Industrial Marketing Management 48 (2015) 187–201

Contents lists available at ScienceDirect

Industrial Marketing Management

Power-imbalanced relationships in the dyadic food chain: An empirical investigation of retailers' commercial practices with suppliers

George Maglaras [a,1], Michael Bourlakis [b,*], Christos Fotopoulos [c,2]

[a] Institute for Retail Studies, Marketing and Retail Division, Stirling Management School, University of Stirling, FK9 4LA Stirling, Scotland, UK
[b] Supply Chain Research Centre, Cranfield School of Management, Cranfield, Bedford MK43 0AL, UK
[c] Department of Business Administration in Food and Agricultural Enterprises, University of Western Greece, 2 G. Seferi Str., Agrinio 30100, Greece

A R T I C L E I N F O

Article history:
Received 1 December 2013
Received in revised form 20 October 2014
Accepted 27 October 2014
Available online 2 April 2015

Keywords:
Power-imbalanced relationships
Dyad
Food supply chain
Commercial practices

A B S T R A C T

Multiple retailers exercise various commercial practices with their suppliers. These practices emanate from a power-imbalanced dyadic relationship largely governed by the heightened retail power. These power-imbalanced, supplier–retailer relationships are the focus of this study. Drawing on the current literature of power-imbalanced relationships in supply chains, we propose and explore a conceptual model illustrating the most significant practices applied in the dyadic, supplier–retailer relationships in the Greek food chain and we evaluate their importance as perceived by suppliers. Insights from qualitative in-depth interviews with various stakeholders and a survey with 398 food suppliers identify dependence, financial goal incompatibility, informational asymmetry and behavioral uncertainty as the most significant determinants of the commercial practices. These practices are grouped into three main categories: upfront payments, unanticipated changes of agreements and negotiation pressures. The importance of these practices for suppliers is highlighted and implications for the supply chain actors beyond the dyad are provided. Significant managerial and policy implications are reported.

1. Introduction

Power is a significant concept for understanding contemporary supplier–retailer relationships (Caniëls & Gelderman, 2007). It is the ability of a party to influence its partner's decision making (Gaski, 1984) and, in a dyadic relationship, it is based on partner's dependence on the other party (Ryu, Aydin, & Noh, 2008).

The role and significance of power has been stressed by many authors in relation to supply chain relationships (e.g., Benton & Maloni, 2005; Caniëls & Gelderman, 2007; Hoejmose, Grosvold, & Millington, 2013). Here, differences in dependence, size or expertise in these relationships frequently create asymmetry between chain members (Kumar, 2005; Nyaga, Lynch, Marshall, & Ambrose, 2013) enabling the most powerful party to gain a higher proportion of benefits (Hoejmose et al., 2013). Due to this asymmetrical distribution of rewards, power imbalance is frequently described as a negative aspect of supply chain relationships and is seen as a source of conflict (Hingley, 2005a). However, this negative view of power is not universally adopted. Power in supply chain relationships may be used as a means to effective coordination, integration and goal attainment (Belaya & Hanf, 2009) where weaker chain members may be willing to tolerate imbalanced relationships as long as their gains are reasonable (Hingley, 2005a). Therefore, when we examine imbalanced relationships, any disproportional share of benefits does not necessarily result in unstable relationships (Belaya & Hanf, 2009; Hingley, 2005a).

Additionally, many authors have observed a shift in the balance of power from food suppliers to multiple food retailers across the world (Fearne, Duffy, & Hornibrook, 2005; Fernie, 2014a; Hingley, 2005b). The term “multiple retailers” refers to retailing organizations with a portfolio of at least ten stores (Pioch & Byrom, 2004).[3] The latter shift of power (in retailers' favor) is attributed to the high retail market concentration, the increased scale of retail supply chain operations, the possession of unique information concerning consumers' purchases and supply chain product movement and the significant market share of own brands (Hingley, 2005b). Due to this power shift, small and medium-sized suppliers could be disadvantaged when they deal with retailers (Blundel & Hingley, 2001).

The power-imbalanced nature of that dyadic relationship results in retailers imposing their rules during commercial exchanges with

* Corresponding author. Tel.: +44 1234 751122.
E-mail addresses: george.maglaras@stir.ac.uk (G. Maglaras), m.bourlakis@cranfield.ac.uk (M. Bourlakis), chfotopu@cc.uoi.gr (C. Fotopoulos).
[1] Tel.: +44 1786466454.
[2] Tel.: +30 6976760281.

[3] For the rest of the paper the term “retailers” will refer to multiple retailers.

http://dx.doi.org/10.1016/j.indmarman.2015.03.014
0019-8501/

suppliers by using various commercial practices and, subsequently, retailers gain a disproportionate share of commercial benefits (Duffy, Fearne, & Hornibrook, 2003). The commercial practices followed may take various forms including suppliers' operational modifications according to retailer's needs, financial pressures and margin contributions initiated by retailers, risk shifting and cost shifting in favor of retailers and making changes by retailers to contractual agreements without adequate notice (Duffy et al., 2003; Hingley, 2005a; Hoejmose et al., 2013; Towill, 2005). The work by Fearne et al. (2005), Fearne, Duffy, and Hornibrook (2004) and Duffy et al. (2003) empirically confirmed the occurrence of these practices in food supply chain relationships; Moberg and Speh (2003) also confirmed their occurrence in supplier–retailer dyads (including food chain dyads). According to these studies, these practices have a negative notion and threaten the stability of the relationships. An alternative view could be that suppliers comply with the use of these practices by retailers as part of their market oriented behavior where they aim to create and maintain favorable relationships with retailers (Chung, Huang, Jin, & Sternquist, 2011). In addition, these practices may improve supply chain efficiency due to an efficient cost sharing and risk shifting between suppliers and retailers and they may increase supply chain competitiveness by reducing retailers' prices (Bloom, Gundlach, & Cannon, 2000). Rao and Mahi (2003) confirm the link between these practices and power by highlighting that suppliers commanding a strong market share are asked by retailers to make smaller upfront financial contributions to them than suppliers commanding a weak market share.

