoff further shared that German first-tier suppliers established manufacturing operations in Eastern Europe both following their OEMs and also independently in order to increase their competitiveness under increasing cost pressures. OEMs supported the international expansion of their first-tier suppliers by for example offering space inside their plants and providing partial financing for their machine & equipment investments, which would be paid back over time through discounts on supplied parts. Both types of supports were received by the German-Turkish joint venture supplier to which the author offered consulting services. Such support is further legitimized in the case of Japanese OEMs and suppliers through affiliations, i.e. ownership links (Bruhn, 2004; Pardi, 2006). For example, following the establishment of

Toyota's joint venture plant in Kolin, the Czech Republic, 19 Japanese suppliers of Toyota invested in the region, and 9 of them were affiliates of Toyota (Japanese External Trade Organization, 2003). The strategic response of OEMs and their suppliers in this case was adaptation, and they utilized the voice (cooperation) strategy. The use of power in this context can be regarded as coercive (collective) power to achieve a common goal to capture the opportunity. The second implication was on local suppliers in Eastern Europe. OEMs' move into the region implied a necessity for growth in order to meet the increasing production volumes. The trend is that there is less room in the automotive industry for small local suppliers, therefore resource-restricted suppliers in Eastern Europe have been responding to the need to grow by establishing joint-ventures with foreign suppliers or by merging among themselves (Dharmani, Anand and Demirci, 2015). In return for the investment incentives they have received from the host governments, OEMs have taken part in the development of local supply industries in terms of technology transfer, matchmaking with their international suppliers, and in selected cases partial financing of expansion projects. Local governments have also contributed to their local supply industries by building infrastructure and providing incentives for growth and technology adoption. One good example of such a case is the development of the local supply industry in Zilina, Slovakia, where Hyundai-Kia has a plant for Kia C'eed production (see BBC News Online, 2007). The local supply industry in Zilina has also benefited from the entry of Korean suppliers into the region (Automotive News Europe, 2005a). Again, we see here the exercise of coercive (collective) power between OEMs, suppliers and local governments for capturing an opportunity. This is also an example of adaptation with the use of the voice (cooperation) strategy.

4.2 Case: BER 1400/2002

Distribution and repair & maintenance in the European automotive industry have long been highly protected by regulation (Commission of the European Communities, 1995), resulting in fragmented networks of exclusive dealers (Vickerman, 1992). Dealers in Europe were prevented by OEMs from selling cars to foreign consumers, a clear sign that the Single Market in Europe was not functioning (Automotive News Europe, 2000a). The European Commission was of the opinion that OEMs were abusing the power that the exemption rules gave them (Automotive News Europe, 2000b). Mario Monti, the commissioner for competition policy, described the situation as the OEM sitting in the back seat of the car and giving instructions to his chauffeur, the dealer, on how to drive down the distribution highway to reach consumers (Monti, 2000). There was need for change in regulation in order to put the consumers to the driver's seat by developing parallel trade across borders and reducing dealers' dependence on OEMs (ibid.).

The European Commission's intentions to introduce the new regulation BER 1400/2002 were perceived as a threat by both OEMs and their dealers: OEMs feared losing control over their distribution and repair & maintenance networks, and dealers feared losing their territorial exclusivity (Monti, 2002). It was also feared that with the new regulation supermarkets could drive small dealers out of business and dilute car-brand integrity (BBC News Online, 2002). In their joint press release ACEA and CECRA argued that in a free-for-all system market forces would create a concentration on the more profitable sales and routine repairs in highly populated areas, and as a result, consumer choice would be reduced, and delivery periods would be longer (ACEA and CECRA 2000). Their national member organizations lobbied the commissioners and the members of the European Parliament in their countries in defense of the old regulation (CECRA, 2001, 2002a). According to Jürgen Creutzig, the president of CECRA, the European

Commission's goal to achieve a 20 percent decrease in car prices with the new regulation was unrealistic (CECRA, 2002b), and he warned that if the proposal was passed unchanged, then tens of thousands of authorized dealers in the EU would disappear from the market (CECRA, 2002c). National governments and their politicians also joined the opposition. Werner Müller, Germany's Economy Minister, wrote a letter to Mr. Monti, criticizing the change (BBC News Online, 2002). Gerhard Schröder, the German Chancellor, said: "*Changes threaten Germany's already weak labor market*" (Ward's Auto World, 2002). These joint efforts can be regarded as the exercise of coercive (collective) power to prevent a common threat, i.e. a strategic response of avoidance utilizing voice (cooperation) relationship strategy.

