Living with power imbalance in UK agri-food supply networks?

Martin K. Hingley

Harper Adams University College

Newport, Shropshire, TF10 8NB

United Kingdom.

E-mail: mhingley@harper-adams.ac.uk

Abstract

This study investigates the issue of power in business-to-business relationships and constitutes an appraisal of the theory relating to issues of supply chain relationships, in which the received view from the Relationship Marketing (RM) literature with its emphasis on trust, dyadic symmetry and mutuality is questioned. It is contended, alternatively that other types of relationships, for example, those based on selfishness are equally relevant, and that power imbalanced business relationships are just as important to the understanding of business exchange. Specific reference is made to power relationships in vertical food supply channels in the UK, where the majority of control lies in the hands of large multiple retailers. Given the scant and mostly negative treatment of the context of power in business relationships and the predominance of study of what are viewed as positive relational factors: trust, commitment and co-operation, there appears to be a gap in business relationship literature concerning the role of power and the ability of organisations to manage power imbalance. The paper is organised in the following fashion. This article contends that RM ideals based solely on collaboration, trust and commitment and mutuality are flawed. These factors are desirable but their absence is not necessarily inhibitive to relationship forming and management. Further, discussion suggests that RM thinking should further explore issues of power as an omnipresent factor in business-to-business exchange, rather than an inhibitor to relationship forming and development. It is proposed that issues of power and RM and their impact upon evolving industry structures, will be considered (in a case method approach) within a business-to-business agri-food network context in order to determine specific outcomes with regard to issues of power, mutuality and the nature of power-dependent relationships.

Keywords: power, business relationships, agri-food channels

Introduction

This study investigates the issue of power in business-to-business relationships and constitutes an appraisal of the theory relating to issues of supply chain relationships, in which the received view from the Relationship Marketing (RM) literature with its emphasis on trust, dyadic symmetry and mutuality is questioned. It is contended, alternatively that other types of relationships, for example, those based on selfishness are equally relevant, and that power imbalanced business relationships are just as important to the understanding of business exchange. Specific reference is made to power relationships in vertical food supply channels in the UK, where the majority of control lies in the hands of large multiple retailers (Collins and Burt 2003; Howe, 1998). Given the scant and mostly negative treatment of the context of power in business relationships and the predominance of study of what are viewed as positive relational factors: trust, commitment and co-operation, there appears to be a gap in business relationship literature concerning the role of power and the ability of organisations to manage power imbalance. The paper is organised in the following fashion. This article contends that RM ideals based solely on collaboration, trust and commitment and mutuality are flawed. These factors are desirable but their absence is not necessarily inhibitive to relationship forming and management. Further, discussion suggests that RM thinking should further explore issues of power as an omnipresent factor in business-to-business exchange, rather than an inhibitor to relationship forming and development. It is proposed that issues of power and RM and their impact upon evolving industry structures, will be considered (in a case method approach) within a business-to-business agri-food network context in order to determine specific outcomes with regard to issues of power, mutuality and the nature of power-dependent relationships.

Predominant in agri-food channels is the reduced supplier sourcing model (Bourlakis, 2001; Fearne & Hughes, 2000; Hingley, 2001), and featured is the widespread application of Category Management (Jarvis and Woolven, 1999; Dapiran and Hogarth-Scott, 2003) and network supply co-ordination, through a new breed of role enhanced *super middlemen* (Gadde and Snehota, 2001; Grower, 2001). The received view of conditions for successful relational exchange from the Relationship Marketing (RM) literature emphasises trust, dyadic symmetry and mutuality. It is contended alternatively, however, that other types of relationships, for example, those based on selfishness are equally relevant (Welch and Zolkiewski, 2004; Palmer, 2000; 2002), and that power imbalanced business relationships are just as important symmetrical and mutual ones to the understanding of business exchange (Cox, 2001). Further, power should be a central consideration when concerned with business relationships and imbalance in power is no specific barrier to parties entering into collaborative relationships, or to their success (Cox *et al*, 2003). This article contends that acceptance of power-imbalance is a key first-step to successful relationship building in agri-food channels and although collaborative chain activity is endorsed, suppliers are advised that this still means operating within conditions of imbalanced power and reward.