Despite the above work, no past study has developed a model and tested these practices from the perspective of power. This is surprising since these practices can be regarded as the application of retailers' power in their stable, but largely imbalanced relationships with suppliers. Aiming to address this gap in the literature, we develop a conceptual model that describes the application of retail power as manifested in specific commercial practices. Therefore, the key objective of this study which empirically focuses on the dyadic food supply chain is to explore how power is manifested through these commercial practices and to illustrate how this power is perceived by suppliers. We need to stress that it is beyond the scope of this study to illustrate whether these practices are fair/unfair or positive/negative.

The above issue has also attracted the interest of relevant government and regulatory bodies which ordered investigations on supplier–retailer relationships in the food supply chain (e.g., Comisión Nacional de la Competencia, 2011; European Commission, 2013; UK Competition Commission, 2008). Some of their reports were based on large scale surveys and confirmed the occurrence of these practices and their prevalence in various European markets. No specific statutory abuses concerning the examined dyad have been discovered although concerns about the long term impact of these practices on the supply chain have been raised (Comisión Nacional de la Competencia, 2011; European Commission, 2013; UK Competition Commission, 2008). Since these practices are an example of exercise of retailer power towards suppliers, they can be evaluated by illustrating how these practices are perceived by suppliers. The latter represents another aim of our study which focuses on the Greek food supply chain considering the scarcity of relevant academic work that examines retailers' commercial practices with suppliers. Overall, the study aims to answer the following research questions:

- Which are the most significant determinants of retailers' application of power in their relationship with suppliers of the Greek food supply chain?
- Which are the most significant commercial practices that reflect retailers' application of power towards suppliers in the Greek food supply chain?
- What is the importance of these practices based on suppliers' perceptions?

The paper is set out as follows: the next section introduces a conceptual model that describes the manifestation of these practices in food supply chain relationships and presents the relevant hypotheses that emerge. The methodology employed is then analyzed and the key results are presented. A discussion of the results follows and the paper concludes with the provision of managerial and policy implications.

2. Conceptual model and hypotheses development

A conceptual model is developed focusing on the power-imbalanced supply chain relationship literature incorporating retailers' commercial practices as manifestations of retailers' exercised power with suppliers (see Fig. 1). Four significant determinants are identified in the literature including suppliers' dependence on retailers, goal incompatibility between suppliers and retailers, informational asymmetry between the two parties and behavioral uncertainty of retailers in determining this manifestation of retail power. According to the literature, these determinants influence the application of retailers' power allowing them to extract higher gains from their relationship partners (see Batt, 2003; Crosno & Dahlstrom, 2008; Dobson, 2005; Duffy et al., 2003; Hingley, Lindgreen, & Casswell, 2006; Hoejmose et al., 2013; Simatupang & Sridharan, 2002). The relevant hypotheses are provided in the following pages.

2.1. Dependence and retailers' commercial practices

Dependence between two firms exists when the benefits derived from their relationship are not available outside of it (Ryu et al., 2008). The concept of dependence can be employed to explain power in business relationships as the power of B over A is based upon the dependence of A on B (Emerson, 1962). In power-imbalanced relationships, the weaker firm is highly dependent on a more powerful firm and, therefore, the weaker firm needs to maintain the relationship to achieve its goals (Ryu et al., 2008). Zhuang, Xi, and Tsang (2010) argue that inter-firm dependence may affect the exercise of power. According to Caniëls and Gelderman (2007) a firm which experiences high power due to its partners being highly dependent on it, may exploit its power to increase its gains. However, in the long term, the excessive exploitation of the dependent party may damage the relationship (Caniëls & Gelderman, 2007; Hoejmose et al., 2013) and some firms develop guidelines to limit the amount of output they purchase from suppliers in order to

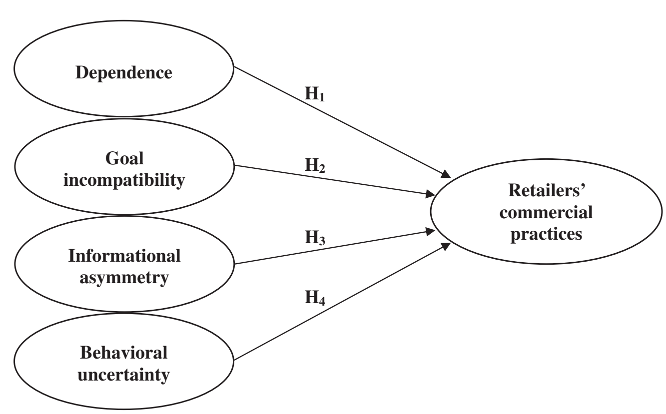

Fig. 1. Conceptual model.