Despite the lobbying efforts BER 1400/2002 came into force on October 1, 2002. It implied four major changes from the old regulation (Akpinar, 2007). First, OEMs needed to choose between selective distribution and exclusive distribution while earlier they could exercise both simultaneously. Secondly, it eased multi-branding opportunities for dealers. Thirdly, it separated repair & maintenance from distribution, and fourthly repairers were no longer required to use original parts, i.e. they could supply equivalent "non-original" parts from independent suppliers. CECRA was disappointed in that the new regulation provided no protection for the huge relationship-specific investments that dealers had to make in their businesses (CECRA, 2002a).

As mentioned by Dr. Hoff during the interview, "*OEMs wanted fewer, larger, and financially stable dealers.*" BER 1400/2002 did not necessitate the cancellation of existing contracts between OEMs and dealers in that old contracts could be adapted with amendments to include new clauses (ibid.). Many powerful OEMs, however, took advantage of the uncertainty from the change and cancelled all existing contracts; they offered instead completely new contracts with unfavorable conditions for dealers and only to the dealers that they wanted to work with in the

future (Automotive News Europe, 2002a). According to dealers, BER 1400/2002 became an excuse for OEMs to get rid of dealers they had planned to fire anyway (Automotive News Europe, 2002b). As Axel Koblitz, secretary general of the German dealer association, put it: *“Of course OEMs will take this opportunity to cut their networks. As the stronger partner they are in a good position to negotiate a better deal for themselves with their networks”* (ibid.). As informed by Mr. Rantala during the interview, *“Under the new contracts OEMs took a tighter grip of the dealers in that they set new qualitative standards which were financially more severe than before. In addition, they decreased dealer bonuses. The earlier fixed bonuses were divided into fixed and variable parts. The variable part required meeting qualitative criteria which were difficult to achieve. At the end many dealers could not achieve 100 percent of the variable bonuses, and even those that achieved 100 percent of the variable bonuses earned less in bonuses in total than earlier.”* Similar insights were also voiced by Jürgen Creutzig, *“OEMs set standards so high that many dealers cannot meet them. They are also squeezing dealer margins and making it more difficult to sell other brands despite the new rules”* (Automotive News Europe, 2003). VW, for example, decreased its fixed margin from 15 to 11 percent, and scrapped most bonuses, thus decreasing the top achievable margin from 20 to 18 percent (Automotive News Europe, 2005b). As Mr. Creutzig argued, *“Dealers can face ruin if they refuse new contracts. They have no choice. If they do not sign, they will not have new cars, tools, equipment and training. Then the business is out. It is bankrupt”* (ibid.).

As a result, the total number of dealer outlets in Western Europe decreased from 104,643 in year 2000 to 74,160 in year 2004 (London Economics, 2006). Dealers that were terminated were mostly small workshop-style operations in rural areas, which did not have the money to invest in new equipment (Automotive News Europe, 2002c). This result can be interpreted as the exercise

of coercive (distributive) power to achieve individual goals in an opportunistic manner. The strategic response of dealers which stayed in business was adaptation, and the accompanying relationship strategy was exit (competition). The strategic response of OEMs was neither avoidance nor adaptation: it was opportunism. This response emerges from the empirical study as a third type to be integrated into the typology of Pfeffer and Salancik (1978).

4.3 The revised framework

Integrating findings from the two cases enables to conceptualize strategic responses to the institutional environment and the accompanying relationship strategies and the exercise of power based on making sense of the change as a common opportunity, a common threat, or an individual opportunity for the powerful partner (see Figure 2). As a result, three propositions are developed which can be tested in future research.

Place Figure 2 here

Proposition 1: If the partners perceive a common opportunity from the change in the institutional environment, they will respond with adaptation and exercise voice (cooperation) relationship strategy and coactive (collective) power to realize the opportunity.

