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Abstract

The purpose of this paper is to investigate the dynamics of networked power in a concentrated business network. Power is a long standing theme in inter-organisational research, yet there is a paucity of studies about how power emerges and is constructed over time at the network level. The paper adopts process, systems and network theory to interpret a rich single case study from the food industry. Three power mechanisms are identified, gatekeeping, decoupling and resource allocation, which form the basis of a model of networked power dynamics. Empirically tracing the dynamics of networked power highlights the economic contents of interactions. The paper extends current understandings of power as 'conflict and coercion' to include influencing, leveraging and strategic maneuvering in the actual performance of networked power.

Key words: networked power, inter-organizational power, buyer power, governance systems, power mechanisms

1 Introduction

Power has long been recognized as an essential aspect of interaction in business networks (e.g., Johanson, 1966; Kinch, 1974; Wilkinson and Kipnis, 1978; Wilkinson, 1973; Håkansson, 1982; Frazier, 1983; Gaski, 1984; El-Ansary and Stern, 1972). Research on power in inter-organizational settings draws primarily on social exchange theory (Cook and Emerson, 1978) and power base theory (French and Raven, 1959). However, while recent work discusses aspects of power and dominance (Baraldi and Nadin, 2006; Brennan, Turnbull and Wilson, 2003; Bångens and Araujo, 2002, Wilkinson and Young, 2003; Blois and Hopkinson, 2013), the field reflects a general lack of empirical research into the dynamics of networked power or how power emerges and is constructed over time in a business network.

Welch and Wilkinson's (2005) study of the Japanese – Australian sugar dispute in the 1970s is one exception, even if their paper deals only indirectly with power. They show how covert and indirect power tactics were used during conflict resolution negotiations in a network, indicating how positional power was used to achieve institutional transformation. Nevertheless, the need remains to empirically investigate the dynamics of networked power without taking the detour via conflict and conflict resolution, or perceptions of power by the involved actors (e.g., Meehan and Wright, 2012).

The purpose of this paper is to investigate the dynamics of networked power in a concentrated supplier-retailer business network. The focus is on the content of socio-economic aspects of networks including resources and activities as well as actors in line with Håkansson (2006), Håkansson, Ford, Gadde, Snehota, and Waluszewski (2009), Grandori (1997) and Hidalgo, Klinger, Barabasi, and Hausmann (2007), as opposed to conceptions of networks as represented by individuals only such as in social network theory.

Three basic analytical approaches to the conceptualization of power within the social sciences – process, systems and network thinking – are used to aid in our understanding of networked power dynamics. A single case study from the food industry describes the interplays across actors in a supplier-retailer network obtained from a series of court documents concerning a competition law case in Norway. The case concerns how the dominant dairy company Tine SA allegedly excluded competitors from one of the four retail chains, whilst at the same time having a role as a market regulator (and thus responsible for protecting the residual competition in the protected Norwegian dairy market). It exemplifies interactions across multiple actors where various initiatives seem to move power relations over time and where the resolution in one dyadic relation has severe implications for multiple others.

The paper proceeds as follows. Section two reviews the literature on inter-organizational power, before a broader approach to the empirical analysis of networked power, drawing on the research approaches of process, system and network is outlined. The case study research methodology used is described in section three, along with some background to the sector and the court case. Section four provides the empirical data by discussing power within three specific sets of buyer to seller interactions, which we term ‘power games’. In section five we identify how three power mechanisms, gatekeeping, de-coupling and resource allocation, appear to be utilized as networked power develops over time. By ordering the mechanisms and discussing how they are combined and developed, we propose a model of networked power dynamics.

The paper supports existing literature by confirming that network positions represent a useful starting point when discussing networked power (e.g., Thorelli, 1990; Axelsson, 1992; Barzilai-Nahon, 2008). However, we also go beyond current work because understanding the dynamics of networked power requires us to consider network positions as points of departure

from which one can investigate the underlying mechanisms involved. This is because networked power is exercised in focused interactions with interdependent counterparts that are striving to counteract these mechanisms as well as their impact. Overall, the paper extends current understandings of power as ‘conflict and coercion’ to include influencing, leveraging and strategic maneuvering in the actual performance of networked power.

2 Inter-organisational power: a review

Powerful organizations of various kinds have always been part of economic systems. Within neo-classical economics, market power and dominance are typically discussed as deviations from an ideal ‘perfect market’, and considered as representations of market imperfections (Arrow and Debreu, 1954; Stiglitz, 1989). A classic definition of power – such as the one offered by Dahl (1957, p. 202) - “A has power over B to the extent that he can get B to do something that B would not otherwise do” - implicitly assumes that B is unable to escape from the relationship. This unidirectional passive definition has been challenged by definitions emphasizing bi-lateral active features of power (Emerson, 1962). In order to discuss a broader analysis of power that moves from structural contingencies for decision making towards a relational perspective including mobilization, resistance and knowledge, a number of approaches have emerged (Foucault, 1980; Fox, 2000; Lukes, 1974/2005).

In general, early works tend to focus on individual power whereas later research deals also with other types of organizational entities. This paper deals only with inter-organizational aspects of power. We follow the suggestion of Clegg (1989) that power cannot be adequately understood nor investigated without relating to a given situational context. The context to which we address is that of networks of business relationships (e.g., Håkansson, et al., 2009) whereby a company relates with others with which it has both positive and negative connections (Axelsson, 1992). Networked power is thus defined as ‘an actor’s attempts in a

multi-actor network to utilize their current position to allocate and de-couple actors, resources and activities according to its own benefit’.

2.1 4 ways to discuss power in inter-organizational settings

To develop an understanding of inter-organizational power requires a careful consideration of earlier works because these provide an important backdrop to the theoretical position developed here. Table 1 below uses a two-part categorization. The themes are partly overlapping but distinct enough to act as organizing devices. First, the conceptualization of power tends to be *behavioral*, *structural* (Brass and Burkhardt, 1993) or *relational* (Emerson, 1962) or combinations of these. Second, the main level of analysis is *individual*, *organizational* or *inter-organizational*.