Power as a construct in business-to-business relationships has received irregular and contrasting treatment from analysts. There are those that view the concept of power as alien to the effective workings of exchange relationships, and that it negates co-operation (Doney and Cannon, 1997; Kumar, 1996). A negative view of the role of power is, however, by no means universal. A differing viewpoint comes from a number of authors (Blois, 1998; Campbell, 1997; Earp *et al*, 1999; Kalafatis, 2000 and Svensson, 2001), who emphasise that not all relationships result in mutual benefit, that they are not all based on joint trust and nor do they always need to be, and that trust alone cannot be depended upon. Given the scant and mostly negative treatment of the context of power in business relationships and the predominance of study of what are viewed as positive relational factors: trust, commitment, co-operation and mutuality, there appears to be a gap in business relationship literature concerning the role of power and the ability of organisations to manage power imbalance. As a result the *duality* explored in this context is the co-existence of seemingly conflicting exchange structures; for example, those of power-dependency with co-operation, and relational orientation with selfishness. This condition of the nature of competition and cooperation has been explored elsewhere, for example, in the special edition in the Scandinavian Journal of Management edited and introduced by Bengtsson and Powell

(2004); who see present day commercial environments as characterised by simultaneous intense competition and extensive inter-organisational collaboration, both locally and globally.

UK agri-food supply channels have endured large-scale upheaval in recent years and there have been subsequent initiatives to tackle the difficulties suffered notably at the primary end of UK food production. Those members of the UK food supply chain closer to market have benefited from at least inflationary growth, which has seen the value of retail sales reach approximately £118 billion (and larger food production and retailer organisations have reaped the reward of market concentration); with market leader, Tesco taking £28 billion (Tesco, 2004). At the same time primary food producers have seen an actual decline in incomes by approximately one-third. Between 1994 and 2002 the value of UK Agriculture fell from approximately £18 billion to £15.5 billion (Defra, 2002). More recent evidence suggests that not only will buyer power continue to concentrate in the hands of the major retail players; further concentration and consolidation in the sector will take place both within and beyond the home market. Subsequently, relative power of supermarkets has actually increased through further consolidation as a result of the takeover of one of the largest UK food retailers, Safeway by Wm. Morrison and currently four major supermarket chains account for two-thirds of sector food sales (IGD, 2003).

The nature of competition and cooperation is increasing viewed as taking place in a network context, and this is has been part of a good deal of attention from IMP contributors, for example, Johnsen and Ford (2002). In this industry context the dyadic relationship between large multiple retailers and their preferred suppliers, or *super middlemen* (Grower, 2001) are the axis around which the modern agri-food supply chain (and wider network) tilts (take in **Figure 1.** below). Illustrated is the central dyadic interface and wider network sets of interactions, linked by two-way exchanges. This demonstrates the inherent competitive and cooperative nature of predominant network marketing within agri-food:

