ARTICLE IN PRESS

Accounting, Organizations and Society xxx (xxxx) xxx–xxx

Contents lists available at ScienceDirect

Accounting, Organizations and Society

journal homepage: www.elsevier.com/locate/aos

Accounting, performance measurement and fairness in UK fresh produce supply networks

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ARTICLE INFO

Keywords:
Supermarkets
Supply networks
Performance measurement
Relational justice

ABSTRACT

Food systems in Europe, North America and Australasia are dominated by a small number of supermarkets supplying over 70% of the food consumers buy, and the model is being translated into other markets such as the Middle East and Asia. Relationships between suppliers and supermarkets are contentious in all such systems. Here, interviews were carried out with representatives of three major grower-packers supplying between them around 50% of the UK's fresh produce. We were interested in three questions, namely: how performance measurement, risk management and communication of accounting information are used by intermediaries in an allegedly unfair commercial environment; the extent to which the accounting and control practices observed support perceptions that suppliers in supermarket-dominated supply networks are treated unfairly; and what accounting and control practices would be indicative of fair commercial relationships? Researchers in the cross-disciplinary literature use John Rawls' theories of 'justice as fairness' in this context. Recent developments in business ethics and philosophy apply his theories to questions of relational power and fairness in commercial relationships. We follow these writers to understand where, if at all, the perceived unfairness of these food systems lies. Our empirical work and analysis can make an initial contribution from the discipline to this debate, because it has the potential to show how accounting and control practices are at the centre of the fragilities of the wider system, and of possible remedies.

1. Introduction

Supermarkets in developed countries such as the UK offer fresh produce at low prices, 24 h a day and 363 days a year. The management of this supply is co-ordinated mostly through intermediary firms and co-operatives known as 'grower-packers' who in turn co-ordinate large numbers of growers in the UK, Spain and other countries, to meet orders and service level agreements. Consumers are promised low prices, and it is difficult for the intermediaries and other growers to realise more than a 1–2% net margin on turnover .[1] Consequently, wages paid are low and there is little evidence of owner-managers in what are largely family-run businesses being able to take dividends from the business. In fact, many businesses are supported by Directors' loans and there is little room for reinvestment without taking on substantial loan finance. Despite some local differences, similar situations exist in other countries where food systems are dominated by a small number of supermarkets, particularly in the USA, Canada, Europe and Australia (Burch & Lawrence, 2007; Nicholson & Young, 2012).

We carried out interviews with representatives of three major grower-packers supplying between them around 50% of the UK's fresh produce. Initially we were interested in how intermediary businesses in food supply networks established management controls, performance measurement and risk management between themselves and their supply network partners. From the available data, it became very clear that the constraints the intermediaries faced in terms of using information from control systems in negotiations with supermarkets (their major customers) were contextualised by them in terms of unequal relationships and allegedly unfair practices. Similarly, the managers construed their dealings with suppliers (and the suppliers with the grower-packers) in terms of their attempts to be fair. In the cross-disciplinary literature on supermarket supply networks, gaming and fair practice are frequently used in interpretations of intra-network

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[1] An indicative source of evidence for this figure of 1–2% can be found in the Agribusiness Industry Benchmarking Report (2016) published by Key Note (https://www.keynote.co.uk/benchmarking-report/agriculture-chemical/agri-business-industry-benchmarking) Taking the sector Arable Farming and Horticulture section and removing the non-grower packers, there is a 3 year average from 2014 to 2016 of 1.05% across the sector. The report also contains evidence of lending and other factors, supporting what we found in the financial reports of our case companies, not given here for reasons of anonymity. Firms with higher margins tend to be smaller and supplying niche crops for export as well as domestic use.

https://doi.org/10.1016/j.aos.2017.12.005
Received 6 February 2015; Received in revised form 20 December 2017; Accepted 22 December 2017
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Please cite this article as: Jack, L., Accounting, Organizations and Society (2017), https://doi.org/10.1016/j.aos.2017.12.005

relationships. There is documented evidence that supermarkets use their power to place sanctions, including complete delisting, on suppliers in fresh produce when those suppliers challenge prices, additional payments or unrealistic orders. (see Nicholson and Young (2012) for a detailed discussion of such sanctions).[2] The situation in fresh produce is very similar to the opportunistic and adversarial nature of transactions reported by Bowman, Froud, Johal, Leaver, and Williams (2013) in supermarket supply chains for pork and in Free's (2007, 2008) investigations into potentially coercive practices related to category management. It also resonates with practices by intermediaries in the fast fashion garment industry (Neu, Rahman, Everett, 2014), an industry that is also less integrated though not to the extent that food supply chains are fragmented and non-integrated (Bowman et al., 2013; Callado & Jack, 2017). The seminal paper exposing the use of accounting and IT by supermarkets to gain power over producers is Frances and Garnsey (1996). However, the emergence of category management and the rise of 'super middlemen' such as the meat processors in Bowman et al. (2013) and the grower-packers in our study at that time were already altering practices in the field. Our contributions are to extend this sparse literature on intermediaries by providing further empirical evidence of accounting and control practices in such firms, and to extend discussions in the interdisciplinary literature about the fairness of practices in the food industry.