- Please insert Table 1 about here

Power is discussed in a variety of ways at the inter-organizational level (Blois and Hopkinson, 2013; Brown, Johnson, and Koenig, 1995; Gaski, 1984; Hopkinson and Blois, 2013). Some see power as something that can be *held* as a property of an entity (Pfeffer, 1981). Studies adopting this view look at sources of personal power as part of a structural context (Brass, 1984; Burkhardt and Brass, 1990; Emerson, 1962, 1972; Krackhardt, 1990; Molm, 1990; Wrong, 1968).

Others see power as something that is *used* by an entity as a wielding force (Kipnis, Schmidt, and Wilkinson, 1980; Thompson and Luthans, 1983). The focus is on ego’s ability to use power of various kinds (French and Raven, 1959) and the effects power has for the person in question (e.g., Allen and Porter, 1983; Dahl, 1957; Schilit and Locke, 1982). A distinction between potential power and the use of power can therefore be made (see

Barcharach and Lawler, 1980; Brass and Burkhardt, 1993), although others suggest this dichotomy is superficial and unrealistic (Mintzberg, 1983; McCall, 1979), echoing the voice of Emerson (1972, p. 67): “to have a power advantage is to use it.” Indeed, Gaski and Nevin’s (1985) empirical study reported that relationships with exercised power sources were empirically stronger than with unexercised ones.

Others view power as stemming from the *relational arrangements* of entities in network-like contexts (Emerson, 1962). They draw on social exchange theory (Emerson, 1972; Thibaut and Kelley, 1959) to develop an understanding of power among connected entities (Kilduff and Brass, 2010). For example, Ibarra and Hunter (2007) investigate how leaders in organizations can systematically create and use networks, thereby linking network centrality and personal involvement in technical and administrative innovation.

Measuring the *sources* of power is also a key theme that draws on French and Raven’s (1959) six bases of power; reward, coercion, legitimate, expert, referent, and information (Raven and Kruglanski, 1970). French and Raven’s framework was introduced to marketing channel research by Stern and colleagues (Beier and Stern, 1969; El-Ansary and Stern, 1972). Power was conceptualized as one channel members’ ability to control another member’s behavior. El-Ansary and Stern (1972) identified an array of power areas which require prioritization, because actors cannot always have absolute power over all areas at a given point in time (Blois, 2005).

Research in marketing channels investigated power in two broad directions after El-Ansary and Stern’s (1972) seminal work, depending on whether power bases were measured indirectly or directly (Frazier, 1983; Wilkinson, 2001). Studies taking the indirect approach assess an entity’s perception of the benefits and punishments wielded by another powerful entity as a proxy (Hunt and Nevin, 1974; Ozanne and Hunt, 1971). Alternatively, research directly measures an entity’s perception of the extent to which another entity holds the power

bases (Wilkinson, 1978; 1979) by using questionnaire items related to these (Brown, Lusch, and Nicholson, 1995).

Hunt and Nevin (1974) reformulated French and Raven's (1959) work, arguing that distinguishing beyond coercive and non-coercive power is meaningless. In so doing they created a dichotomy which was later linked to a discussion on mediated and non-mediated sources of power (Johnson, Koenig, and Brown, 1985; Johnson, Sakano, Cote, and Onzo, 1993).

2.2 A central misconception about inter-organizational power

The marketing channels literature has always been distinct from other research about power because of the early focus on the inter-organizational level of analysis rather than the individual (e.g., Dahl, 1957; Wrong, 1968) or organizational (e.g., Pfeffer, 1981; Emerson, 1962). At the inter-organizational level, the strong focus on power base theory remains (Blois and Hopkinson, 2013; Hopkinson and Blois, 2013).

This focus is notable since there are alternative ways to coordinate marketing channels (Teece, 1992; Morgan and Hunt, 1994; Brown, Lusch and Nicholson, 1995; Gadde, 2004; Gripsrud, 2004), such as via trust and commitment (Brown, Lusch, and Nicholson, 1995; Duarte and Davies, 2003; Morgan and Hunt, 1994), which have become central to understanding inter-organizational relationships (Dwyer, Schurr and Oh, 1987; Ring and Van de Ven, 1992, 1994) and channels (Young and Wilkinson, 1989). Indeed, the study of inter-organizational power has been significantly downplayed to the benefit of other aspects of relational governance such as long-term interactions and the forming of inter-organizational networks (e.g., Gadde, 2004; Gadde and Ford, 2008; Gripsrud, 2004; Håkansson, et al., 2009).

The remaining studies about power which do *not* adopt a power-base approach can be subdivided into three. First, the studies by Wilkinson and colleagues (Welch and Wilkinson,

2005; Wilkinson, 1996; Wilkinson and Kipnis, 1978), explore the relational aspects of inter-organizational power, and Frazier and Antia (1995) draw on resource-dependence theory to acknowledge the influence from inter-organizational relationships on power. A second strand focuses on the effects of power usage upon commitment in inter-organizational relationships (Boyle, Dwyer, Robicheaux & Simpson, 1992; Frazier and Summers, 1986; Scheer and Stern, 1992). However, these studies arguably fail to distinguish between various degrees of commitments, such as shallow or more durable (Brown, Lusch, and Nicholson, 1995) thus lacking a multifaceted analysis.

The third strand includes the works of Cook and colleagues. Cook (1977) departs from social exchange theory and emphasizes the relational character of power as originating from a firm's dependence on external resources. Power comes from a firm's ability to impact the distribution of benefits coming from the exchange ratio in a mutual exchange of resources. Moreover, Cook, Emerson, Gillmore, and Yamagishi (1983) show that power dependence is more important than network centrality for the distribution of power in networks. This view of power in an inter-organizational setting resonates well with the view on resource interaction within the Industrial Marketing and Purchasing (IMP) approach (Håkansson and Snehota, 1995; Baraldi, Gressetvold and Harrison, 2012).