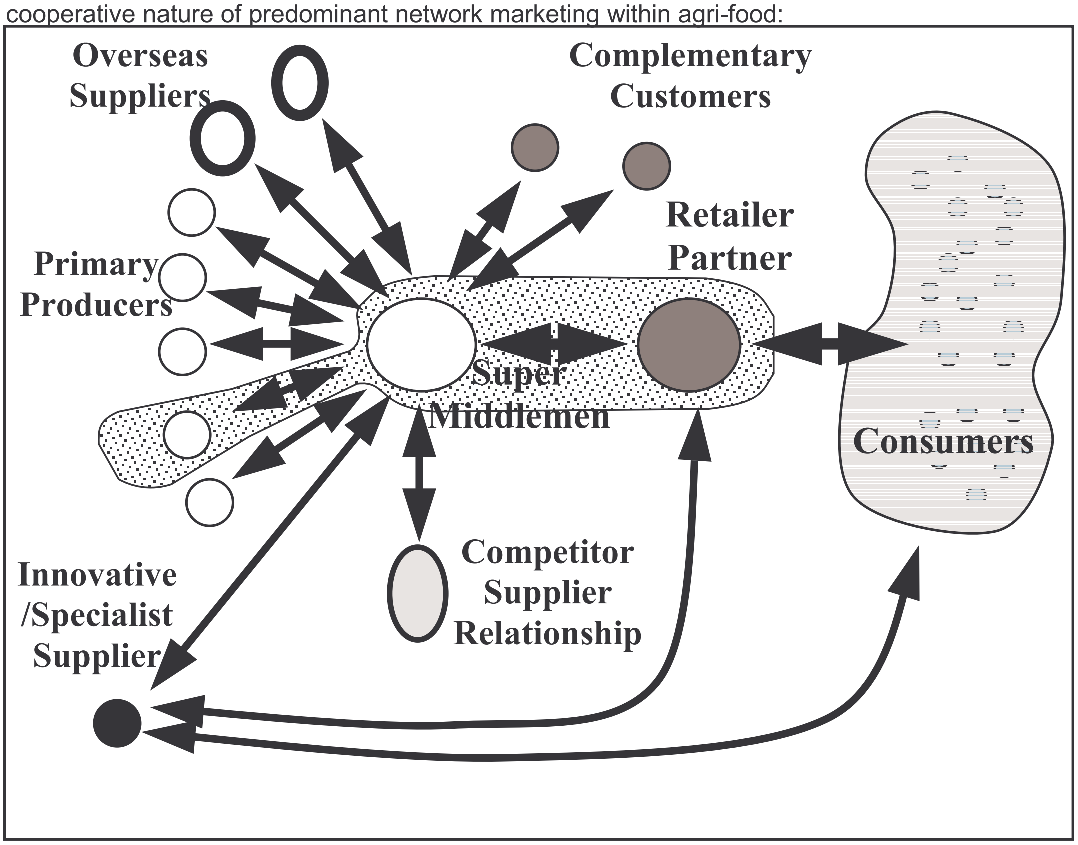

Figure 1. Key network relationships in UK agri-food, featuring the central super middleman/ retailer dyad and illustrating the extended triadic link with a primary producer.

Significant to the network structure of agri-food is the importance of the enhanced role of middlemen in supply chain networks, and illustrates in practice the view of Gadde and Snehota (2001); who call for re-appraisal of the role of middlemen in a changing network context, and see middlemen performing a range of tasks from the distributive to more enhanced middleman-provider roles. The status of super middlemen is the culmination of the process of supply base rationalisation that has resulted in a progressive reduction in the number of suppliers that the major multiple retailers' are prepared to deal with.

Retailers are not generally interested in being agricultural producers, importers or food processors, or in the whole logistic infrastructure which delivers the product to their supermarket shelves. On the contrary, the supermarkets are interested primarily in the business of retailing and the add-on services that are encompassed within their strong brands, most other activities are contracted out. However, the significance of this process is in the way that responsibilities have been devolved. Super middlemen handle the bulk of contact with primary agri-food producers and are thereby at the hub of triadic links between primary producer, middleman and retailer (see **Figure 1.** above). They shoulder the burden of security of supply; if a crop fails or a key product is in short supply, it is no longer just the buyers' problem to find an alternative source to plug the gap. Maintaining continuity of supply is also often down to the super middleman, who will even procure from competitors in order to satisfy a supermarket's needs (take in **Figure 1.** above). In this way, procurement decision making is delegated by the retailer to the category lead supplier. Supervision of quality assurance is similarly devolved, as is the requirement for creative product development.

The manifestation of supermarket power via supply base reduction and concentration is not necessarily all bad for agri-food industry suppliers. Once preferred supply is established, the continual and fierce horizontal supplier competitiveness inherent in securing retailer business is avoided. Super middlemen are certainly more important to retailers, but this does not mean that such suppliers can afford the luxury of too many mistakes, as their role is still substitutable. However, it does build a higher level of reliance from the retailers, which is to their own advantage as well as that of the beneficiary lead supplier, via the provision of devolved services.

Super middlemen will not necessarily realise increased product profitability, contrarily category leaders may actually see a decline in the direct profit margin that they receive. However, this has to be considered in the broader context of reduced transactional costs and reduced overheads derived from efficiencies of channel consolidation. More importantly, profitability has to be understood from the perspective of network market share. Competition in UK agri-food is between, for example, the supply network led by Tesco versus that of J. Sainsbury, versus that of Asda. Each will have a hub of supply centred on their own super middlemen. Profitability therefore relies on the competitive success of one network against another. Market share (for each product category) becomes a far greater determinant in measurement of success, than that of individual product or corporate profitability. Case studies in agri-food supplier-retailer relationships undertaken by Hingley (2001), Hingley and Lindgreen (2002) and White (2000) identify that suppliers are broadly accepting of the state of asymmetrical power imbalance and all that goes with it, just so long as what they see as a reasonable proportion of the relationship value accrues to them, and/ or this method of doing business is preferable to alternative routes to market where higher transaction costs are inherent.