Proposition 1 is based on findings from EU's Eastern expansion case (see the upper route in Figure 2). The support provided by OEMs to their first-tier suppliers to establish operations in Eastern Europe and to local suppliers in growing their businesses suggest that despite the strong power difference between the relationship partners, they make sense and understand that they are

dependent on each other in order to realize the opportunity. This results in the application of voice (cooperation) relationship strategy and the exercise of coercive (collective) power.

Proposition 2: If the partners perceive a common threat from the change in the institutional environment, they will respond with avoidance and exercise voice (cooperation) relationship strategy and coercive (collective) power to avoid the threat.

Proposition 2 is based on findings from the BER 1400/2002 case (see the first row of the lower route in Figure 2). The possible introduction of BER 1400/2002 was perceived by both OEMs and dealers as a common threat with unfavourable consequences. Joint lobbying efforts by ACEA and CECRA to prevent BER 1400/2002 from coming into force suggest that partners will respond with avoidance, exercising voice (cooperation) relationship strategy and coercive (collective) power to avoid the threat.

Proposition 3: If the threat from the change in the institutional environment cannot be avoided, the powerful partner can make sense of an individual opportunity to exploit the strong power difference. In that case the powerful firm will respond with opportunism, and the weak firm will need to adapt or be a victim of natural selection. The resulting relationship strategy will be exit (competition), exercising coercive (distributive) power.

Proposition 3 is also based on findings from the BER 1400/2002 case (see the second row of the lower route in Figure 2). Strong power difference is a precondition for this type of strategic response, in which the powerful partner exploits the power difference in its favour to realize an individual opportunity at the expense of its weak partner. Uncertainty accompanying the introduction of BER 1400/2002 created an opportunity for OEMs to take advantage of their dealers. OEMs' renewal of contracts with less favourable conditions for their dealers suggests that powerful partners can make sense of individual opportunities and respond with opportunism,

a new type of response not included in the typology by Pfeffer and Salancik (1978), and apply exit (competition) relationship strategy and coercive (distributive) power to realize the opportunity. The weak partners in return will need to adapt or be a victim of natural selection.

5. Discussion

This study increases our understanding about how changes in the institutional environment can affect strategies and the exercise of power in inter-organizational relationships. The revised framework in Figure 2 contributes to calls for (i) the need to study the functioning of power in inter-organizational relationships (Perrow, 1986; Guillén, 2007), (ii) the need to address the dynamic nature of relationships (Ketchen, Jr. et al., 2004; Dahl, 2014), and (iii) the need to study how firms use different strategies over time in reducing their dependence to their environments (Hillman et al., 2009).

In addressing the first need, the study makes a contribution by clarifying the connections between strategic responses to changes in the institutional environment, relationship strategies and the exercise of power (see Figure 2). It reveals that the exercise of power is triggered by a change in the institutional environment which creates uncertainties for both relationship partners (Clegg et al., 2006). The type of power to exercise depends on how the partners perceive the change and make sense of it (Weick, 1995). If both partners see it as a common opportunity (e.g., OEMs and suppliers in the case of EU's Eastern expansion), they will exercise coercive (collective) power, and the powerful partner will help the weaker one in overcoming its resource constraints to realize the opportunity. If both partners see the change as a common threat (e.g., OEMs and dealers before the coming into force of BER 1400/2002), they will again exercise coercive (collective) power, joining forces in efforts to avoid the threat. Finally, if the powerful

partner sees it as an individual opportunity (e.g., OEMs after the coming into force of BER 1400/2002), it will exercise coercive (distributive) power by taking advantage of the strong power difference to realize the opportunity. This type of strategic response is opportunism, and it is likely to occur in cases of strong power difference (Casciaro and Piskorski, 2005; Akpinar and Vincze, 2016). Integrating opportunism as a third type of response to the avoidance / adaptation typology of Pfeffer and Salancik (1978) is a contribution of this study to RDT literature.