Arguably, the endemic focus in marketing channel research on power base theory is problematic because the theory is narrow in scope. One result is that the IMP approach has disregarded research on power as irrelevant due to its strong association to coercion and compliance (Blois and Hopkinson, 2013; Morgan and Hunt, 1994; Hopkinson and Blois, 2013). But this disinterest is also difficult because power incorporates more than conflict, coercion and compliance. Influencing, cooperation, leveraging and strategic maneuvering are all issues related to power in networks. These are overlooked in current marketing channel

research and the actual performance of power in networks is neglected by the IMP community (Gripsrud, 2004; Gadde, 2004).

Furthermore, even research which does not adopt power base theory has a dyadic focus. This tends to overlook the interconnected aspects of power in networks. The only exceptions are Cook (1977) and Cook et al. (1983), but they are unfortunately overshadowed by power base theory (Blois and Hopkinson, 2013). As Frazier (1999) concludes, power "...remains a misunderstood construct in channels-of-distributions research." (p. 227). A broadened understanding of power in inter-organizational settings beyond power base theory (Hopkinson and Blois, 2013) is thus required. As the work by Cook (1977) is largely overlooked, along with developments in resource dependency theory (Aldrich, 1979; Pfeffer and Salancik, 1978; Thompson, 1967) power in networks is frequently misunderstood, misconceived, and superficially investigated.

2.3 The dynamics of networked power

Recent knowledge about power in process theory (Thomas, Sargent and Hardy, 2010), systems theory (Blackler and McDonald, 2000) and network theory (Welch and Wilkinson, 2005) provides useful insights into the empirical phenomenon of power as well as its conceptualization in inter-organizational settings. In brief, process theories tend to give priority to creation processes over characterizations of outcomes and stable entities, for example, actor-network theory (ANT). Systems theories emphasize the analysis of interacting units and the relationships between these and their environments. Finally, network theories focus on the structures and dynamics of relationships between different units rather than between a unit and its environment. The next sections build a broader approach for an investigation of networked power by building on these three theories.

2.3.1 Power from a process theory perspective

Modern process theories have various origins. Philosophers such as Bergson, Whitehead, James, Peirce and Sheldon were among the most influential during the late 19th and early 20th centuries. ANT is one recent derivative theory in which power and dependency are viewed as outcomes of interactive, creative construction processes. Here, social and material elements are enrolled and translated – or mobilized - into linked power networks with persuasive effects on others (Latour, 1991; Fox, 2000). The constellations of elements are essentially unstable and unpredictable, because any actor can resist the exercise of power by others.

The power to produce predictive behaviors by others – from the point of view of the actor-network – results from the linked network of elements, such as particular laws, physical devices, establishing of incentive schemes, etc. These socio-material constellations are shaped to perform certain tasks and are put in place to ensure certain objectives as a committed and coherent “whole” (Hoholm, 2011, p. 243). The controversial struggle for shaping meaning is central in this view of power creation (Thomas, Sargent, and Hardy, 2010) because society “is performed through everyone’s effort to define it” (Latour, 1986, p. 273). Power is traced through chains of arguments that are associated with the elements making up socio-material constellations. Interdependency is not seen as pre-given, but results from the inclusion, translation and mobilization of the social and material elements that force and stabilize relationships. In this way, power and dependency are seen as particular dimensions of the actor-network itself (Latour, 1991; Olsen, 2005).

This theory provides a conception of variable and more or less stable dependencies and powers, whereby the weakening or strengthening of particular powers are directly related to a corresponding decline or expansion of the actor-network itself. The expansion process depends on the continuous creation and mobilization of additional power elements leading, if

successful, to an escalation of domination in the processes of interacting with others. On the other hand, the decline of power can result from the de-linking, de-constructing, excluding or undermining of particular powerful entities within the linked network, by rival actor networks that are representing different objectives. This theory is essentially anti-heroic, seeing the participation and rivalry of many is a condition for power, and where success is always provisional (Briers and Chua, 2001).

2.3.2. Power from a systems theory perspective

Systems theory may be viewed as a critique of the rather vague conception of unity in process philosophy. This critique developed in particular in relation to life sciences, information technology, psychology and sociology (Quastler, 1953; von Bertalanffy, 1956; Laszlo, 1972; de Rosney, 1979; Prigogine, 1980; Luhmann, 1984). From a fundamental appreciation of interaction and dependencies as constitutive of systems (units), system thinkers associate dependence and power with internal hierarchical levels and increased complexities of higher order systems. The more complex and the higher the hierarchical level of the system, the more flexibility can be expected in relation to how the system may interact with the environment (von Bertalanffy, 1956).

Freedom for an actor results from a more sophisticated ability to recombine complex entities to conduct similar activities or reach similar ends in multiple ways (Prigogine and Nicolis, 1977). The more complex and higher ordered coordination, the more alternatives are available. However, the opposite might also be the case: a system can be used to circumscribe alternatives and to reduce options. Lukes (1974/2005) work on the three dimensions of power is one example. It rests on the identification of the adaptive policy formation mechanism as fundamental to how people respond to power. In other words, individuals accept powerful actors in a system because they believe in 'the system' itself.

While Lukes ideas have been criticized as inconsistent and self-contradictory (Bradshaw, 1976), he nevertheless recognizes pluralist and non-decision theories of power as important in exploring power in complex collective contexts.