When suppliers engage in preferred relationships with multiple retailers, price setting becomes less relevant and they give up the right to price negotiation in return for exclusivity. Retailers, therefore, determine price, but preferred suppliers are rewarded with market share gains and the ability to lead a wider network, and to add value. Suppliers profit margins are to some degree sacrificed for increased turnover, exclusivity and access to wider network arrangements and spin-off business associated with a retail customer (for example, in international markets). Some suppliers (notably those producers of commodity and generic agri-food products) take the view that they will accept low prices and low margins when dealing with supermarkets, to the point where they are 'last man standing' in a given sector or product category; and hence, may reap the rewards of enhanced market share and access to a retailer's business. UK multiple retailers' on the other hand, generally will not reduce the supply base in a specific category to a sole organisation, for reasons of being able to play-off as few as two suppliers against one another. That said, sole supply does exist, but generally in a sub-category of a larger commodity group of products.

Exclusivity arrangements with retailers may not be as binding as they may first appear and suppliers may develop qualified exclusivity arrangements. Super middlemen will have a predominant relationship with their retailer customer, but they may also have a secondary relationship with a complementary business (take in **Figure 1.** above). For a example a red meat supplier may have a predominant relationship with a retailer to provide most of the cuts of meat that they require, but the more difficult to sell forequarters will be minced to produce burgers for a food service chain. This complementary business allows the supplier to have alternative outlets without upsetting the exclusivity that their retail customer requires.

Proposed methodology

This paper investigates the nature and management of power in a vertical supply chain context. UK fresh food channels were chosen for reasons of exploring imbalanced business relationships, through the interface of powerful buyers and largely dependent suppliers. It is proposed that empirical investigation should draw on qualitative and inductive case interviews conducted across the dyadic interface between leading UK multiple retailer organisations and suppliers, in the fresh food sector. A qualitative method would emphasise contextual detail and insight as well as understanding and explanation (Patton, 2002; Sayre, 2001). This is an approach that has been employed in similar research including Hingley (2001), amongst others. Since cases were selected for their ability to contribute new insights, as well as in the expectation that these insights would be replicated (Perry, 1998). Both theoretical breadth and category saturation can be obtained.

Guided by considerations raised in the literature, the following research hypothesis is to be investigated:

-Power imbalance in dyadic and network exchange precludes a long-term relationship-based approach

Discussion

The RM concept is distilled from a diverse antecedence and brings together common ingredients of profitable ongoing interaction, collaborative value creation and incorporates trust, commitment and mutuality. Study of RM has however, under-valued the significance of power in the formation and operation of business relationships. Agri-food industry relationships are power-dependent. However in contrast to some views in the RM literature, such relationships as these can exist and thrive despite imbalances in mutuality.

Although power is notably imbalanced in agri-food relationships, in favour of retailer buying organisations, this does not necessarily result in a state of instability; rather the opposite is true, with the existence of many long-standing vertical supply chain relationships (Hingley, 2001). However, despite the rhetoric of recent years these exchanges stop short of being considered (by suppliers at least) to be partnerships. Indeed retailers are certainly in control of *mini-fiefdoms* as envisaged in Blois (1997), and there is as Kumar (1996) suggests, potential for punitive action by retailers over those suppliers which don't conform to their wishes. The situation is not fair, it may not even be just, but this does not mean that the system is not workable or even beneficial to agri-food suppliers. Some suppliers may be concerned about the expression of retailer power brought about by imbalance (Fearne *et al*, 2004; Duffy *et al*, 2003) and fear that power can be abused (and reported the fact in Competition Commission, 2000). However, asymmetry and unfairness does not mean that organisations are unwilling to enter into and continue with relationships with the major multiple retail chains, as this remains the largest and most consistent market outlet for UK agri-food.

UK retailers have utilised collaborative relationship-based constructs with respect to agri-food supply, chains have been shortened, supplier numbers rationalised and partner/ category leadership arrangements employed with dedicated and exclusive super middlemen. This process has benefited those remaining category suppliers (at least in the medium-term) in providing them with more business and greater access to retailer customers. However, true partnership is difficult to achieve amongst unequals in vertical supply chains, where there must always be a lead partner. As a result, RM ideals of symmetrical mutuality and equal trust are largely unattainable.

If asymmetry and power imbalance are not a barrier to the formation of close and workable relationships it does not mean that suppliers would not like to see a greater demonstration by retailers of the mutuality of relationships, with more emphasis on collaboration (Hingley, 2001; Fearne *et al* 2004); but in the interim (and that interim may endure for some considerable time) they will live with asymmetry and power imbalance. Once again this is counter to the view purported in some RM literature, where asymmetrical exchange is not workable and only ever has a negative influence.

