How organizational identity orientations impact firm-supplier relationships

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Madison, Melbourne University, and Cambridge University published a new paper in the *Journal of Marketing* that explores why buyer-supplier relationships between ostensibly compatible organizations sometimes underperform. The study is authored by Jan Heide, Simon Bell, and Paul Tracey.

Could Peloton's woes have been caused by incompatible relationships with suppliers?

As pundits rush to explain the cause of Peloton Interactive Inc.'s recent share price collapse, undue focus has been placed on the 'return to normal' exercise behaviors of its existing and potential customers post pandemic as well as the uptick in pressure from competitors such as NordicTrack, Mirror, and Bowflex. But a closer look also reveals chronic supply chain issues, including product failures and subsequent recalls, slow rates of production, glacial delivery timelines, and ill-fated forays into buying existing fitness equipment manufacturers (e.g., Precor Inc.).

The organization even invested in, although subsequently canceled, the development of an in-house production facility in Ohio. The desire to in-source manufacturing is often symptomatic of broken relationships with suppliers. The researchers propose that firms' organizational identity orientations (i.e., the shared perceptions about "who we are as an organization") shape how firms interact with external parties. Firms might possess an individualistic orientation that leads them to emphasize maximizing self-interest and maintaining boundaries vis-à-vis value chain partners. An example might be Walmart, which has historically adopted adversarial relationships with its suppliers. Alternatively, firms can have a relational identity orientation.

These firms tend to privilege and promote the relationship with a particular dyadic partner. They focus on more relaxed relationship governance, relying on norms instead of contracts. The relationship between GoPro and Red Bull is a good example. Finally, firms might embrace a collectivistic orientation where the emphasis is on promoting the interests of a larger group of firms, such as firms within industry clusters or keiretsus.

"Our core insight is that when identities between firms are mismatched, we can expect to see friction that can erode performance. The friction arising from these differences requires the focused application of governance solutions," says Heide. Consider, for example, a relationship between a focal firm with an individualistic orientation and a partner with a relational or a collectivistic orientation. The focal firm's own orientation means a preference for tight, rule-based governance (e.g., the strict application of formal contracts).

Formal governance, however, may be inconsistent with the preferences of the partner, which will tend to rely on looser, informal governance practices. As Bell explains, "The ensuing friction can lead to ongoing conflict or, worse, complete relationship breakdown. This mismatch, we suggest, should be resolved through formal governance, provided that the focal firm possesses a power advantage that permits the imposition of formal governance features on the partner."

Tracey says that "Managers should consider conducting systematic identity assessments as part of the firm's overall governance efforts, both to achieve efficient governance solutions and to avoid unintended consequences." There have been advances in the so-called 'new analytics of culture' that involve capturing the language employees use in electronic communication.

This approach could enable the firm to keep track of its own identity orientation and to make on-going and real-time assessments of organizational identity orientation. Capturing partners' identity orientations would require different techniques, but there are a host of diagnostics that firms might apply when qualifying potential partners.

More information: Jan B. Heide et al, EXPRESS: Who We Are and How We Govern: The Effect of Identity Orientation on Governance Choice, *Journal of Marketing* (2022). DOI: 10.1177/00222429221094027

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