Power and dependence are considered as constituent parts of more developed higher order systems. The power to produce predictive behaviors results from the system's constitution of relations among elements of exchange, production, consumption and distribution enabling organizational entities to change their way of handling variety and complexity (Prekert, 2006). Blackler and McDonald (2000) suggest that power is both the result and the medium of collective systemic activity. A complex, higher order system is more able to escape from the dominance of others, and will be more able to dominate less complex and coordinated system. This view emphasizes capacities for organizational change and adaptation (Ashby, 1952; Galbraith, 1973; Scott, 1992).

2.3.3. Power from a business network perspective

Network theory focuses on interactions between units which are adjusted through their connections. A dyadic relationship is seen as reciprocal with mutual abilities to influence. This principle is carried on to the network level via direct and indirect relationships in order that actors may influence others to produce outcomes that are beneficial to the influencing party. Sydow and Windeler (1998, p. 280) argue that network processes are shaped by signification, domination and legitimation. That is, to “conceptualize social processes in general and network processes in particular as full of tensions and contradictions, governed by a dialectic of control which only to some extent and for some time can be tamed by an appropriate governance structure that is based on a process of permanent reproduction”.

Interaction is the means by which companies coordinate their activities for the purpose of harvesting collective gains (Håkansson, 1982). For an organization to be detached and not

able to connect to others is costly (Dwyer, Schurr and Oh, 1987) but also has the immediate consequence that the actor ceases to exist as a relevant economic entity deprived of both power and freedom.

Echoing Cook (1977), current research argues that an actor's network position can be used to understand their ability to influence and exert power in business networks (Axelsson, 1992; Anderson, Havila, Andersen and Halinen, 1998; Johanson and Vahlne, 2006; Johanson and Mattsson, 1992; Wilkinson, 1979; Welch and Wilkinson, 2005). Network position "describes how the firm is related to other firms in the network" (Gadde and Mattsson, 1987, p. 30) based on firm and network resources (Mattsson, 1989; Snehota, 1990). Network position represents a market asset which provides access to the assets of other firms in the network (Johanson and Mattsson, 1985). The use of a network position – through influencing, controlling, mobilizing (Allen, 2003) – will vary by the extent of network structure (Mattsson, 1989). Axelsson (1992, p. 190) draws on Kutschker's (1982) work to develop a theoretical framework of the analysis of inter-organizational power. In this framework the notion of network position is viewed as the origin of any inter-organizational power.

2.4 Investigating networked power

The theoretical perspectives outlined above provide a broad vantage point from which one can empirically investigate the dynamics of networked power. All three deal with what can be broadly considered as a dialectical tension between interdependency and relational freedom (Cook, 1977) in different ways. Relational freedom is the opposite of interdependency; the ability to leave a relationship in order to reconnect differently or engage with others.

From a process theory perspective, the conditions for how dominance and freedom come into being or decline can be understood and empirically observed. In the systems theory, the

focus is on the representations of the kinds of power and freedom that are based on the internal complexities and hierarchies of entities in relation to their environments. Thirdly, the business network perspective offers insight into the importance of network positions as a starting point when tracing the dynamics of networked power. These three perspectives are used to interpret the empirical data discussed in section 4 below.

3 Research Methodology

The methodology used in the paper is a single case study (Yin, 2009; Easton 2010, Stake 2003). This type of research design is common for the study of business networks (Halinen and Törnroos, 2005; Morgan and Smircich, 1980; Dubois and Gadde, 2002). The Norwegian dairy sector was chosen as an interesting setting for empirically tracing the dynamics of networked power. It is termed a ‘concentrated network’ in the paper because it comprises relatively delineated, well-defined and stable parts, in particular a highly concentrated retailer structure. It is also isolated from outside influences because of a system of high import barriers which exclude most foreign competitors.

Data was collected from publicly available legal transcripts produced from a court dispute between Tine SA (a farmer-owned dairy organization with a dominant position) and the Norwegian Competition Authority (NCA). The documents addressed relationships, interactions and decisions by Tine, their competitors Synnøve Finden and The Kavli Foundation, and retailers Rema, Norgesgruppen, Coop and ICA (which account for 99% of the Norwegian food market) over a six month period in 2004.

The background to the court case was when German hard discount food chain Lidl prepared to enter the Norwegian market. The existing ‘soft’ discount chain, Rema, saw this as a severe threat to its market position. One part of the response was to move to sole suppliers for key product groups, such as Tine for dairy products. Tine has a dual role as

supplier and market regulator in the dairy market. They have a legal responsibility towards smaller suppliers to not harm competition.

The issue for the courts was whether Tine was responsible for the exclusion of competitor Synnøve Finden's products from Rema that resulted from Rema's initiative to have Tine as a sole supplier. The court case also considered a similar issue with regard to the Tine – ICA relationship. The Norwegian Supreme Court finally ruled by a 3-2 majority that Tine had not violated the law. The view was that the decision to exclude other suppliers was initiated and carried out by Rema, and that Tine could not be held responsible.

The use of court documents to obtain access to rich data is a useful way to collect data in case study research. It has been used in other studies of business relationships, most notably in the case of the divorce between the UK retailer Marks and Spencer and its supplier of men's, women's and children's clothes William Baird (Harrison, 2004; Blois, 2003).

The use of legal documents as a data source hinges on the quality and detail of the information provided by courts (Angrosino, 2005). We sought to validate information across three different court judgements, which reflected diverse interpretations and decisions. The legal documents provide the courts' presentations of the major facts as well as their interpretations of what happened, why, when and which actors had interacted or not. They are built from detailed documentation compiled by government investigators, and are thus a reflection of the judges' interpretations of complex patterns of interactions which are usually difficult for researchers to obtain access to.

Data was extracted from three main documents; the judgement by the Norwegian Competition Authority, the ruling from Oslo District Court, and that from the Regional Appellate Court. Following careful reading and discussion of the documents by the authors, three domains of interaction were identified. These are referred to as "power games" (Hardy and Clegg, 1996, p. 636). While the identified domains of interaction in the case study could

have been labeled for example, ‘strategies’, we think this carries notions of one-way influencing, while ‘games’ connotes more interactivity, and it has therefore been chosen.