At first, this appears to be a question of trust and transparency. It is well-established that these are lacking in the agriculture and food industry, and any theoretical interpretation based solely on identifying levels of trust or transparency is unlikely to lead to any substantial new insight (Bowman et al., 2013; Burch & Lawrence, 2007; Jack, 2007). Allegations of unfair treatment of fresh produce suppliers are found in all food systems based around supermarkets, along with perceptions that profits and value are not shared equitably, and that systems are unsustainable. Among many other issues, these systems rely on a low wage economy, are implicated in social issues of poor nutrition and obesity, and are subject to extreme pressures from investor-analysts to increase share returns by reducing prices (for example, see Ghosh, 2010; The Daily Telegraph, 2013). The question of fairness in the supply of food is fraught because it needs be taken in the context of whole social systems.

We chose John Rawls' 'justice as fairness' as the basis of our theoretical analysis for three reasons. First, because it is already present in the cross-disciplinary literature as an explanation of the nature of unfairness in the industry (DuPuis, Harrison, & Goodman, 2011; Duffy, Fearne, & Hornibrook, 2003, 2013). However, Rawls' concepts are used simplistically as these studies address only the question of whether distributive or procedural injustice is the better descriptor, or in the case of DuPuis et al. (2011) applied to the different question of local food. They do not take fully into account Rawls' (2001) last restatement of the principle of 'justice as fairness'. Our case study presents an opportunity to discuss the extent to which Rawls' work explains fairness in the industry and in accounting practices.

The second reason is that although contentious, Rawls' theory does offer a view on how to create more equal and just societies. There is the profound question here of whether a few should profit from food supply systems that can be construed as depressing the wealth, health and social opportunities of others, which is in line with the types of questions that Rawls addresses in his theory (Guthman, 2011; Rawls, 2001). This complex question is being seriously researched and debated in academic and policy circles under the banner of 'food security', but very few accounting academics have entered this global debate. Our empirical work and analysis can make an initial contribution from the discipline to this debate, because it has the potential to show how accounting and control practices are at the centre of the fragilities of the wider system, and propose possible remedies.

The third reason is that since the completion of our study, there have been publications in business ethics and philosophy that question relational power and fairness in commercial relationships. These address critical unfinished elements of Rawls' (2001) theory of 'justice as fairness' (Heath, Moriaty, & Norman, 2010; Néron, 2015; Singer, 2015). The authors consider the nature of relational resources, business ethics, power and justice in egalitarian systems. The nature of relationships between our case companies, their customers and their suppliers was brought up many times by our interviewees. They felt it affected whether they were or were not able to use information from accounting and control systems. Therefore, our findings have the potential to clarify what might be meant by 'justice as fairness' in commercial relationships, given that accounting and control are a significant component of commercial activity.

To address these complex questions as straightforwardly as possible, the paper is structured as follows. We look first at the rather sparse accounting literature on supermarkets and on intermediary businesses in other industries, and then at the evidence from other disciplines. This includes the critical emergence of category management in supermarkets' supply networks around 1996, and allegations of unfair practices. This is followed by introductory comments on Rawls' 'justice as fairness' and the concept of the difference principle in relation to the 'least advantaged' in a system. This leads into a review of the recent work on relational resources, business ethics, power and justice, and how it relates to Rawls' 'justice as fairness'. This is followed by the methods, case study findings and concluding discussion.

2. Literature review

There are very few papers in the accounting literature that deal directly with food supply networks or with intermediary businesses in supply chains. Inter-organisational management control in supply chains does have an extensive literature in accounting. These papers tend to be quantitative, functional studies of dyadic, relatively long-term relationships between partners in integrated supply chains (see, for example, Dekker, Sakaguchi, and Kawai (2013); Fayard, Lee, Leitch, and Kettinger (2012)) The difficulty in relating these to our study is that food supply chains are characterised as being non-integrated and fragmentary (Callado and Jack, 2017). Even where there has been a long-term relationship between the grower-packer and the supermarket, or the supplier and the intermediary, it is very rare for there to be a long-term written contract for supply. There are service level agreements, but no obligation on either side to buy or sell to the other. More detailed accounts of supplier-customer behaviours in food supply chains are found in other disciplines, including organisation and production studies, marketing, geography and business ethics. Therefore, we include only papers from inter-organisational management control that relate closely to this study, and concentrate on those papers in accounting, management control and other disciplines that deal most closely with relationships in similar supply networks.

Interestingly, the three or four papers in the accounting literature relating to supermarket supply networks are also highly regarded qualitative studies of power relationships in accounting and management control practices. Because of changes in supermarket practices that occurred between each paper being published, the papers are presented in reverse chronological order rather than synthetically.

Bowman et al. (2013, p.301) present a vehement exposé of UK food supply chains based on a detailed case study of the pork processor Vion, which withdrew from the UK market in 2012. They draw attention to opportunistic trading and value extraction by the main UK retailers:

[2] The Grocery Code Adjudicator's role was established in 2013 to "ensure supermarkets treated their supplier lawfully and fairly" following a Competition Commission market investigation in 2008 where it was found that "while the sector was broadly competitive, some retailers were transferring excessive risk and unexpected costs to their direct suppliers" (GCA, 2014, p. 4). Bowman et al. (2013) and others remain highly critical of the 2008 investigation and, in other countries, antitrust reviews of grocery retailers appear to be undertaken on a regular basis (Kobel, , Pranvera, , & Kilpatrick, 2015).

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