According to Akpinar and Vincze (2016), strong power difference is a driver for exit (competition) relationship strategy. This study provides evidence for this argument in the context of a realized threat from the institutional environment, i.e. the coming into force of BER 1400/2002. However, it is also shown in the study that despite the strong power difference partners can apply voice (cooperation) relationship strategy in jointly realizing an opportunity (e.g., the case of EU's Eastern expansion) and in trying to avoid a common threat (e.g., lobbying against the BER 1400/2002). In this respect, this study also contributes to understand how power difference will or will not affect strategic actions of voice (cooperation) and exit (competition) in different contexts.

In addressing the second and the third needs, the case of BER 1400/2002 shows that relationship strategies and the exercise of power are subject to change over time in the case of a threat from the institutional environment based on changes in the strategic response of the powerful partner. At the beginning partners can apply voice (cooperation) strategy to avoid the threat, but if it cannot be prevented, the relationship can change significantly if the powerful partner sees an opportunity in the uncertainty arising from the change. As a result, the powerful firm will respond with opportunism and alter its relationship strategy from voice (cooperation) to exit (competition), and the weak partner will inevitably need to adapt or be a victim of natural

selection. Explaining how the responses and the relationship strategies can change over time based on making sense of changes in the institutional environment is a contribution of this study to RDT literature (see Hillman et al., 2009).

The findings are equally important for managers and policy makers regarding the management of dynamic relationships of outcome interdependence with strong power difference. Managers can adopt for their firms suitable strategic responses and relationship strategies after making sense of changes in the institutional environment and assessment of power difference in their relationships. It is especially recommended that managers of weak firms keep vigilant about possible responses of opportunism and the exercise of coercive (distributive) power by their strong partners and invest in their adaptation capabilities. By emphasizing the significance of power differences, the findings demonstrate for European policy makers the differing consequences of their competition initiatives on strong and weak actors. For example, given the consequences on dealers following the implementation of BER 1400/2002, it is subject to discussion how weak actors can be better protected against potential opportunistic behaviors of their powerful partners. As changes introduce uncertainty which can trigger the exercise of power (Clegg et al., 2006), new legislations should be designed carefully to minimize the risks of opportunistic behaviors.

This study is subject to three limitations which provide opportunities for future research. First, it is based on two case studies from the European automotive industry. Future research can study cases from different industrial and geographical contexts. Secondly, the cases represent vertical relationships of outcome interdependence characterized by strong power difference. Future research can study cases representing competitive interdependence and cooperative interdependence (see Hawley, 1950; Thomas, 1957; Thompson, 1967) with varying levels of

power difference. Thirdly, RDT was adopted as the main theoretical lens in this study, but it is possible that by adopting a single perspective one can overlook the multiple dimensions of power (Fleming and Spicer, 2014). Future research could aim for a more holistic understanding of power including detailed study of its different types and determinants. In-depth analysis of a particular OEM-supplier or OEM-dealer relationship can be useful for this purpose. Finally, the three propositions from the developed framework (see section 4.3) can be tested in future research using a survey with OEMs and their relationship partners.

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Table 1. Time frames of study and sources of data

Case	Time frame of study	Sources of data
1. Eastern expansion of the EU	2000 – 2010	<ul style="list-style-type: none"> • Interview with Dr. Gerd Hoff • Production statistics from OICA, the International Organization of Motor Vehicle Manufacturers • Press releases of the European Automobile Manufacturers Association (ACEA) the European Association of Automotive Suppliers (CLEPA) about the case • Publications about the automotive industry • News related to the case appearing in Automotive News Europe, BBC News Online, and Ward's Auto World • Author's consulting experiences to a German-Turkish joint venture automotive supplier
2. BER 1400/2002	2000 – 2004	<ul style="list-style-type: none"> • Interview with Mr. Pentti Rantala • Interview with Dr. Gerd Hoff • Published speeches of EU commissioners about the regulation • Related regulations of the European Commission • Press releases of CECRA and ACEA about the case • News related to the case appearing in Automotive News Europe, BBC News Online, and Ward's Auto World

Table 2. Passenger car production units in Eastern European countries. Source: International Organization of Motor Vehicle Manufacturers (2016)