The first domain of interaction is called the *access to market game*. This game concerns how access to the end consumer market is being controlled, and how this is exploited to expand influence over the coordination of activities. The second domain is termed the *latitude game*. It discusses how the actors create additional options for themselves by shifting relationships to different resources, activities and actors over time. The *price dumping game* is the third domain. It describes the varying abilities of retail chains to collect and mobilize financial resources from across their supplier networks to fund price wars.

Each game exemplifies different yet related aspects of networked power emergence and construction/networked power dynamics. We identify first and second order power mechanisms from all three games (these are identified at the start of each game description below). Mechanisms are understood as entities which under similar conditions have the causal power to generate similar effects (Bunge, 1979; Augier and March, 2004). They are social mechanisms which are made up of entities with properties and activities that produce change (Hedberg and Swedberg, 1998; Mason, Easton and Lenney, 2013; Buttriss and Wilkinson, 2014). According to Bunge (1997) the configuration of these entities with its activities and interactions give them causal powers. We therefore view mechanisms as processes that can be attributed explanatory power (Mason, Easton and Lenney, 2013; Buttriss and Wilkinson, 2014).

Lastly, following Eisenhardt (1989, 1991) and Eisenhardt and Graebner’s (2007) advice regarding theory building, the case study is used as a basis for theorizing about the dynamics of networked power.

4 3 Power Games

In brief, the key negotiations between suppliers and retailers occur during the so-called ‘*Autumn Hunt*’ between August and January. The purchasing function in each retailer negotiates with account and marketing managers from the individual suppliers. Prices for every product line are negotiated alongside the overall contract. Each retailer conducts parallel negotiations with their suppliers. The deals signed are decisive to what products will be sold the coming year, for possibilities to introduce new products, and for the sizes of the various economic contributions (return payments) suppliers are to make.

4.1 The Access to Market Game

The game focuses on what we refer to as the *gate-keeper mechanism* (see section 5 below) through which the retailers control the interface between suppliers and the end consumer. In 2004 Tine went into the negotiations knowing that Rema had been lagging behind other retailers regarding the economic contributions paid by suppliers. This was of some concern due to Tine’s obligations under relevant competition law: “As a dominant market actor Tine finds it problematic if the conditions for the competing [retailer] groups vary too much” (Oslo District Court, p. 15).

Negotiations primarily concerned the total sum of payments for contracts, rather than individual price levels on separate products. Tine argued: “Retailers are primarily interested in the prices to be paid for supply contracts. The total amounts that are later to be converted into category rebates, campaign contributions, and payments for joint marketing. It is therefore customary to first agree on the size of the total amount, and then to distribute it.” (Oslo District Court, p. 15). The price of a delivery contract broadly depends on the overall market share of the retailer. One component of this the value of the products sold. The second component, however, has to do with the size of the levy by volume; the larger the market shares of the retailer, the higher the levy.

Tine attempted to negotiate increased contributions to Rema while at the same time attempting to limit any increases in the contributions to be paid to the other retailers. This caused substantial tension in the negotiations with Norgesgruppen. After four rounds of negotiations, Tine's original offer of zero increase was still in place. However, the CEO of Norgesgruppen pointed out that Tine severely risked its assortment, and that all negotiations were to be concluded within two weeks (Oslo District Court, p. 60, 61). Tine finally capitulated and settled on a quite substantial increase.

The level of contributions paid by Tine to the four retailers in 2005 as a result of the Autumn Hunt in 2004 was considerable. The largest retailer, Norgesgruppen, obtained a 30% increase in compensation, and the compensation in relation to turnover increased by 1.09 %. Moreover, from the outset the retailer had the highest absolute as well as relative amount of compensation. While Tine's substantial turnover with the retailer explains some of this difference, it does not account for it all. Whereas Norgesgruppen in 2004 received a levy of 3.71 % of the company's turnover with Tine, Coop as number two received only 2.77 %. Indeed, in 2005 Coop remained at the same level while Norgesgruppen increased their compensation to 4.85 %. In other words, the asymmetric compensation levels increased.

In a concentrated network, the gate-keeper mechanism impacts on the process by which patterns of financial gains and losses changes over time. The court material discusses how the top ranking retail group is able to control access to consumer markets across product categories. Through their gate-keeper role, they are able to directly force a redistribution of profits from their suppliers to themselves. The orchestration of repeated competitive and parallel bidding processes facilitates retailers in developing and exploiting advantages year on year. The data also demonstrates that the benefits received tend to be exponential to linear market share increases, providing for further market concentration.

One effect of this is that the dominant retailer is able to generate exponential economic returns to market share growth as compared to rivals. The implication is that the most dominant actors are able to strengthen their dominance. The access to market game is central to the understanding of how wealth is being distributed within the network.

4.2 The Latitude Game

The second game focuses on the *de-coupling mechanisms* through which the actors attempted to enhance their flexibility with respect to particular relational dependencies (see section 5 below).

Negotiations between Tine and Rema were initiated in September 2004. One issue was that Rema had experienced problems with milk deliveries from Tine's competitor Kavli (Oslo District Court, p. 52, 53, 57). Rema was interested to discuss how shortages could be avoided; one possibility was for Tine to become the sole supplier. This implied the delisting of *Q-melk* (Kavli's brand) and the termination of the Rema-Kavli relationship (Oslo District Court, p. 53).

The delivery issue was in part due to Kavli's contract with Norgesgruppen. The latter argued that it was an exclusive deal with Kavli (Oslo District Court, p. 52). Both Kavli and Synnøve Finden (cheese) had tight links with Norgesgruppen. One result was that they were less independent in terms of supplying other retailers such as Rema, while at the same time being dependent on their ability to supply several retailers in order to maintain sufficient volumes. Being delisted as a supplier to Rema, however, would be a significant blow.