It is an irony that some retailers surveyed in studies of agri-food supplier-buyer exchange state that their preferred status suppliers do not realise the strength of their position, and that they are indeed more reliant on super middlemen than they may realise (White, 2000; Hingley, 2001; Grower, 2001).

There is no doubt that the abuse of power is a destructive force, but the exercise of power in asymmetric relationships (be that through punitive action or just through functional conflict) is a more typical state than the existence of perpetual co-operation and power symmetry contended by some contributors to the debate. It is a natural desire for all organisations to gain advantage and to disrupt symmetry. However, striving for self-interest does not preclude organisations from acting in a co-operative manner, and co-operative and competitive business strategies can co-exist alongside one another, they are not polar opposites. Weaker parties in asymmetric relationships have a certain degree of tolerance to imbalance of power and such relationships are not necessarily unstable or short lasting (Blundel and Hingley, 2001; Narayandras and Rangan, 2004). A key element appears to be the admission by weaker parties of the existence of channel captains. Asymmetry is no barrier to entry, especially if suppliers have something a buyer wants, or consider that they may profit from the situation despite power imbalance.

To move forward requires the acceptance of power-imbalance and the inherent nature of inequity and unfairness in supply chains (Davies, 1996), and the author is in agreement with this view. Rather than fruitlessly fighting against imbalance, it may be more rewarding to concede control and this may be the first step to agri-food suppliers benefiting from the efficiencies of a truly integrated, (but retailer controlled) network.

References

Bengtsson, M., and Powell, W.W. (2004), “Introduction: New perspectives on competition and cooperation”, *Scandinavian Journal of Management*, vol. 20, issues 1-2, pp 1-8.

Blois, K.J. (1997), “Are business-to-business relationships inherently unstable?”, *Journal of Marketing Management*, vol.13, pp. 367-382.

Blois, K.J. (1998), “Don’t all firms have relationships*?”, Journal of Business & Industrial Marketing*, vol. 13, no. 3, pp. 256-270.

Blundel, R.K., and Hingley, M.K. (2001), “Exploring growth in vertical inter-firm relationships: Small-medium firms supplying multiple food retailers*”, Journal of Small Business and Enterprise Development*, vol. 8, no. 3, pp. 245-265.

Bourlakis, M. A. (2001), "Future issues in European supply chain management", In Eastham, J. F., Sharples, L. and Ball, S. D. (2001), *Food Supply Chain Management: Issues for the Hospitality and Retail Sectors*, Butterworth-Heinemann, Oxford, pp. 297-303.

Campbell, A.J. (1997), “Buyer-supplier partnerships: Flip sides of the same coin?”, *Journal of Business & Industrial Marketing*, vol. 12, no.6, pp. 417-434.

Collins, A., and Burt, S. (2003), “Market sanctions, monitoring and vertical coordination within retailer-manufacturer relationships: The case of retail brand suppliers*”, European Journal of Marketing*, Vol. 37, No. 5/6, pp. 668-689.

Competition Commission (2000) *Supermarkets: A report on the supply of groceries from multiple stores in the United Kingdom*, London: Competition Commission.

Cox, A. (2001), “The power perspective in procurement and supply management”, *The Journal of Supply Chain Management,* vol. 37, no.2, pp.4-7. Spring.

Cox. A., Lonsdale. C., and Watson. G. (2003) “The role of incentives in buyer-supplier relationships: Industrial cases from a UK study”, In: *Proceedings from the 19th Annual IMP Conference*: 4th-6th September 2003 Lugano, Switzerland.

Dapiran, G. P. and Hogarth-Scott, S. (2003), “Are co-operation and trust being confused with power? An analysis of food retailing in Australia and the UK*”, International Journal of Retail & Distribution Management,* Volume.31. Number. 5, pp. 256-267.

Davies, G. (1996), “Supply-chain relationships”, In: Buttle, F. (Ed*) Relationship Marketing: Theory and Practice.* Paul Chapman Publishing Ltd, London. ch.2, pp.17-28.

DEFRA (2002), *Strategy for Sustainable Farming and Food- Facing the Future*, Defra, London, PB7751A

Doney, P.M., and Cannon J.P. (1997), “An examination of the nature of trust in buyer-seller relationships”, *Journal of Marketing*, vol. 61, pp. 35-51.