Country / MNE	Year 2000	Year 2010	% Change
Czech R.			
Hyundai-Kia	0	200 088	
PSA Peugeot Citroën	0	212 801	
Toyota	0	82 920	
VW	428 205	551 115	
<i>Total Czech R.</i>	<i>428 205</i>	<i>1 046 924</i>	<i>+144%</i>
Hungary			
Fiat	0	16 851	
Suzuki	77 000	170 031	
VW	57 067	38 541	
<i>Total Hungary</i>	<i>134 067</i>	<i>225 423</i>	<i>+68%</i>
Poland			
Fiat	273 743	429 528	
Ford	20 000	82 323	
GM	97 391	204 433	
VW	0	99 030	
<i>Total Poland</i>	<i>391 134</i>	<i>815 314</i>	<i>+108%</i>
Romania			
Renault	0	323 386	
Slovak R.			
Hyundai-Kia	0	229 505	
PSA Peugeot Citroën	0	174 824	
VW	77 777	105 596	
<i>Total Slovak R.</i>	<i>77 777</i>	<i>509 925</i>	<i>+556%</i>
Slovenia			
Renault	122 949	201 039	+64%
<i>Total Eastern Europe</i>	<i>1 154 132</i>	<i>3 122 011</i>	<i>+171%</i>

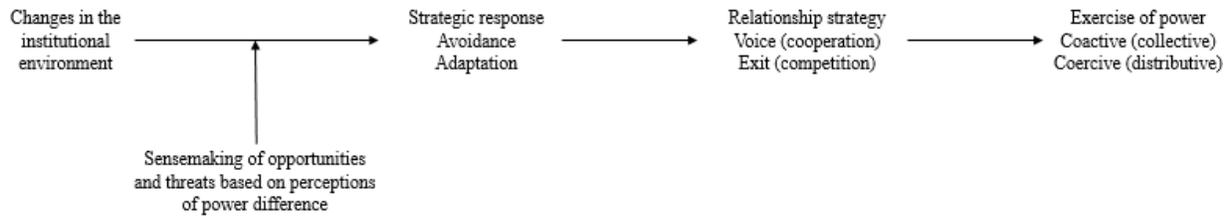


Figure 1. The preliminary framework

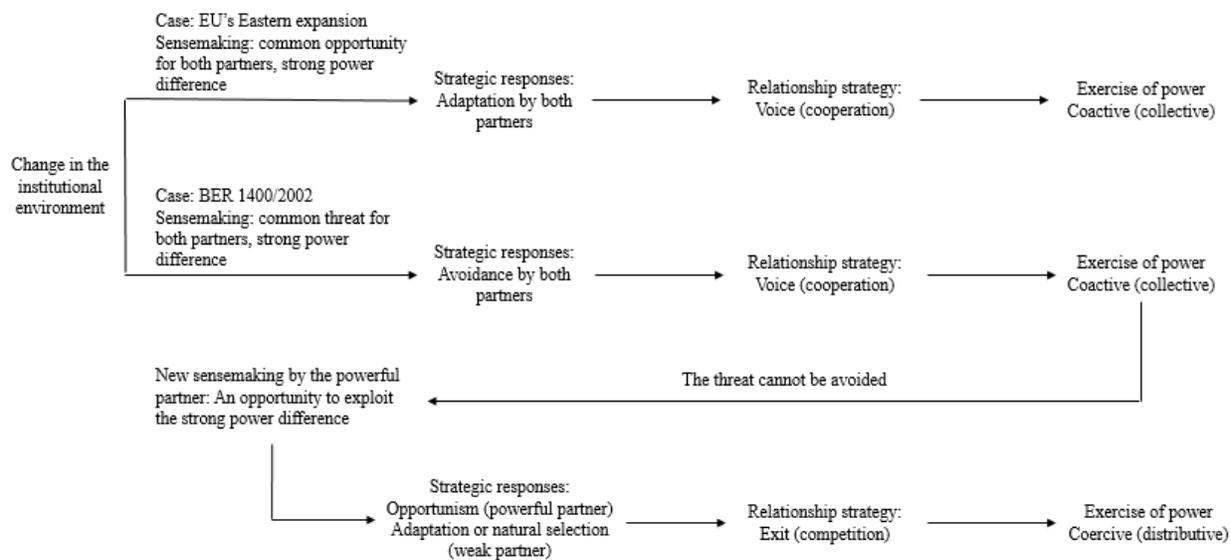


Figure 2. The revised framework