Furthermore, the negotiations also included cheese categories. Rema had existing contracts with Synnøve Finden. The Rema-Tine negotiations explored the consequences of Tine becoming the sole supplier: "...they go towards fewer suppliers and a strong focus on

the largest brands. This provides opportunities for us, but it will of course cost” (Rune Jenssen, Tine’s Sales Manager, Oslo District Court, p. 56).

Rema used the possibility of having Tine as a sole supplier as leverage in their negotiations with Synnøve Finden and Kavli. These negotiations took place in parallel to those with Tine: “Tom [Key Account Manager in Rema and responsible for the Tine account] will take a round with Finden and ‘pin them to the wall’ ” (Oslo District Court, p. 56). The quote illustrates the intensity of the latitude game. The consequences are significant in that all of the involved actors are affected. For example, “...Rema discussed if they should bet on Tine without Q and Synnøve Finden, to maintain the status quo, or if they would buy more from Q and Synnøve Finden, which implied a large reduction in Tine’s products” (Oslo District Court, p. 52).

The development of own-label brands was also part of the negotiations. Tine was concerned by the retailers offering own-brand cheese as part of a hard discount strategy (Oslo District Court, p. 50). “In early September 2004 Rema directed an inquiry to Tine [... and] they worked on an offer to produce white cheese, but had to say no to brown cheese” (Oslo District Court, p.55). One reason Tine had to take these enquiries from Rema seriously was because they already produced private label cheese for Coop (Oslo District Court, p. 16).

The latitude game focuses on different de-coupling mechanisms whereby the intended effects are to increase the availability of alternative supply strategies. In a concentrated network, such alternatives are scarce. The outcomes of the negotiations depend on which actor actually has latitude and which are able to generate and control the processes by which additional alternatives are created or perhaps forced.

Moreover, there are direct network effects from the de-coupling mechanisms. They force new challenges, re-negotiations and shifting positions across the network. In particular, consequences arise with respect to which suppliers will have to carry systemic economic risks

and losses due to the generation of overcapacity, uncertainty, etc. While Tine as the dominant supplier is quite resilient to some of these effects as long as excess capacities are sufficiently constrained, the smaller competitors are vulnerable, and the pressures on them generate indirect pressures on Tine.

Two distinct examples of the de-coupling mechanism in action can be noted. The first involves how negotiations take place whereby retailers are orchestrating and communicating different competitive supply alternatives. Second, the private label phenomenon gives retailers scope to reduce dependencies on particular suppliers. By competing directly with their suppliers, retailers can generate leverage within the negotiations, even towards a dominant supplier such as Tine. The economizing effects that results primarily affect the suppliers, by providing tension in their abilities to continue supplying their customers.

4.3 The Price Dumping Game

The third game illustrates a resource allocation mechanism (see section 5) that is core to the behaviors of the retailers. It focuses on how various supplier alternatives impact on Rema's 'Swede Fund'. The name comes from the Norwegian use of the word 'Colruyt', which is the name of the Belgian retail chain which pioneered this type of fund (Colruyt became 'kålrot', which is here translated to Swede). This fund is used by Rema to fight price wars or to cross-subsidize certain products in order to do well in the newspaper Verdens Gang (VG)'s price comparisons of various products (Regional Appellate Court, pp. 2-3). Retailers soon learned what products were included and realized that they could influence prices of key products. The use of the fund as a way to influence market shares amongst the retailers began during the early 2000s and culminated in autumn 2004 with Lidl's entry (Oslo District Court, p. 14).

The Swede Fund is in fact funded by the suppliers through their delivery contracts (Oslo District Court, p. 10). In their negotiations, Rema asked Tine to develop a scenario whereby Tine would become the sole supplier of milk and hard cheese brands, and produce Rema's own-label cheese. Various financial contributions were associated with these options. The calculations were used in Rema's financial models when assessing the economic effects on profitability, efficiency gains, and volumes, in particular in terms of the impact on the Swede Fund (Regional Appellate Court, pp. 28-29).

"...The volumes of Synnøve Finden's products were taken out and the units sold of these were transferred to Tine, and then the consequences for this to the 'Swede Fund' were calculated...first there was an estimate based on the prices of Tine's yellow and brown cheeses being the same as Synnøve Finden's, which was entered in the Fund as 7.856.202 NOK. Tine's [initial] suggested contribution was slightly lower than this at 7.771.000 NOK..." (Regional Appellate Court, p. 28-29).

The price dumping game suggests back-office orchestration activities by the retailers. The payments used on a particular price war with other retailers are not directly related to the cost/price relationship of the given product. Instead, they relate to the capacity of a retailer to mobilize financial resources from across all its suppliers. The winner is the one who can mobilize the most resources for this objective.

Rema's price cuts are fully financed via the Swede Fund. However, although disguised as price cuts at first glance, these maneuvers are not actually price cuts; instead they are planned price adjustments financed by the suppliers. Some of these may be a supplier only to Rema, in which case incentives will be aligned with Rema to participate in the operation. Others may be suppliers also to the other retailers, in which case little or nothing is to be gained from the resulting re-allocation of market shares among their customers. Hence, the incentives are not aligned and suppliers are essentially forced to participate.

5.0 Power mechanisms and the dynamics of networked power

This section first analyses the particular power mechanisms which appear to be at work in each of the three power games. The next analytical step is then to aggregate the power mechanisms. We present a model of networked power (Figure 1) which is based on the interaction of one first order (gatekeeper) and two second order (de-coupling and allocation) power mechanisms. The model allows for a discussion of networked power dynamics in section 5.2 below.