Duffy, R., Fearne A., and Hornibrook, S. (2003), "Measuring distributive justice and procedural justice: an exploratory investigation of the fairness of retailer-supplier relationships in the UK food industry", *British Food Journal*, Vol. 105, No. 10, pp. 682-694.

Earp, S., Harrison, T. and Hunter, A (1999), “Relationship marketing: Myth or reality?”, In: *Proceedings of the 15th Annual IMP Conference*, University College, Dublin, 1999, pp. 1-21.

Fearne, A., Duffy, R., and Hornibrook, S., (2004), “Measuring distributive and procedural justice in buyer/supplier relationships: an empirical study of UK supermarket supply chains”, In: *Proceedings of 88th Seminar, European Association of Agricultural Economics*, Paris, France, May 5-6.

Fearne, A., and Hughes, D. (2000), “Success factors in the fresh produce supply chain: Insights from the UK”, *British Food Journal*, vol. 102, no. 10, pp. 760-776.

Gadde, L-E., and Snehota, I. (2001), “Rethinking the role of the middleman”, In: *Håkansson, H., Solberg, C. A., Huemer, L. and Steigum, L. (Eds.), Proceedings of the 17th Annual IMP Conference: Interactions, Relationships and Networks: Strategic Dimensions, 9-11 September,* Norwegian School of Management BI, Oslo.

Grower, (2001) “Enter the super-middleman”, *Grower,* December 6, pp.16-17.
Hingley, M.K. (2001): “Relationship management in the supply chain*”, International Journal of Logistics Management*, vol.12, no.2, pp. 57-71.

Hingley, M.K., and Lindgreen, A. (2002), “Marketing of agricultural products: Case findings”, *British Food Journal*, vol.104, no.10, pp. 806-827. ISSN 0007- 070X

Howe, W.S. (1998), “Vertical market relations in the UK grocery trade: analysis and Government Policy”, *International Journal of Retail & Distribution Management*, 26, 6, 212-224.

IGD, (2003), *Grocery retailing: The market review, 2003.* IGD Business Publications, Institute of Grocery Distribution, Watford.

Jarvis, M and Woolven, J. (1999), *Category management in action*. Watford: IGD Business Publications. 1-898044-59-7

Johnsen, R. E., and Ford, D (2002), "Developing the concept of asymmetrical and symmetrical relationships: Linking relationship characteristics and firms' capabilities and strategies", In: *R. Spencer., J-F. Pons., and H. Gasiglia (Eds.), Proceedings from the 18th Annual IMP Conference, hosted by the Graduate School of Business and Management,* 5th-7th September 2002, Dijon France.

Kalafatis, S.P. (2000), "Buyer-seller relationships along channels of distribution", *Industrial Marketing Management*, vol. 31, pp. 215-228.

Kumar, N. (1996), "The power of trust in manufacturer-retailer relationships", *Harvard Business Review*, Nov-Dec, pp.92-106.

Narayandras, D., and Rangan, V.K. (2004) "Building and sustaining buyer-seller relationships in mature industrial markets", *Journal of Marketing*, vol.68, no.3 pp.63-67.

Palmer, A. (2000), *"*Co-operation and competition: a Darwinian synthesis of relationship marketing"*, European Journal of Marketing,* volume. 34, no. 5.

Palmer, A. (2002), *"*The role of selfishness in buyer-seller relationships", *Marketing Intelligence,* volume 20, no.1 *.*

Patton, M. Q. (2002), *Qualitative research & evaluation methods*. 3rd ed., Thousand Oaks, Calif., Sage Publications.

Perry, C. (1998), "Processes of a case study methodology for postgraduate research in marketing", *European Journal of Marketing*, Vol. 32, No. 9/10, pp. 785-802.

Sayre, S. (2001), *Qualitative Methods for Marketplace Research*, Sage Publications, Thousand Oaks, California.

Svensson, G. (2001), "Extending trust and mutual trust in business relationships towards a synchronised trust chain in marketing channels", *Management Decision*, vol. 39, no. 6, pp. 431-440.

Tesco, (2004), *Financial highlights*, Online http://www.tesco.com/corporateinfo Accessed 2/8/04.

Welch, Mary., and Zolkiewski, Judy. (2004), "Barriers to virtue: Exploring the dark side of dyadic relationships", In: *Proceedings of: Academy of Marketing Annual Conference, July, 2004,* at University of Gloucestershire, Cheltenham.

White, H.M.F. (2000), "Buyer-supplier relationships in the UK fresh produce industry", *British Food Journal*, vol. 102 no.1, pp. 6-17.