www.elsevier.com/locate/worlddev

World Development Vol. 64, pp. 815–827, 2014
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http://dx.doi.org/10.1016/j.worlddev.2014.07.012

The Determinants of Intermediaries' Power over Farmers' Margin-Related Activities: Evidence from Adana, Turkey

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Summary. — This paper investigates the determinants of intermediaries' power over farmers' margin-related activities in Adana, Turkey. In doing so, a holistic model of intermediaries' power over farmers' margin-related activities is proposed. The objective of this model is to contribute to a better understanding of the power relationships between farmers and intermediaries. It is argued in the paper that a balance of power needs to be established between farmers and intermediaries because it leads to the rise of more efficient trading relationships, with reduced transaction costs and improved chain coordination. Multiple linear regression is employed to analyze the hypothesized relationships.
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Key words — farmers, intermediary, market power, value chain, Turkey, Mediterranean region

1. INTRODUCTION

It is often pointed out that farmers get the lowest profit or economic margin of the final product value in the food supply chains, [1] especially in developing countries (Banskota & Sharma, 1999; Khushk, 2001; Murray, 1997; Pokhrel & Thapa, 2007; Shrestha & Shrestha, 2000; Thapa, Koirala, Gill, and Thapa (1995)). Due to the size and structure of the food companies, it is often the retail sector and intermediaries that have the most market power in the food supply chains. As a result of their power, they transfer risks and unexpected costs to farmers which compromise the innovation, modernization, and restructuring of the farming sector into more efficient forms. When considering that 70% of the worlds' poor who live in rural areas have farming business as main source of income (World Bank, 2012), it becomes crucial to understand the intermediaries' power over farmers and its impacts upon farmers' business and livelihood. However, most of the studies of power are focused on the downstream part of the supply chain (Collins, 2007; El-Ansary & Stern, 1972; Frazier & Summers, 1986), much less attention has been put on studies that attempted to understand the power determinants for the upstream part of the supply chain between farmers and intermediaries. By examining the nature of relationships within the supply chain it is possible to identify ways that can improve farmers' livelihood, trading pattern, efficiency, and the performance of the whole chain. In turn, farmers could potentially benefit from increased profitability when there is a balance of power in their relationship with intermediaries.

The literature shows that power has influence on the quality of the trading relationship, including: parties trust, satisfaction, conflict, supply chain, and performance (Batt, 2003; Benton & Maloni, 2005; Brown, Lusch, & Nicholson, 1995; Maloni & Benton, 2000). There are a number of authors who suggest that more collaborative relationships lead to increased supply chain performance (Barret, 2004; Gattorna & Walters, 1996; Horvath, 2001; Lewis, 1990; Saunders, 1994). Some scholars even argue that competition between firms has shifted from firm level to supply chain competition (Anderson & Katz, 1998; Christopher, 1992; Henkoff, 1994; Lummus, Vokurka, & Alber, 1998; Moore, 1996; Morgan & Monczak, 1996). However, as it will be discussed later, the relationships between farmer-intermediaries in the study region of Adana in Turkey (and in most developing countries) are at arm-length, both parties are focused on the short-term outcomes. According to Williamson (1979) this type of relationships is embedded in high transaction costs which affects negatively supply chain performance, and the benefits of the parties engaged in such relationships. Moreover, the power regime that exists in trading relationships plays a critical role in the way those relationships are managed. In the case of a mismatch between the power regime and relationship management, this leads to reduced supply chain performance (Cox, 2004; Cox, Watson, Lonsdale, & Sanderson, 2004).

As stated by Cox (2004), "Only by understanding the power that exists can buyers and suppliers fully understand, what is the appropriate way for them to manage relationships". Therefore, the objective of this study is to investigate the determinants of intermediaries' power over farmers' margin-related activities, in the context of developing countries. In this paper, the term power over margin (POM) is the main focus of analyzing the intermediaries' influence over farmers' activities that affect profit margins, such as influence over price or influence over credit terms to the intermediary (Collins, 2002). In taking this approach, we propose to highlight some of the ways to create a balance of power between farmers-intermediaries.

The basic argument of doing so is that the creation of more collaborative relationships between farmers and intermediaries could be achieved only when there is a balance of power. This should have a positive effect not only on farmers' livelihood but also on the efficiency of the farmers and intermediaries

* We appreciate the assistance from SWUP-MED project and support from the Agrismundus Scholarship and the Agriculture Development grant. A special word of thanks to Dr. Metin Sezen, Adil Arslan, and the staff of the water use associations in Adana and Mersin for their help in the data collection process. Lastly, many thanks also to all the farmers that have participated in this research and have provided valuable information. Final revision accepted: July 15, 2014.

relationships as well as performance of the whole value chain. It could be argued that the positive effects deriving from the creation of a balance of power might influence economic development. By improving the performance of the food value chains there should be advancement of the agriculture, which for developing countries delivers an important contribution to their GDP. In regard to Turkey, agriculture in 2006 represented 9% of the GDP and accounted for 25% of all employment (Turkstat, 2013) Moreover, in view of the fact that a large percentage of the developing countries' population derive their livelihood from farming business, enhancement of their income opportunities should lead to growth of the country.