5.1. Analysing power mechanisms

Game One: Access to market (gate keeper mechanism)

The first game illustrates the basic character of relational power dependency. Through horizontal integration, the retailers are able to position themselves as ‘gatekeepers’ at interfaces that are obligatory passage points (Callon, 1986) for all the other participants in the game (Cook, 1977; Barzilai-Nahon, 2008). Controlling these interfaces can be exploited to force a direct levy on suppliers, akin to a private taxation for access to the market place.

The process theory of power can be used to explain how existing network positions are strengthened. Retailers work from their existing position in order to enhance competition between suppliers in ways that force price competition and possibly also innovation efforts throughout the supplier networks. This observation confirms theories of relational power that see power as originating from a firm’s dependence on external resources and from a firm’s ability to control the access of others to such resources.

An additional aspect of power observed relates to how the gatekeeper position facilitates the extended use of information and control technologies combined with sophisticated

placement powers to influence consumer choices. This position provides opportunities for retailers to gradually upgrade their highly structured and repeating negotiation system with their suppliers. The gatekeeper position provides agenda-setting power and the ability to influence the structures of the negotiations and alter the rules of the game that others have to interact within. The objective is to increase the returns from one round of negotiations to the next through encouraging, directing and forcing suppliers to restructure their activities for the benefit of the gatekeeper firm. Over time, this ability to exploit a gatekeeper network position impacts the wealth generation and allocation outcomes.

Game Two: Latitude (de-coupling mechanism)

Influential gatekeeper network positions do not necessarily provide the ability to de-couple interdependent actors, as this will depend on the systematic development of alternatives and excess capacity. It is the ability of an actor to increase complexity while simultaneously maintaining some extent of hierarchical control.

The latitude game demonstrates how systemic powers held by some actors are expanded in order to give possibilities for de-coupling of interdependencies within the network (Cook, 1977). The systems theory approach is illuminating here. The game illustrates how retailers, with hierarchical relations to a broad variety of suppliers, are able to induce alternative supply solutions. The aim is to reduce dependency on certain counterparts by attempting to re-group suppliers and deliberately moving volumes across suppliers. Sometimes this will induce investments in additional production capacity. The resulting excess capacities held by suppliers will be a part of the next round of negotiations, thereby creating more latitude to the retailer.

The suppliers, on the other hand, being more specialized and tied to particular production and logistics facilities, have a more limited scope for such de-coupling, and hence a different

'balance' between interdependency and relational freedom. The outcome is a steady development of overcapacity to supply goods to the retailers. This effect of course increases the competitive pressures on all the suppliers. The asymmetrical systemic power developed over time by the retailers seems to be core to how competition is orchestrated in the supply side over time.

This de-coupling mechanism also plays out through the discussions regarding private label products. A retailer increases relational flexibility vis-à-vis suppliers by controlling product branding, and by being able to move production more freely from one to another.

Furthermore, because contracts and prices are non-transparent, this latitude provides useful opportunities for price discrimination over time. The result is that supplier branded products will gradually lose market share, not because they are not cost effective or attractive to consumers, but because they are being squeezed by the retailers' efforts to move in their own label brands.

Furthermore, the latitude game demonstrates a number of network effects. In particular, it illuminates how suppliers that are being de-listed by one retailer may directly engage with other retailers to find outlets for their products, as proposed by Cook (1977). However, because the negotiations in our case study take place within a fixed time period, the window of opportunity to the delisted supplier is rather narrow. Actors placed in difficult network positions due to the efforts of others are forced to find ways to re-enter the network or expand their latitude. For instance, they may mobilize outsiders which are able to reopen the negotiation arena, such as by appealing to the NCA.

Game Three: Pricing dumping (resource allocation mechanism)

The third power game is centered on how some actors gain extended access to financial resources. The price wars orchestrated by the retailers are based at least in part on the ability

to create and coordinate complex back-stage operations wherein suppliers are forced to contribute. The ability to do this is clearly based on the gate-keeper network position (Barzilai-Nahon, 2008), but this ability also depends on the activation of a resource allocation mechanism. That is, powerful actors are likely in the long run to be those retailers with the largest supplier network in which they can pool and re-distribute resources in order to ensure financial inflows to themselves. Hence the gate-keeper mechanism detailed in game one above is enhanced by resource pooling actions (Thompson, 1967).

This game also demonstrates how price-setting is the result of activities in interdependent relationships rather than the result of marginal cost pricing practices. Furthermore, certain artifacts have been put in place to generate the economic effects that can be observed. For example, the Swede Fund can be measured, controlled and mobilized in order to fight over market shares. Without modern information, communication and control technologies, the abilities to orchestrate, carry out and control such extended and complex operations would have been severely constrained. The ability of retailers to use such a Fund depends on a process of steady upgrading of funding capacity and fund use strategy over time. The dynamics of retailer competition seem in part to rest with a retailer's relative success in building up these extended financial resource bases.

5.2 Aggregating the mechanisms: a model of networked power

At the core of the three power games are efforts to enhance economic results and increase market share. The efforts are focused on the shaping of three power mechanisms; gate keeper, de-coupling and resource allocation respectively. The three power mechanisms can be aggregated in order to be able to analytically discuss the dynamics of networked power.

First, to clarify their interdependencies we adopt the concept of first and second order mechanisms (Bunge, 1997). A first-order mechanism is fundamental or a prerequisite. In our model of networked power (Figure 1 below), the gatekeeper mechanism is conceived of as first-order. It must be in place in order for the two second-order mechanisms (de-coupling and allocation) to potentially come into play.

In other words, these two mechanisms may be present but not in effect if the gatekeeper mechanism is not in operation. Moreover, even if the gatekeeper mechanism is in place, it does not mean that it automatically is activated or indeed has the desired effect (Bunge, 1997). This is because the effects may be clouded by counter play that influences or neutralizes an actor's capacity to dominate. Hence, from an existing business network structure, opportunities to expand as well as to escape from relational dominance are in place, and depend on strategic construction and execution efforts. The combination of first and second order power mechanisms constitutes *networked power*.

Please insert Figure 1 about here

The interactions across first and second order mechanisms can be considered by combining the gatekeeper mechanism with the resource allocation mechanism. It rests on the actor's ability to mobilize resources in the network in order to create the allocation mechanism. The actor in question exploits the combined mechanisms in order to mobilize support for the specific allocation of resources in a certain way. For example, in the price dumping game (third game), the capacity of a retailer to act is based on its gatekeeper position (utilizing the first order gate keeper mechanism) to mobilize financial resources (the second-order resource allocation mechanism) across all its suppliers for its own benefit (see Table 2).

Please insert Table 2 about here

An actor can also exercise networked power through the interactive effects of the gatekeeper and decoupling mechanisms. If this plays out, it means that the actor in question exercises its power to create freedom of action in a certain way, or to create latitude. This power rests on the actor's ability to configure certain resources and activities by linking and de-linking them in the network. There are examples in the second power game of how retailers utilize the first order gate keeper mechanism based on their network position in order to increase the availability of alternative supply strategies by creating latitude of action (utilizing the second-order de-coupling mechanism) (see Table 2).

All three mechanisms of networked power can have economic effects if they play out in a network. The gatekeeper mechanism has effects in terms of the distribution of tasks, positions and roles in a network. The allocation and de-coupling mechanisms have effects in terms of how the shares of costs, risks and benefits are distributed.

5.3 Conclusion

The paper investigates the dynamics of networked power in a concentrated business network using insights from process, systems and network theories. We identify three power mechanisms – gatekeeping, de-coupling and resource allocation – from the multi-actor case study. By ordering the mechanisms and discussing how they are combined and developed, we propose a model of networked power dynamics. In so doing we extend beyond understandings of power as 'conflict and coercion' to include influencing, leveraging and strategic maneuvering in the actual performance of networked power.

The paper supports existing literature by confirming that network positions represent a useful starting point when discussing networked power. In other words, particular network positions represent *gatekeeper positions* which allow for the control of actors, resources and activities that are critical. This supports Thorelli's (1990) notion of network position as a locus of power and the work of Axelsson (1992) on inter-organizational power as originating in network position and control over resources, as well as findings in gatekeeper theory (Barzilai-Nahon, 2008).

However, we also go beyond current literature by arguing that to understand the dynamics of networked power requires us to consider network positions as points of departure from which one can investigate the underlying mechanisms involved. This is because networked power is exercised in focused interactions with interdependent counterparts that are striving to counteract these mechanisms as well as their impact. Overall, networked power seems rooted in the establishing of network positions that allow for the utilization of the gatekeeper power mechanism, which in turn serves as a stepping stone to expand an actor's relational domination and relational latitude.

The application of process, systems, and network approaches is useful in order to discuss the dynamics of networked power. The power mechanisms identified seem clearly related to the freedom to operate flexibly that grows with the complexity and internal hierarchical ordering of dominant firms in relation to the challenges of their environment (which can be likened to Ashby's (1952) requisite variety). In a systems perspective, the more complex and hierarchically orchestrated system will have the greater capacity to build such interrelated systemic powers towards others.

We view the concept of networked power as a simplification of interacting systemic powers in buyer-seller interactions. Given the unequal systemic powers held by different organizations, the power construction process over time will tend to generate more

alternatives to the more powerful, thereby also reinforcing the competitive pressures on the weaker parties. In the case reported here, this process seems to center around the ability to induce overcapacities in the supply systems, and on the network effects when de-coupled actors with excess capacities strive to re-enter potential supplier positions. The paper suggests that networked power incorporates the ability to reduce dependencies on others and enlarge relational freedom. This critically depends on the relative complexity and internal hierarchy of the involved actors (as suggested by systems theory). It provides for the capacity of some actors to re-arrange their resources and activities, and to strategically enlarge their latitude towards their counterparts.

5.4 Implications for practitioners

We would expect business practitioners to recognize the case and the power mechanisms discussed above as both familiar, but also challenging to comprehend and manage. Our analysis offers a simplified model and understanding of complex phenomena that are critical to any business engaged in highly interdependent networked interactions with others. To understand how networked power emerges over time is essential to the ability to enhance and develop relations in sustained and profitable ways.

For managers it becomes critical to identify and/or create the first and second order mechanisms necessary to exert networked power in order to mobilize and maneuver in the network. Recognizing the principal difference between first and second order mechanism is essential to build networked power because without the first order mechanism in place it becomes futile to try to use second order mechanisms. If, and only if, the chosen combination of mechanisms plays out without being countervailed, then perhaps the achieved result will ensue.

Nevertheless, by recognizing the mechanisms discussed here, managers can use them systematically in at least two ways. First, to scan the network to detect the utilization and combining of these by other actors, and then decide whether any counter measures need to be adopted. Managers can also utilize the mechanisms in order to mobilize resources and activities in attempting to move into more favorable network positions.

5.5 Limitations and suggestions for further research

The conclusions of the paper are based on a single case study. The basis for drawing strong conclusions is accordingly limited, and as such the study must be seen as an early attempt at investigating the dynamics of networked power in a concentrated business network. But recognizing that concentrated networks appear to be increasingly common, we argue that more research should be done to explore, investigate and explain the driving forces behind these developments. It is conceivable that other power mechanisms are at play within other power games than the three presented here. We suggest that other second order power mechanisms could be identified, and that their economic implications be investigated. The model of networked power could also be extended and tested in non-concentrated network settings.

Moreover, the general expansion of what can be termed the *networked economy* – as a repose to the more classical conception of the economy as a free market – represents a number of challenges to policy makers. To rebalance the differential ability to exercise networked power may involve the expansion of regulations to support the weaker parties against more dominant actors. How this regulation might be done remains, however, an open question that merits further research attention.

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Appendix: Main Data Sources Used

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