This study was carried out in the Çukurova region around the city of Adana in the southern part of Turkey, which is a major agricultural and commercial center with a population of two million (Turkstat, 2013). Adana is the fifth most populous city in Turkey, with the regions surface area of 15,485 km^2 equal to about 2% of Turkey's land area (Çukurova Development Agency, 2007). The study was conducted in four districts, three of Adana (1. Seyhan, 2. Yüreğir, and 3. Ceyhan) and one district of Mersin (Tarsus). These four districts were selected because they cover most of the Çukurova region, one of the most productive agricultural regions in Turkey. Furthermore, the agricultural land areas are substantially located in these districts in the southern part of the region. Agriculture is an important sector in Adana. Notably field crops and fruit orchards have played important roles in socio-economic terms. Furthermore, Adana produces 4% of Turkey's agricultural produce (Çukurova Development Agency, 2007).

Turkey was chosen to conduct this study because it is a newly industrialized country and it would give more insights into how the relations in food value chains have evolved and how they have impacted the country's agriculture and economic development. Furthermore, the government has had a stronger role in the market compared to other free market economies. The fresh fruit and vegetable market in Turkey is still highly regulated. Producers are required to sell their production through a commissioner, who gets a maximum of 8% of the price (Bignebat, Koç, & Lemeilleur, 2009). Regarding the grain market, the government is still present in the market through its agency for buying grains TMO (Toprak Mahsűlleri Ofisi). As a result, Turkey offers an interesting context to study power relationships in food value chains.

Finally, a number of international retail chains such as Tesco and Carrefour have entered the Turkish economy in the last decade due to growth opportunities. The literature indicates that the entrance of such companies in the economies of developing countries affects the structure of their marketing channels. Research shows that the restructuring of domestic marketing channels by these companies might leave out small farmers (Reardon, Timmer, Barrett, & Berdegue, 2003; Weatherspoon & Reardon, 2003). The restructuring of marketing channels by supermarket chains is linked to their market power. By studying the determinants of intermediaries' power over farmers, the article aims to identify ways to reduce farmers' exposure to the intermediaries' power and to provide alternatives for how farmers could be integrated into the so-called dynamic marketing channels.

The paper is structured as follows. First, the literature of power in marketing channels is reviewed and a description of the farmers' business environment in Adana and Mersin is provided. In addition, this section outlines the hypothesis of the study. Next, the employed methodology is described in section three. Finally, the results of the study are discussed and the paper is concluded.

2. POWER IN MARKETING CHANNELS

Power in an inter-organizational business relationship often involves inducing change in other organizations' behavior. As Gaski (1996) notes, what could be more useful to an agent of the distribution channel than the ability to get customers or suppliers to comply with its preferences? Furthermore, understanding the power that exists in the business relationship among the channel members is of critical importance because power may determine channel performance, satisfaction of the channel members, rent distribution, relationship quality, channel member behavior, risk sharing, etc. According to Emerson (1962), power is a characteristic inherent in social relations. The idea of power is abstract and ambiguous, even though its consequences are real. In the literature, there are as many definitions of power as there are authors who have written about it. Nevertheless, a general consensus exists (Gaski, 1984), to define power as the ability of a chain member to influence another chain member's behavior or strategy decision variables in a direction that he/she would not have freely tended, which (the direction of influence) favors the one who exercised power (Dawson & Shaw, 1990; El-Ansary & Stern, 1972; Wilemon, 1972; Wilkinson, 1981). On the other hand, as pointed out by Collins (2002, 2007) there is not as much consensus in the literature regarding the independent variables used to explain power in marketing channels as there is on how to define it.

One body of research on power (Brown, Lusch, & Muehling, 1983; El-Ansary & Stern, 1972; Etgar, 1978; Frazier & Summers, 1986; Hunt & Nevin, 1974; Katsikeas, Goode, & Katsikea, 2000; Lusch & Brown, 1982) uses the classification of the power sources identified by French and Raven (1959) to explain power. At the center of French and Raven (1959) work was the creation of a classification of power sources. They identified five sources of power: Reward power, Coercive power, Legitimate power, Referent power, and Expert power. Other research on power (Brown *et al.*, 1983; Katsikeas *et al.*, 2000; Wilkinson, 1981) has attempted to expand the set of power sources to include the "informational" power source. However, in empirical work the applications of the concept of the power sources have raised a number of problems. The main difficulty is to differentiate among the power sources (Collins, 2002). To avoid this differentiation problem a number of authors have re-categorized the power sources by grouping them generally in two groups (e.g., economic power sources and non economic power sources (Brown *et al.*, 1983, 1995; Etgar, 1976; Hunt & Nevin, 1974).

Besides the perspective of power as a function of the sources of power available to a channel member, another branch of research of power in marketing channels views it as a function of parties' dependencies. Emerson (1962, p. 33) points out that "*...the power of A upon B is equal to, and based upon, the dependence of B upon A...*" Dependencies emerge from the interaction of two factors: alternatives and commitments (Bacharach & Lawler, 1981). Furthermore, Gaski (1984) concludes in his paper that power and dependency are conceptually inseparable. Other research of power taking on the power-dependency perspective highlights the critical role that specific investments play in the determination of dependency (Aghion, Dewatripont, & Rey, 1994; Heide & John, 1988). According to Williamson (1983) "credible commitments" and "hostages" as a form of specific investments increase one party's dependency on the other. The transaction cost literature points out that specific investment are made to establish a balance in the relationship (Aghion *et al.*, 1994; Klein, 1980; Williamson, 1979, 1983). When a party posts a hostage, it is open to retaliation

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